

The Hindu Important News Articles For UPSC CSE

Tuesday : 26 May, 2026

Edition : International Table of Contents

<p>back 05 Syllabus: GS II: International Relations/International Relations. Preliminary Examination</p>	<p>India-China relations, global diplomacy, The Hindu Huddle, in the spotlight in 2026</p>
<p>Page 05 Syllabus: Preliminary Examination</p>	<p>President of India presents Padma Awards. Dharmendra N. Rajam felicitated</p>
<p>Page 08 Syllabus: GS II & III: Indian Polity & Economy/Economy Preliminary Examination</p>	<p>Finance Commission Transfer and Equity Issue</p>
<p>Page 08 Syllabus: GS I: Social Issues/Social Issues. Preliminary Examination</p>	<p>From black to brown: India needs to prepare for the future with an ageing population</p>
<p>Page 10 Syllabus: GS III : Indian Economy/Economics</p>	<p>Why is the Indian rupee falling?</p>
<p>Page 08: Editorial Analysis Syllabus : GS II : International Relations</p>	<p>India and Australia – Bridging the Trade and Trust Barrier</p>

Page 05 : GS II : International Relations / Preliminary Examination

The recently held 'The Hindu Huddle, 2026' in Bengaluru was organized **under the theme "A World in Transition"**. In the present times, when regions such as the Middle East and Europe (the Ukraine crisis) are constantly in turmoil, the forum has emerged as a crucial hub for discussing the unpredictable behaviour of global superpowers and the disruptions that have arisen from it. The conference mainly focused on two points: first, India-China relations returning to the track after the 2020 Galwan standoff and second, the role of 'Middle Powers' in balancing the global order.

Key Analysis Points

1. India-China Relations: 75 Years and the Way Forward

The participation of China's Ambassador to India Xu Feihong in the conference has pointed towards a new chapter in bilateral relations.

Post-Galwan Correction: After the 2020 Galwan Valley military clash, there was a long freeze in relations between the two countries. Now the two countries have started normalizing diplomatic, trade and travel relations.

- **Cooperation in Multilateral Forums:** In 2026, India is chairing the **BRICS Summit**. The summit in September is expected to enhance high-level engagement between India and China, reflecting the shared responsibility of the two countries in multilateral fora.
- **Strategic Significance:** Despite the ups and downs in diplomatic journey spanning 75 years, the economic engagement of the two countries proves that they cannot ignore each other.

India-China ties, global diplomacy in spotlight at The Hindu Huddle, 2026

this completely om

2. "The Middle Power Way" and Global Diplomacy

When superpowers (such as the US, Russia, China) violate global international laws, a new concept emerges—the 'Middle

- **Mark Carney's View:** Canadian Prime Minister Mark statement at the World Economic Forum (WEF) was "The superpowers can afford to go it alone on the their market and military might, but the moderate powers so." If the moderate powers don't come together, they're ignored on the global stage (if we are not at the table, menu). "
- **Need for Shared Diplomacy:** Diplomats from countries Australia, the European Union (EU) and Brazil that the middle powers have to unite and advocate for a

The Hindu Bureau
NEW DELHI

Geopolitical issues, particularly the unpredictable behaviour of global superpowers, will be at the core of discussions at The Hindu Huddle, as diplomats and thinkers discuss possible solutions to recent disruptions and conflicts in West Asia and Europe. The theme of the The Hindu Huddle, to be held in Bengaluru on June 5 and 6, is "A World in Transition".

Among the key speakers will be the Chinese Ambassador to India, Xu Feihong, who will discuss developments in India-China ties and the role the two countries can play on the multilateral stage. This will be a special session that looks at 75 years of the bilateral relationship, and particularly the last few years, with New Delhi and Beijing resuming normal diplomatic, business, and travel ties after years of freeze and military stand-off following the Galwan incident in 2020.

This year, both sides are expected to engage more closely as India chairs the BRICS Summit in September, and high-level engagements are expected to continue between them.

Another important panel on global diplomacy will focus on "The Middle Power Way". It will look at whether the international



must act together, because if we are not at the table, we're on the menu," Mr. Carney said.

The panel will have some of the most senior diplomats serving in India: Australian High Commissioner Philip Green, European Union Ambassador Herve Delphin, and Brazilian Ambassador Kenneth Felix Hasczynski da Nobrega. Joining them in the discussion will be the author of *The Fractured Himalaya*, Nirupama Menon Rao, who is a former Foreign Secretary and former Ambassador to the U.S. and China.

Both discussions will be moderated by *The Hindu's* Diplomatic Affairs Editor, Suhasini Haidar.

Event partners
The event is presented by Sami-Sabinsa Group as the Presenting Partner. The event is co-powered by the Government of Telangana and held in Association with Khaja Bandanawaz University. The event is further supported by: Larsen & Toubro, Apollo Hospitals, IIM Sirmaur, ICFAI Group, TAFE, Wizzomni, Associate Partners; Casagrand, Realty Partner; Amity University Bengaluru, University Partner; Harrow International School Bengaluru, Education Partner; Meghalaya Tourism, State Partner; and NDTV 24x7, TV Partner.

rules and Powers'. Carney's quoted: strength of cannot do bound to be we're on the like emphasized rule-based

**Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg
Cambridge Showroom, Dadar (West) Mumbai - 4
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com**

order to prevent a complete breakdown of the global order.

Implications for India

- **Balancing Act:** India sees itself as a leader of the 'Global South' and a strong 'middle power' (or emerging superpower). On the one hand, India has to handle border disputes with China, on the other hand, it has to balance the organizations with opposite poles like BRICS and QUAD.
- **Support for a multipolar world:** India has always been a supporter of a multipolar world, where no one or two powers dominate. The 'Middle Power Way' strengthens this policy of India.

Conclusion

This session of 'The Hindu Huddle 2026' is a clear indication that the current global order is undergoing a major transition. The responsibility of maintaining global stability in the midst of a clash of superpowers can no longer be left to just a few countries. The resumption of diplomatic and commercial relations between India and China is essential for the economic interests of not only Asia but the entire Global South. At the same time, India will have to build a just and rules-based multipolar order with other middle powers like Australia, Brazil and the European Union to maintain its strong place at the 'table' rather than being part of the 'menu' on the global stage.

UPSC Prelims Exam Study Questions

Question: Which of the following countries is generally **considered to be in the category of "Middle Power"**?

1. Australia
2. Brazil
3. European Union
4. Canada

Select the correct answer using the code given below:

- A. Only 1 and 2
- B. Only 1, 2 and 4
- C. Only 2 and 3
- D. 1, 2, 3 and 4

Answer: D)

UPSC Mains Practice Questions

Question: How does India's parallel participation in forums like **BRICS and QUAD reflect its "strategic autonomy"**? Analyze. (150 words)

Page 05 : Preliminary Examination

Recently, President Droupadi Murmu conferred the prestigious Padma Vibhushan, Padma Bhushan and Padma Shri Awards for the year **2026** at the Civil Investiture Ceremony-I held at Rashtrapati Bhavan. One of India's highest civilian awards, the Padma Awards are announced annually on the occasion of Republic Day (26 January). This year, the President has approved a total of **131** Padma Awards, **out of which 2 Padma Vibhushan, 6 Padma Bhushan and 58 Padma Shri Awards** were conferred **in the first phase**.

Classification of Awards and Major Winners (2026)

The total breakup of this year's awards is as follows: **5** Padma Vibhushan, **13** Padma Bhushan and **113** Padma Shri. The highlights of the first phase are as follows:

1. Padma Vibhushan

It is India's second highest civilian honour for exceptional and distinguished service.

- Dharmendra (posthumously): For his epoch-making and distinguished contribution to Indian cinema (Bollywood). (The award was received by his wife and MP Hema Malini).
- **Dr. N. Rajam**: In the field of classical music (violin). He introduced the **"Gayaki Ang"** technique, which enables the violin to mimic the human voice. He is known globally as **the "Singing Violin"**.

President confers Padma awards; Dharmendra, N. Rajam honoured

The Hindu Bureau
NEW DELHI

President Droupadi Murmu on Monday presented Padma Vibhushan, Padma Bhushan, and Padma Shri awards for 2026 at the Civil Investiture Ceremony-I held at the Rashtrapati Bhavan here.

Among the dignitaries present on the occasion were Vice-President C. P. Radhakrishnan, Prime Minister Narendra Modi, and Union Home Minister Amit Shah.

For this year, the President has approved 131 Padma awards, including five Padma Vibhushan, 13 Padma Bhushan, and 113 Padma Shri.

They are announced ev-

ery year on Republic Day. On Monday, the President presented two Padma Vibhushan, six Padma Bhushan, and 58 Padma Shri awards.

She conferred the Padma Vibhushan on legendary Bollywood actor Dharmendra posthumously, received by his wife and MP Hema Malini; and violin virtuoso N. Rajam, for exceptional contribution to their respective fields.

'Singing violin'

Ms. Rajam pioneered a revolutionary approach to classical music by introducing "Gayaki Ang" – a technique that enables violin to emulate human vocals – earning her global renown as the "Singing



High honours President Droupadi Murmu conferring the Padma Vibhushan on violinist N. Rajam, the Padma Bhushan on Kotak Mahindra Bank founder Uday Suresh Kumar Kotak, and the Padma Shri on cricket player Harmanpreet Kaur Bhullar in New Delhi on Monday. PTI

Violin". The Padma Bhushan was presented to former Uttarakhand Chief Minister Bhagat Singh Koshyari; Shatavadhani R.

Ganesh, who revived the classical art form of "Avadhanam"; Uday Suresh Kumar Kotak, founder of Kotak Mahindra Bank; and eminent gastroenterologist Kallipatti Ramasamy Palaniswamy.

The award was conferred posthumously on

former MP Vijay Kumar Malhotra and "ad guru" Piyush Pandey.

The remaining Padma awardees will be felicitated

in the second round of the ceremony to be held later.

Among the Padma Shri recipients were Prosenjit Chatterjee, one of the most influential figures of Indian cinema; Harmanpreet Kaur Bhullar, an inspirational figure in Indian women's cricket; para athlete Praveen Kumar; former Central Reserve Police Force (CRPF) Director-General K. Vijay Kumar; folk musician Miraji Kasam; Tamil devotional music artist N. Srinivasan; and traditional folk music artist Taga Ram Bheel.

Other awardees

While Silambam master K. Pajanel was awarded for promoting the ancient art

originating from Tamil Nadu, hockey coach Baldev Singh was felicitated for distinguished service to Indian hockey for over four decades.

"Kantha" embroidery artist Tripti Mukherjee, social worker Janardan Bapurao Bothe, and husband-wife duo of Dr. Ramchandra Godbole and Suneeta Godbole, who provided healthcare and social support to tribal communities, also received the Padma Shri. Environmentalists Devaki Amma G. and Hally War; bibliophile Ankegowda M.; Sanskrit scholar Vempaty Kutumba Shastri; and botanist Gambir Singh Yonzon were the others who received the Padma Shri.

2. Padma Bhushan

It is the third highest civilian honour conferred for distinguished service of the highest order.

- Bhagat Singh Koshyari: Public Affairs/Politics (Former Chief Minister of Uttarakhand).
- Shatabdi R. Ganesh: To revive the classical art form **"Avadhanam"** (it is an ancient genre in which a person's acute intelligence and memory are tested).
- Uday Suresh Kumar Kotak: Trade and Industry (Founder of Kotak Mahindra Bank).

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai – 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

- Dr. Kalipatti Ramasamy Palanisamy: Medicine (Eminent Gastroenterologist).
- Vijay Kumar Malhotra (Posthumous) & Piyush Pandey (Posthumous): In the field of Public Affairs & Advertising ('Ad Guru').

3. Padma Shri

It is the fourth highest civilian honour given for distinguished service in any field. This year, many luminaries from **diplomacy**, sports, the arts, and grassroots work received the honor:

Recipient	Field/ Distinguished Contributions
Harmanpreet Kaur Bhullar	Sports (Indian women's cricket team captain and motivational figure)
Praveen Kumar	Sports (Para-Athlete)
Baldev Singh	Sports (Coaches who have contributed to Indian hockey for more than four decades)
Prosenjit Chatterjee	Art/Cinema (Influential actors of Bengali and Indian cinema)
K. Vijay Kumar	Public Service (Former Director General of CRPF)
K. Poznivel	Art/Culture (Silambam - to promote the ancient martial art of Tamil Nadu)
Trupti Mukherjee	Art (' Kantha ' to keep the embroidery art alive)
Dr. Ramchandra and Sunita Godbole	Social work (a pair of doctors providing healthcare to tribal communities)
Devaki Amma G. and Hailey Vaar	Environmental Protection

Key Key Points for UPSC Exam

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai - 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

Daily News Analysis

- **Preservation of Art and Culture:** Dr. N. Rajam's 'Gayaki **Ang**' and Shatabdi R. Ganesh's **revival of 'Avadhanam'** art are extremely important for the 'Indian **Culture**' section of the Mains examination.
- Ancient Martial Arts: **The award awarded to K. Pajnivél underlines the traditional martial art** of Tamil Nadu, '**Silambam**', which is often asked in the **Match the** following questions in the preliminary exam.
- **Handicrafts:** The felicitation of Trupti Mukherjee for **the traditional** 'Kantha' embroidery of West Bengal/Odisha signifies the importance of Geographical Indication (**GI**) and handicrafts.
- **Unsung Heroes:** The recent trend of Padma Awards **has focused on honouring** 'unsung heroes' (such as the Godbole couple working for tribal health or grassroots environmentalists), reflecting **social inclusion**.

Conclusion

The Padma Awards for the year **2026** not only showcase India's rich cultural diversity, art and sports **proWess but** also honour nation-building efforts in the fields of science, social service and public administration. From masters like Dr. N. Rajam to youngsters like Harmanpreet Kaur and environmentalists and doctors working in remote areas, the inclusion of these awards proves that these awards have now truly **become "People's Padma"**, recognising the excellence and selfless service of every corner of the country.

UPSC Prelims Exam Study Questions

Question: 'Avadhanam', which was recently honoured for reviving, is mainly related to whom?

- A. Martial arts
- B. The Ancient Art of Memory and Intellectual Ability
- C. Temple architecture
- D. Folk dance style

Answer: B)

The main function of the Finance Commission (FC) constituted under Article 280 of the Constitution is to remove the fiscal imbalance between the Centre and the states (vertical) and between the states themselves (horizontal). The 16th Finance Commission has retained the vertical devolution for states at **41% and has considered 'equity' as the guiding principle in determining** horizontal transfers. However, this arrangement has given rise to a new debate on fiscal imbalance and fiscal federalism between the developed states of the South and the more populous states of the North.

Finance Commission transfers and equity issue

The Finance Commission (FC), constituted under the Constitution, determines the distribution of the Union's gross tax revenues between Centre and States and among the States themselves to address vertical and horizontal fiscal imbalances. Following earlier commissions, the 16th FC has retained the vertical devolution share of 41% for the States and continued to emphasise equity as the guiding principle in determining horizontal transfers.

During consultations with the FC, States raised several concerns regarding the structure of fiscal transfers. Since cesses and surcharges exceeded 15% of gross tax revenues, they should either be included in the divisible pool or capped at around 8%-10%. In addition, the Centre receives substantial non-tax revenues from natural resource extraction, asset monetisation and surplus transfers from the Reserve Bank of India.

States and pressures
States also face mounting fiscal pressures. The COVID-19 pandemic, structural changes introduced by the Goods and Services Tax (and recent rate rationalisation from four rates to two principal rates), and mounting public debt further constrained their fiscal space. Moreover, the growing dominance of Centrally Sponsored Schemes has narrowed their fiscal autonomy (the restructuring of the National Rural Employment Guarantee programme requires States to bear 40% of programme costs), while buoyancy of central taxes has slowed. These factors could reduce the actual transfers to States, leading several States to demand a 50% vertical share.

Another concern is frequent changes in devolution criteria and their assigned weights across successive FCs in order to transfer more resources to fiscally weaker States, making it difficult for States to predict their future shares. Many States called for a reduced weight for the income-distance criterion and suggested adjusting it for purchasing-power differences to better reflect variations in the cost of living.

Over time, the shares of better-performing States have steadily declined compared with those of major beneficiary States. The combined shares of four major beneficiary States – Bihar (including Jharkhand), Madhya Pradesh (including Chhattisgarh), Uttar Pradesh (including Uttarakhand) and West Bengal – increased from 42.5% during the Sixth FC period to 51% under the 15th FC. In contrast, the combined share of the four southern States – Andhra Pradesh (including Telangana), Karnataka, Kerala and Tamil Nadu – declined from 24.8% to 15.8%, widening the gap to 35.2%. Continued reliance on unconditional equalisation transfers may weaken incentives for revenue mobilisation and fiscal discipline in weaker States. Moreover, rising



K.R. Shanmugam
Former Director, Madras School of Economics, and Consultant to the Government of Tamil Nadu

transfers to poorer States have not eliminated disparities in public expenditure even on basic services. In 2022-23, Bihar spent ₹37 per person on health, against Arunachal Pradesh's ₹10,148 (10.8 times lower), while Bihar's per-student spending on elementary education in 2023-24 was ₹20,282 compared with Sikkim's ₹1,30,498. These gaps show that fiscal transfers alone have not ensured convergence in public service delivery.

Recommendations of Finance Commission
The 16th FC accepted the Centre's argument that cesses and surcharges cannot be shared because they often finance welfare and infrastructure programmes that indirectly benefit States and retained 41% vertical share. It also abolished revenue-deficit grants as well as sector-specific and State-specific grants and recommended that States discontinue off-budget borrowings, bring all liabilities onto their budgets and maintain fiscal deficits below 3%. These measures could increase short-term fiscal stress for States.

The FC made only modest adjustments to the criteria used by the 15th FC. Income distance received a weight of 42.5%; population 17.5%; area 10%; forest cover 10%; and the demographic criterion – modified by replacing the inverse fertility rate with population growth – 10%. It also introduced States' contribution to national GDP, replacing tax effort, with a 10% weight. However, instead of using actual GSDP shares, the FC applied a square-root transformation to State GSDP shares, with a weight of just 10%, far below the expected 25%. This significantly reduced the advantage of economically stronger States and altered the rankings. Maharashtra's actual GSDP share of 14.23% fell to 8.31% after the transformation, while Tamil Nadu's declined from 9.09% to 6.67% and Karnataka's from 8.95% to 6.59%. At the same time, the shares of many smaller States increased.

Consequently, overall devolution shares of 14 States rose marginally compared with the 15th FC. Karnataka gained the most (0.484 percentage point increase), followed by Kerala (0.457) and Gujarat (0.277). Tamil Nadu saw only a negligible rise, from 4.079% to 4.097%. Meanwhile, the shares of 14 States declined, with Madhya Pradesh experiencing the largest reduction (0.503 percentage points), followed by Arunachal Pradesh (0.403) and Uttar Pradesh (0.32).

From a longer-term perspective, however, disparities remain substantial. Under the 16th FC, the southern States' share has risen slightly to about 17%, while the share of the largest beneficiary States has fallen to just under 50% – a shift of only about 1.2% in favour of the southern States. The balance between equity and efficiency has changed only marginally. Under the 15th FC, efficiency-related criteria accounted for 25% of

the weight and equity criteria for 75%; under the 16th FC, this has shifted to 30% and 70%, respectively – an adjustment too small to significantly alter outcomes. Poorer States such as Uttar Pradesh (17.62%), Bihar (9.95%), Madhya Pradesh (7.35%) and West Bengal (7.22%) continue to receive larger shares than fiscally stronger and better-performing States.

Devolutions with alternative schemes

Alternative weighting schemes suggest that the outcomes could have been different. If the FC had assigned a 25% weight to the square root of GDP contribution while reducing the weight of income distance to 27.5%, Karnataka's share would have increased from 4.131% to 4.928%, Maharashtra's from 6.441% to 7.218%, and Tamil Nadu's from 4.097% to 4.867%. Under an equal-weight scheme across the six criteria, their shares would have risen further to 5.544%, 7.845%, and 5.246%, respectively.

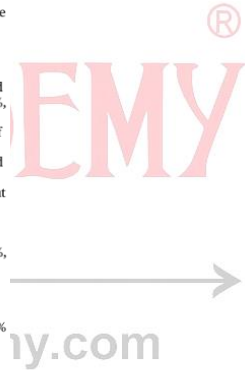
Had the FC used actual GSDP share (instead of square root formula) with 10% weight, the devolution shares of Maharashtra, Karnataka and Tamil Nadu would have increased to 7.033%, 4.367% and 4.342% respectively. With 25% weight (and 27.5% weight to income distance), they would have increased to 8.698%, 5.517% and 5.478%. With equal weighting scheme, their respective shares might have increased to 8.833%, 5.937% and 5.653%. That is, their respective shares increased by 2.392%, 1.806% and 1.566%.

Given that the 16th FC estimates total vertical transfers of ₹104 lakh crore over the award period, these differences are significant. A 2.392% increase in Maharashtra's share would translate into an additional ₹2.49 lakh crore, or about ₹49,744 crore annually. Karnataka's additional 1.806% share would yield about ₹1.88 lakh crore, or roughly ₹37,565 crore annually. Tamil Nadu's 1.566% increase would amount to approximately ₹1.62 lakh crore, or ₹32,365 crore annually.

In India, unlike other large federations such as Australia and China, States with greater political influence in terms of parliamentary representation are not necessarily the economically stronger ones. Consequently, these States tend to receive higher fiscal transfers. The issue is likely to intensify after delimitation, as governments may have stronger incentives to favour politically influential States. Since the FC's primary objective is to address both vertical and horizontal fiscal imbalances, future FCs should place greater emphasis on fiscal capacity and fiscal outcome indicators rather than relying predominantly on non-fiscal indicators. Additionally, they should adopt more data-driven approaches for assigning weights, such as the principal component analysis method.

The views expressed are personal

Under the 16th Finance Commission, arbitrary weights affect better-performing States



Increasing Fiscal Concerns and Fiscal Pressures of States

According to the author, states are currently facing fiscal constraints on several fronts:

- **Increasing Share of Cesses and Surcharges:** The share of cesses and surcharges in the gross tax revenue of the central government has increased to more than 15%. Since they are not part of the Divisible Pool, the

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai – 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

states do not get the benefit of them. The states demanded that they be included in the divisible pool or capped at 8%-10%, which was rejected by the Commission.

- **Non-Tax Revenues:** The entire share of the huge earnings from the extraction of natural resources, asset monetization, and surplus transfers of the RBI remains with the Centre.
- **GST and Structural Changes:** The rationalization of GST rates (from 4 slabs to 2 main slabs) and increased public debt after the pandemic have limited the financial space of the states.
- **Centrally Sponsored Schemes (CSS):** The increasing dominance of these schemes has reduced the financial autonomy of the states. For example, after the restructuring of MGNREGA (NREGA), states now have to bear 40% of the cost of the programme.

16th Finance Commission Norms and their Impact

The 16th Finance Commission has made only minor changes in the norms of the 15th Commission. The Commission has abolished 'Revenue-Deficit Grants' and sector/state-specific grants and directed to keep the fiscal deficit below 3%, which may increase the short-term financial pressure on the states.

Horizontal Criteria and Weights:

1. **Income Distance:** 42.5% (based on parity)
2. **Population:** 17.5%
3. **Area:** 10%
4. **Forest Cover:** 10%
5. **Demographic Criterion:** 10% (This includes population growth in place of inverse fertility rate).
6. **State contribution to national GDP (GDP contribution):** 10% (it has replaced the old 'tax effort' criterion).

Impact of Square-Root Formula:

The Commission implemented 'square-root transformation' **on the economically strong states instead of using the actual GSDP share on it.** This led to the weight of the better performing states on paper:

- **Maharashtra:** Real GSDP share declined from 14.23% to **8.31%**.
- **Tamil Nadu:** Decreased from 9.09% to **6.67%**.
- **Karnataka:** Decreased from 8.95% to **6.59%**.

As a result: Karnataka (+0.484%) and Kerala (+0.457%) gained marginally in transfers, while shares in Madhya Pradesh (-0.503%), Arunachal Pradesh (-0.403%) and Uttar Pradesh (-0.32%) declined.

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai - 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

Long-term imbalance of equity vs efficiency

The author outlines a serious trend through historical data:

- **Southern vs. Northern States:** At the time of the Sixth Finance Commission, the combined share of the four southern states (Andhra-Telangana, Karnataka, Kerala, Tamil Nadu) **was** 24.8%, which came down to 15.8% **by the 15th Commission**. In contrast, the share of the four major beneficiary states (Bihar, Madhya Pradesh, Uttar Pradesh, West Bengal) **increased from 42.5% to 51%**. Even in the 16th Commission, the southern states have received a marginal improvement of only 1.2% (~17% in total).
- **Weakening of Fiscal Discipline:** Excessive equalization transfers to financially weak states without any conditions weakens the incentive to raise revenue and maintain fiscal discipline within them.
- **Lack of Convergence in Public Expenditure:** **Despite the excessive financial transfer, there is a huge gap in per capita spending on basic services in poorer states** (in 2022-23, the per capita expenditure on health was ₹937 in Bihar, while ₹10,148 in Arunachal Pradesh). This shows that financial transfers alone are not improving public service delivery.

Financial Impact of Alternative Weighting Schemes

The author has calculated that if the Commission had given 25% weightage to the actual GSDP instead of the 'square-root', there would have been a huge difference in the amount received by the strong states. Based on **the total transfer pool of ₹104 lakh crore** estimated by the Commission:

- **Maharashtra would have received an additional** of about ₹49,744 **crore per year**.
- **Karnataka gets around ₹37,565 per annum.Crores** extra.
- **Tamil Nadu would have received an additional** of about ₹32,365 **crore every year**.

Political Influence and the Challenge of Delimitation

The political structure of India is different from other large federations (such as Australia or China). The states in India which have more political influence (representation in Parliament)are not economically strong. This causes financial transfers to tilt in favor of politically influential (more populous) states.

Future Crisis: This problem may become more acute after **the upcoming** delimitation, as political representation will change based on demographics, increasing the temptation for governments to give more financially benefits to politically influential states.

Conclusion and Way Forward

- **Emphasis on Fiscal Indicators:** Future Finance Commissions should give more weight to the **Fiscal Capacity and Fiscal Outcomes** indicators **instead of relying only on non-fiscal indicators** (such as population) so that better performing states are not penalized.

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai - 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

- **Data-Driven Approach:** More scientific and data-driven methods, such as **the Principal Component Analysis (PCA)** method, should be used to determine the weighting.
- **Need for Balance:** The stability of federalism requires that an equitable balance is struck between 'equity' (helping weaker states) and 'efficiency' (better fiscal discipline and incentives to economically contributing states).

UPSC Prelims Exam Study Questions

Question: "Which of the following is not a part of a '**Divisible Pool**'?"

- A. income tax
- B. Corporation Tax
- C. Cess and Surcharge
- D. Central part of GST

Answer: C)

UPSC Mains Practice Questions

Question: "A balance between equity and efficiency is essential for the stability of Indian federalism. Discuss the recommendations of the 16th Finance Commission. **(150 words)**"

www.lakshyaacademy.co | www.lakshyaaiasacademy.com

Page 10 : GS I : Social Issues / Preliminary Examination

The recent figures from the Sample Registration System (SRS) Statistics Report 2024 confirm a historic shift in India's demographic position. India's **Total Fertility Rate (TFR) has come down to 1.9**, which is also lower than the Population Replacement Level (2.1). While India still has nearly three decades to reap the benefits of the demographic dividend, falling birth rates and rising life expectancy are indicative that India will have to reshape its future policies as a 'Greying Nation' from now on.

Key Demographic Insights - 2024/2026

The report paints a double picture of India's current demographic status:

- **Decline in Fertility Rate:** India's birth rate, which was 21 in 2014, has declined to 18.3 in **2024**. There has also been a marginal decline in the mortality rate (from 6.7 to 6.4).
- **Young Population (Current Strength):** India's current median age is **29.2** years, which is significantly lower than China (40.2 years) and European countries. In the year 2026, the number of youth in the age group of 15-29 years in India is **approximately 37-38** crore, accounting for about 27% of the total population. Moreover, more than 65% of India's population is below the age of 35.
- **Increasing Life Expectancy:** Life expectancy at birth in India has increased to **72 years**, reflecting improved access to healthcare services.

Drivers of Demographic Transition

According to the article, several socio-economic factors are responsible for this decline in the birth rate:

- **Urbanisation:** The urban lifestyle and high cost of living have led to an increased desire for small families.
- **Improved Education and Awareness:** The spread of education among women has influenced the age of marriage and childbirth decisions.
- **Access to contraception:** Easy availability of family planning tools.
- **Improving Healthcare:** The Infant Mortality Rate (IMR) has come down to 24, which has ensured child survival, reducing the need for large families.

Future Challenges and Regional Disparities (Key Challenges)

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai - 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

From black to grey

India needs to prepare for a future with an ageing population

If India wanted proof of its shifting demographic status, then the latest SRS bulletin, 2024 has provided just that. The figures from the Sample Registration System - Statistical Report, 2024, offer incontrovertible proof - falling fertility rate, low crude birth rate - to show that India's pace of population growth is considerably slowing down. While the pundits predict at least three decades of population growth for the country, the plunging fertility rate certainly commands pause for contemplation and forward planning, for India to crest a crisis that several nations are struggling to manage. India's Total Fertility Rate has dropped to 1.9, lower than the replacement level of 2.1, aided, in large, by a falling birth rate. As per the latest SRS data, India's birth rate fell from 21 in 2014 to 18.3 in 2024; while death rate marginally went down from 6.7 to 6.4. The country is well on its way from population 'explosion' to one of ageing population and shrinking workforce expansion. India might still reap its demographic dividend - the median age in India is 29.2 years, in stark contrast to China (median age of 40.2), and several other European nations. In 2026, India has approximately 370 to 380 million youth, aged 15-29 years, representing roughly 27% of the country's population. Estimates also put India's below 35 years population at over 65% of the total, making it one of the world's youngest cohorts.

In demographic terms, falling birth rate reflects a decline in fertility, linked to factors such as urbanisation, better education, access to contraception, and the desire for smaller families. India's high life expectancy at birth (72 years) and dipping death rate offer the other side of the transition paradigm, implying better access to health care. India needs to reassess the path ahead and pivot to prepare for the needs of a future greying nation, when the demographic dividend disappears. The SRS data, however, flags a more immediate concern too - one of vast regional and rural/urban disparities. Overall, performance in rural areas is not on a par with the urban centres, and the southern States continue to stay ahead of the northern States. Overall, child survival improvements are real (the Infant Mortality Rate has fallen to 24) but high-burden States in the north are still at a much higher IMR. States and areas that lag will need targeted interventions, whether it is access to health care, awareness or education facilities to effect a national convergence.

Although the figures look positive nationally, there are two major concerns lurking within it:

A. Acute Regional & Rural-Urban Disparity

- **North vs. South:** The states of the South have achieved the demographic transition (low fertility rates and high life expectancy) much earlier, while the high-burden states of the North are still grappling with high infant mortality (IMR) and high fertility rates.
- **Rural vs Urban:** The level of health, education, and awareness in rural areas is still not at par with urban centers.

B. The Vanishing Dividend

When this young population (65% of the population is now under 35) will be old in the next 3-4 decades, India will have a huge elderly population for which the country has neither adequate social security structure nor pension schemes.

Strategic Steps Needed for India (Way Forward for India)

India needs a multi-pronged policy shift (Pivot) to tackle this 'grey crisis':

- **Targeted Interventions: Special National Convergence Programmes** will have to be run to improve the level of health services, education and awareness in the backward states and rural areas of the North.
- **Geriatric Infrastructure: Health systems** (geriatric care), long-term care centres, and accessible public infrastructure will have to be developed from now on for the future elderly population.
- **Social Security and Financial Planning:** Comprehensive pension schemes and health insurance (such as the extension of Ayushman Bharat) for all citizens, including the unorganised sector, will have to be strengthened.
- **Maximizing the Utilization of Current Dividends:** In the three decades that India has, the youth have to maximize their productivity by providing them with skill development and quality education, so that they can become an economic force capable of bearing the burden of the future elderly population.

Conclusion

This SRS data is like a wake-up call for India. India has to learn from the experiences of countries (such as Japan, South Korea or China) at the global level that are struggling with the ageing crisis of their population. India will have to reorient its policies from now on to meet the future needs of a 'Greying Nation', rather than just being youth-centric. Only timely steps will ensure that India does not "grow old before it gets rich", but achieves a balanced and equitable socio-economic development.

UPSC Prelims Exam Questions

Question: What indicates **India's Total Fertility Rate (TFR)** being 1.9?

- A. There will be a population explosion in India
- B. India is still above the replacement level
- C. India moving towards population stabilization
- D. The death rate is increasing exponentially

Answer: C)

UPSC Mains Practice Questions

Question: Analyse the challenges of social protection and health infrastructure in the context of an ageing population **in India. (150 words)**



ЛАКШЬЯ АКАДЕМИ[®]

Aim, Think & Achieve

www.lakshyaacademy.co | www.lakshyaaiasacademy.com

Page 10 : GS III : Indian Economy / Preliminary Examination

The Indian rupee has crossed 96 per dollar, **touching its all-time low against the US dollar in the current time (May 2026)**, compared to around 85 a year ago. The exchange rate of any country's currency is determined by its demand and supply in the market. At present, geopolitical tensions and high interest rates in the US are putting huge pressure on the rupee.

Why is the Indian rupee falling?

How does a falling rupee affect India's economy? How does a currency's exchange rate shape its balance of payments? To what extent does Foreign Portfolio Investment influence demand for the rupee? What strategic role does the Reserve Bank of India play in preventing the rupee's depreciation?

EXPLAINER

Jayan Jose Thomas

The graph of the Indian rupee has been sinking sharply downward. The rupee-to-dollar exchange rate, or the rupees needed to purchase a U.S. dollar, crossed 96 in May this year. That rate was around 85 a year ago, indicating the rupee's decline in value since then.

Exchange rate is the price that a currency, such as the rupee, commands in the market, relative to the dollar or other currencies. Just as the market price of onions is determined by demand and supply, so is the price of a currency.

What is the impact of trade deficits on the rupee's value?

The demand for the rupee rises with India's exports and falls with imports. When firms in India's export garments, the dollar or euros they receive from foreign buyers are exchanged for rupees to pay workers and suppliers, thereby increasing demand for the rupee. On the other hand, Indian companies import oil by exchanging rupees for dollars, thereby reducing the demand for the rupee.

Rupee demand also declines when we travel abroad and exchange rupees at the airport for the currency of our destination country.

Overall, if India's imports exceed exports, the foreign currency payments it must make to the rest of the world exceed the foreign currency payments it receives. That implies more rupees are exchanged for dollars than dollars are exchanged for rupees, leading to declines in the demand for, and the value of the rupee (requiring more rupees to purchase one dollar).

Thus, a currency's exchange rate is closely tied to the country's balance of foreign currency payments (to and from the rest of the world). India has consistently run a merchandise trade deficit, with imports of goods (especially oil) exceeding exports. The deficit in its merchandise trade account is partially offset by a surplus in India's invisibles. That is mainly thanks to foreign currency inflows from the export of services, particularly software, and to the large remittance inflows from migrant workers, especially in West Asian countries.

Overall, India's current account, which is the sum of merchandise trade and the invisibles accounts, has been in deficit (Table 1).

The gap in the current account, between the foreign currency payments India owes to the rest of the world and the foreign currency payments it receives, has been bridged by inflows through the capital account, mainly foreign investment and loans. If the current account deficit is more than offset by a surplus in the capital account, the excess foreign currency received is added to the country's foreign exchange (or force) reserves (Table 1).

How do capital outflows weaken the rupee?

A country's force reserves are as valuable as a family's treasure trove. The reserves are tapped to pay for critical imports during periods of insufficient foreign currency inflows, and to defend the currency's value when capital outflows are too large (discussed below).

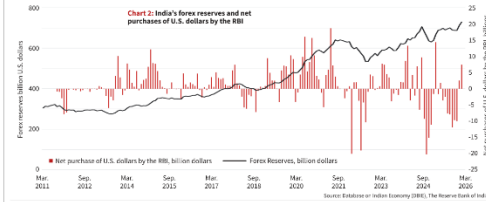
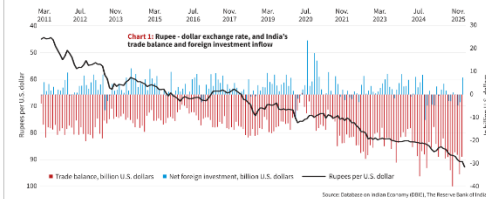
Foreign direct investment (FDI) is mainly in new or existing factories and businesses and, as a result, has some ties binding to the host country. In comparison, foreign portfolio investment

Mounting strain

Amid ongoing geopolitical tensions, the rupee has weakened sharply against the dollar. Global uncertainty, volatile capital flows and rising import costs have intensified pressure on India's balance of payments and force reserves

	2023-24	2024-25
A. Current account	-24.1	-23.1
A1. Merchandise trade	-244.9	-286.9
A2. Invisibles	218.8	263.9
B. Capital account	18.4	16.6
B1. Foreign investment	54.2	43.2
B2. Loans	6.9	27.3
B3. Others	21.2	17.2
C. Force reserves (Increase / Decrease)	-63.7	5

Source: Database on India's Economy (DIE), The Reserve Bank of India.



THE GIST

The rupee-to-dollar exchange rate crossed 96 in May this year. A currency's exchange rate reflects the price it commands in the market relative to the dollar and other currencies.

Exchange rate is closely tied to a country's balance of payments. India has consistently run a merchandise trade deficit, with imports — especially oil — exceeding exports.

The depreciation of the rupee imposes significant costs on the Indian economy. Therefore, the country must regulate speculative capital outflows and reduce its dependence on oil imports.



www.lakshya

ademy.com

The main reasons for the fall of the rupee (Why is the Rupee falling?)

The author attributes the depreciation of the rupee mainly to two major factors:

A. Trade Deficit & Current Account Deficit (CAD)

- **Principle:** When Indian firms export, the dollars they receive are converted into rupees, which increases the demand for the rupee. Conversely, when India imports (especially crude oil), the rupee is converted into dollars, thereby reducing the demand for the rupee.

Add- 21/B, Om Swati Manor, Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai - 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

FDI, which involves purchases of stocks or bonds, is highly volatile and driven by speculation. Portfolio investors enter a country seeking quick financial returns and exit at the first sign of risk, or when higher returns are offered elsewhere. When FPI surges in, the stock markets are on a roll; when it flows out, it leaves a trail of destruction. Capital outflows imply that investors withdraw their investments in rupee assets and exchange them for dollar assets, leading to a handle in demand for the rupee and in its exchange rate.

The periods of rapid depreciation of the Indian rupee have each been characterized by worsening of the trade account, FPI outflows, or both. These include April to September 2003 (when the rupee-to-dollar rate fell from 54.4 to 63.8); January to October 2008 (from 63.6 to 74.6); February to April 2020 (from 71.5 to 76.2); January to October 2022 (from 74.4 to 82.3); September 2024 to February 2025 (from 83.3 to 87.8); and the latest phase that began in May 2025 (from 85.2 to 96) (Chart 1). The recent losses in the

rupee have mainly been due to foreign investors withdrawing from India as they retreat to the safety of their home bases amid growing geopolitical tensions and higher U.S. interest rates.

The depreciation of the rupee imposes a high cost on the Indian economy. To purchase a barrel of oil at \$100, Indian companies now must pay 93,600, compared to 85,500 had the exchange rate remained at 85 per dollar. However, a depressed rupee can help boost exports: a shirt costing 1,200 can be sold in the U.S. market at \$2.5 now, if the exchange rate were 80 per dollar, the price would have been \$15. But rupee depreciation alone may not help much, given the range of supply and demand constraints weighing on Indian manufacturing.

What is the role of the RBI?
The Reserve Bank of India (RBI) intervenes to prevent the exchange rate from falling to very low levels. When foreign investors rush out by selling their rupee assets for dollars, the RBI steps up the rupee by selling some of the dollars (or treasury bonds) from its reserves. This raises the demand for rupee and slows its decline (as it did during October 2013-January 2025 and August-December 2025) (Chart 2). India's force reserves remain sufficiently large: they stood at around USD 691 billion at the end of March 2026, enough to cover 10.8 months' worth of the country's imports (as of the end of December 2025). That is a mighty armor the RBI can deploy to shield the rupee against impending speculative attacks.

The ongoing geopolitical tensions and the threat of further oil price increases pose severe challenges. India could be at risk of paying more dollars per barrel of oil and more rupees per dollar. The country must take steps to regulate speculative capital outflows and reduce its dependence on oil imports.

(Jayan Jose Thomas is a Professor of Economics at the Indian Institute of Technology, Delhi, and a visiting researcher at the South Asia Institute of the University of Heidelberg.)

- **Imbalance:** India constantly faces a merchandise trade deficit. While invisible **items such as** software exports and remittances from expatriates provide some support to the current account, India as a whole remains in a state of current account deficit (CAD).

B. Foreign Portfolio Investment (FPI) Exodus

- **Volatile Nature:** Unlike Foreign Direct Investment (FDI), FPI or portfolio investing is extremely fickle and speculative. It is also called '**Hot Money**'.
- **Current Crisis:** Global geopolitical instability and high interest rates in the US have led foreign investors to withdraw their capital from emerging markets like India and turn to safe havens in the US. When these investors demand dollars by selling their Indian assets (shares/bonds), the rupee weakens sharply.

3. Currency Exchange Rate & Balance of Payments (Exchange Rate & BoP)

Exchange rates and balance of payments are directly linked to:

- To bridge the current account deficit (CAD), India **needs foreign investment (FDI/FPI)** and foreign debt in the capital account.
- If the money coming into the capital account is more than the current account deficit, the surplus foreign exchange **is added to the country's forex** reserves.
- But, when funds start going out of the capital account (due to FPI withdrawals), the pressure on the balance of payments increases, leading to a rapid devaluation of the currency.

4. Impact on India's Economy

The weakening of the rupee has a double effect on the economy (Doctrinal Paradox):

- **Negative Impact (Costly Imports):** India imports a large part of its energy requirements. If the price of crude oil is \$100 per barrel, India had to pay ₹85 at an exchange rate of ₹8,500, but at an exchange rate of ₹96, it is now paying **₹9,600**. This **leads to increased** imported inflation in the country, making transportation and production costs expensive.
- **Positive Impact (Potential Gains in Exports):** A weak rupee makes Indian exports competitive in the global market. For example, a shirt that previously sold for \$15 can now be sold for \$12.5.
- **Limitations:** According to the author, the fall of the rupee alone cannot give a huge boost to exports, as the Indian manufacturing sector is already struggling with internal supply chain and global demand shortages.

5. Strategic Role of the Reserve Bank of India (RBI)

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai - 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

RBI intervenes directly in the market to prevent excessive fluctuations in the value of the rupee:

- **Intervention in the foreign exchange market:** When foreign investors rush out and increase the demand for dollars, the RBI increases the supply of dollars in the market by selling dollars from its foreign exchange reserves. This move supports the demand for the rupee and slows down the pace of its fall.
- **Robust Defence Cover:** India's foreign exchange reserves stood at around USD 691.11 billion **as of end-March 2026**, sufficient to cover approximately 10.8 months of imports. This huge reserve is the RBI's strongest weapon against speculation and sudden global economic shocks.

Conclusion & Way Forward

This fall in the rupee highlights India's external economic vulnerability. As the way forward, India has to work on two fronts:

1. **Energy Security:** Green energy, ethanol blending, and electric vehicles (EVs) have to be promoted rapidly to reduce dependence on crude oil imports.
2. **Capital Regulation:** Measures to regulate speculation-based and highly volatile capital (FPI) outflows have to be considered, as well as structural reforms to attract long-term and stable foreign direct investment (FDI).

Aim, Think & Achieve

www.lakshyaacademy.co | www.lakshyaaiasacademy.com

UPSC Prelims Exam Study Questions

Question: What is the term 'Hot Money' used for?

- A. Foreign Direct Investment (FDI)
- B. Import of Gold
- C. Short-term and speculative Foreign Portfolio Investment (FPI)
- D. Foreign aid

Answer: C)

UPSC Mains Practice Questions

Question: Analyse the major reasons for the recent depreciation of the Indian rupee. Does it present both an opportunity and a challenge for the Indian economy? (150 words)

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai - 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

India and Australia – bridging the trade and trust barrier

Is a comprehensive India-Australia Free Trade Agreement (FTA) in the offing? With the Australian Foreign Minister Penny Wong in India for the Quad Foreign Ministers' meeting, there is anticipation that a Comprehensive Economic Cooperation Agreement (CECA) may be inked. This would expand the 2022 Economic Cooperation and Trade Agreement (ECTA) that had opened 100% of the Australian market to India while India reciprocated with roughly 70% market access covering nearly 91% of trade value. Canberra has since been pushing for parity, both privately and publicly. Meanwhile the West Asia crisis has forced upon India – in the words of the Chief Economic Adviser – a “balance of payments crisis stress test”, making trade expansion and courting investments an urgent necessity for the country.

India has been in a hurry over the past year to conclude trade agreements; geopolitical fragility and the unpredictability of tariff politics have pushed India to sign agreements with the EU, the U.S., New Zealand and the U.K. CECA fits neatly into this larger recalibration.

The problems with Australia

But with Australia, the trade situation is complicated. Since ECTA, bilateral merchandise trade doubled from \$12.2 billion in FY 2020-21 to \$24.1 billion in FY 2024-25. These gains, however, have not been evenly shared. Australian exports to India account for nearly two-thirds of the bilateral trade.

Even in services, where bilateral trade has crossed \$10 billion, Australia's higher education sector alone accounts for close to 60%. In contrast, investment tells the opposite story: as of 2024, Indian investment in Australia had touched nearly \$32 billion against Australia's cumulative FDI into India of about \$18 billion.

The bilateral relationship is thus beset by interconnected problems. Australia wants parity in market access. But the question for India is not whether India should simply concede more market access; it is whether India can trade some market access for a more balanced overall



Vaibhav Jain

Incoming delegate of the Australia-India Youth Dialogue



Raja Karthikeya

Former delegate of the Australia-India Youth Dialogue

An India-Australia trade deal must prioritise balance over parity

relationship. Australia's 2025 Economic Engagement Roadmap for India identified four bilateral 'superhighways': clean energy, education, tourism, and agribusiness. On the first three, there appears to be broad alignment but not on the fourth. Agriculture is where this bargain becomes most difficult. India has restricted access to its agricultural market in nearly all its major trade agreements. Despite being compelled to keep India's most vulnerable sectors (dairy, wheat, rice, sugar and chickpeas) outside ECTA, Australian farm exports to India have risen by nearly 90%, while Indian agricultural exports to Australia have grown more modestly by 35%.

This asymmetry reflects two very different agricultural realities. The average Indian farm is about 0.73 hectares; the average Australian farm exceeds 1,400 hectares. Agriculture contributes around 16% to India's GDP and 2.5% to Australia's. For Australia, agriculture is an export industry. For India, it is a livelihood that supports more than half of its population and remains the bedrock of its food security.

The notion of a “level playing field” between these two systems is hence a misframing of the problem. Indian farmers, even with subsidised inputs, remain structurally exposed to monsoon variability, fragmented landholdings and thin margins. Protecting the Indian market from cheap Australian imports, particularly wheat, is not a negotiating position; it is a political necessity. Yet, given the industrial scale of Australia's farming, Canberra will understandably push India to open up its market fully.

Using agriculture as an opportunity

Nonetheless, agricultural trade talks between the two countries need not become a zero-sum game. Agriculture can become the sector through which India converts Australia's demand for market access into a broader opportunity for institutional cooperation and investment. Two low-hanging fruits stand out.

First, the future of India-Australia agricultural trade must depend less on tariff concessions and

more on mutual recognition of biosecurity and phytosanitary standards. Building on the 2025 organic products arrangement, both countries can expand cooperation in digital certification, quarantine protocols and regulatory alignment. This would give Indian farmers a fairer shot at the Australian market even as India considers reciprocal access for Australian farmers.

Second, Australia's strategic opportunity in India may lie beyond agricultural commodities and in exporting the systems that make modern agriculture possible: precision farming technologies, cold-chain infrastructure, water management expertise and climate adaptation practices. India loses anywhere from 15% to 35% of its agricultural output to pests, disease and post-harvest inefficiencies every year. Australia's extensive experience in dealing with drought cycles, heat extremes and water scarcity is knowledge that would interest India.

However, this experience sharing must go hand-in-hand with real investments. Australian capital, technology and know-how must register a deeper presence inside India's agricultural sector – in storage facilities, logistics networks, farm-level tools and agri-technology partnerships between firms, universities and local governments. The recently launched India-Australia Smart Farm Network Initiative points in the right direction.

Need for complementarity

Agriculture is too politically important in India to be treated as just another line item in a trade schedule; equally, it is too economically important to be left outside the bilateral partnership altogether. Rather than making the new FTA one of absolute symmetry in market access alone, India and Australia should make it an agreement based on complementarity across trade and investment.

Should the diplomats succeed, the day when Chyawanprash and Vegemite sit on the same breakfast table in the two countries is not far.

The views expressed are personal

GS Paper II: International Relations

UPSC Mains Exam Practice Questions: India-Australia relations have deepened in recent years not only in strategic but also in economic dimensions. Discuss in the context of the CECA negotiations. (250 words)

Reference:

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai – 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

Daily News Analysis

During Australian Foreign Minister Penny Wong's visit to India for the Quad meeting, discussions to finalize the Comprehensive Economic Cooperation Agreement (**CECA**) **between the two countries** have intensified. The new agreement will be an extension of the Economic Cooperation and Trade Agreement (ECTA) signed in 2022. At a time when India's Balance of Payments is under pressure due to the West Asia crisis and the Central Economic Adviser has considered it a "stress test", it has become extremely important for India to expand its foreign trade and attract investment.

Current Trade Matrix

The trade between the two countries has seen unprecedented growth since the ECTA agreement of 2022:

- **Merchandise Trade:** Doubling from \$12.2 billion in fiscal year 2020-21 to \$24.1 billion in **fiscal year 2024-25**.
- **Trade Asymmetry:** The distribution of this trading profit is not uniform. Nearly two-thirds of the bilateral merchandise trade is only exports from Australia to India.
- **Services Sector:** Services trade has crossed \$10 billion, but the share of Australia's higher education sector alone is close to 60%.
- **Investment Contrast:** As of 2024, India's investment in Australia was around \$32 billion, while Australia's cumulative FDI in India is only around \$18 billion.

The Main Impasse: Two Different Agro-Economic Realities (The Agri-Hurdle)

Australia is demanding full market access and parity of tariffs for its agricultural products from India. But the structure of the agricultural sector of the two countries is completely different from each other:

Pointer/ speciality	Indian Agriculture	Australian Agriculture
Average Farm Size	Only 0.73 hectares (marginal and fragmented)	More than 1,400 hectares (industrial scale) →
Contribution to GDP	About 16%	Only 2.5%
Nature of the area	Livelihood and food security for more than half of the population .	Primarily an export-oriented industry .
Status under ECTA	India had excluded sensitive areas (dairy, wheat, rice, sugar, gram).	Despite this, Australia's agricultural exports to India grew by 90%.

Policy Conclusion: It is logically wrong to talk of a "level playing field" (equal opportunity) between these two systems. Indian farmers are structurally sensitive to the uncertainty of the monsoon and low profits. Therefore, protecting the domestic market from cheap imports from Australia (especially wheat) is **not a diplomatic negotiating issue for India, but a political and social imperative**.

Strategy to turn agriculture into an opportunity rather than a stalemate (Way Forward & Opportunities)

Add- 21/B, Om Swati Manor Chs, J.K. Sawant Marg, Opp. Shivaji Natyamandir, Behind Cambridge Showroom, Dadar (West) Mumbai - 400028
Con.- 09820971345, 9619071345, 9223209699
G-mail-lakshyaacademymumbai@gmail.com

According to the author, instead of making agriculture negotiations a 'win-loose' (zero-sum game), India could turn Australia's demand for market access into a broader institutional collaboration and investment opportunity. There are two main strategies that can be adopted for this:

A. Focus on Non-Tariff Barriers and Bio-Security (Biosecurity & Phytosanitary Standards)

Future trade should not be solely focused on reducing tariffs. On the lines of the 2025 Organic Products Arrangement, the two countries should enhance cooperation in digital certification, quarantine protocols, and regulatory alignment. This will provide fair entry to the market of Indian farmers with stringent standards.

B. Import of Agri-Technology & Systems

In India, 15% to 35% of agricultural produce is wasted every year **due to pests, diseases and poor post-harvest inefficiencies**. Australia has extensive experience in dealing with droughts, extreme heat and water crises. India should attract the following systems and capital instead of goods from Australia:

- **Precision Farming:** Drones, AI, and data-based farming practices.
- **Cold-Chain and Logistics:** Investment of Australian Capital in Storage Facilities and Cold-Chain Infrastructure.
- **Water Management:** Techniques with high productivity in less water.
- **Smart Farm Network: Enhancing collaboration between companies**, universities and local governments on the lines of the 'India-Australia Smart Farm Network Initiative'.

Conclusion

The agriculture sector in India is not just an economic activity, but the socio-economic backbone of crores of people; It therefore cannot be seen as just a line-item of trading tables. The upcoming FTA (CECA) should be based on "**complementarity**" and **reciprocal investment rather than just on complete equality of market** access. If the diplomats of both countries succeed in this approach, the day is not far when India's 'Chyawanprash' and Australia's 'Vegemite' will appear together at the same breakfast table in both countries.