

PERSPECTIVES

GLOBAL AFFAIRS & INDIAN POLITICS



**WHAT MAKES THE
INDIA-FRANCE
'STRATEGIC
PARTNERSHIP' TICK?**

**THE NIMBLE NEW
MINILATERALS**

**SC STRIKES DOWN
ELECTORAL BOND
SCHEME**



PSIR CURRENT AFFAIRS FEBRUARY 2024

PREFACE

Welcome to "Perspectives", an illuminating magazine curated by RausIAS PSIR team, aimed at unravelling the intricacies of political science and international relations for UPSC aspirants.

Rooted in the normative values of political science—justice, equality, liberty, and development—this magazine attempts to serve as a guiding light on the path towards a more efficient grasping of the current affairs, leading to greater light, so that your perspectives are not just result of deliberation behind ‘veil of ignorance’.

Delving into the key concepts of international relations theories and their applications on the current events, as done by esteemed scholars of the discipline, we hereby attempt to give you crips of those dynamics of global affairs.

Aspiring civil servants embark on a journey through the complexities of governance and power dynamics, armed with a nuanced understanding of international relations theory. With "Perspectives on Polity and Global Affairs,"

We endeavour to equip UPSC aspirants with the relevant current affairs editorials’ perspectives necessary to navigate the challenges of the examination and contribute meaningfully to shaping the future of our nation and the world.



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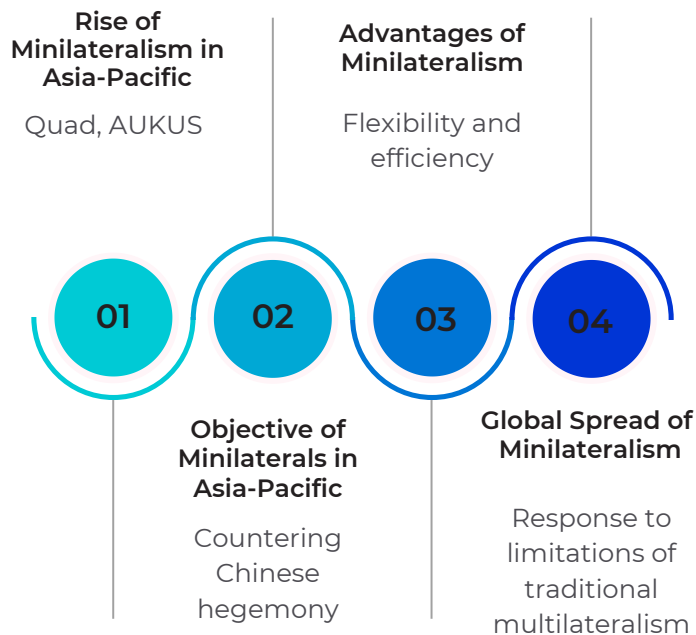
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THE NIMBLE NEW MINILATERALS

Minilaterals challenge China's narrative of regional dominance and its portrayal of the United States as an outsider.

C Raja Mohan



With traditional multilateral institutions facing challenges and formal alliances proving cumbersome, minilateral organisations have emerged as a pragmatic alternative. These groups, comprising small numbers of countries, focus on specific issues and shared interests, providing a flexible and efficient approach to address regional challenges.

The **Asia-Pacific region has become the primary testing ground for minilateralism** in the 21st century. Geopolitical shifts, particularly China's rise and its challenge to the regional balance of power, have fueled the establishment of minilateral frameworks such as the Quadrilateral Security Dialogue (Quad) and the Australia-United Kingdom-United States pact (AUKUS).

Many minilateral initiatives in the region, including the Quad, are driven by the shared goal of preventing Chinese hegemony over Asia.

These groupings, often supported by the United States, aim to bolster regional security and counter Chinese assertiveness.

Minilaterals offer a way to transcend the limitations of traditional alliance frameworks, such as NATO. They allow for greater flexibility and cooperation among diverse actors with varying national interests and threat perceptions.

Minilateral formats are particularly attractive for states with a history of nonalignment, such as India. These countries can engage in strategic cooperation without fully committing to formal alliances, thus preserving their strategic sovereignty.

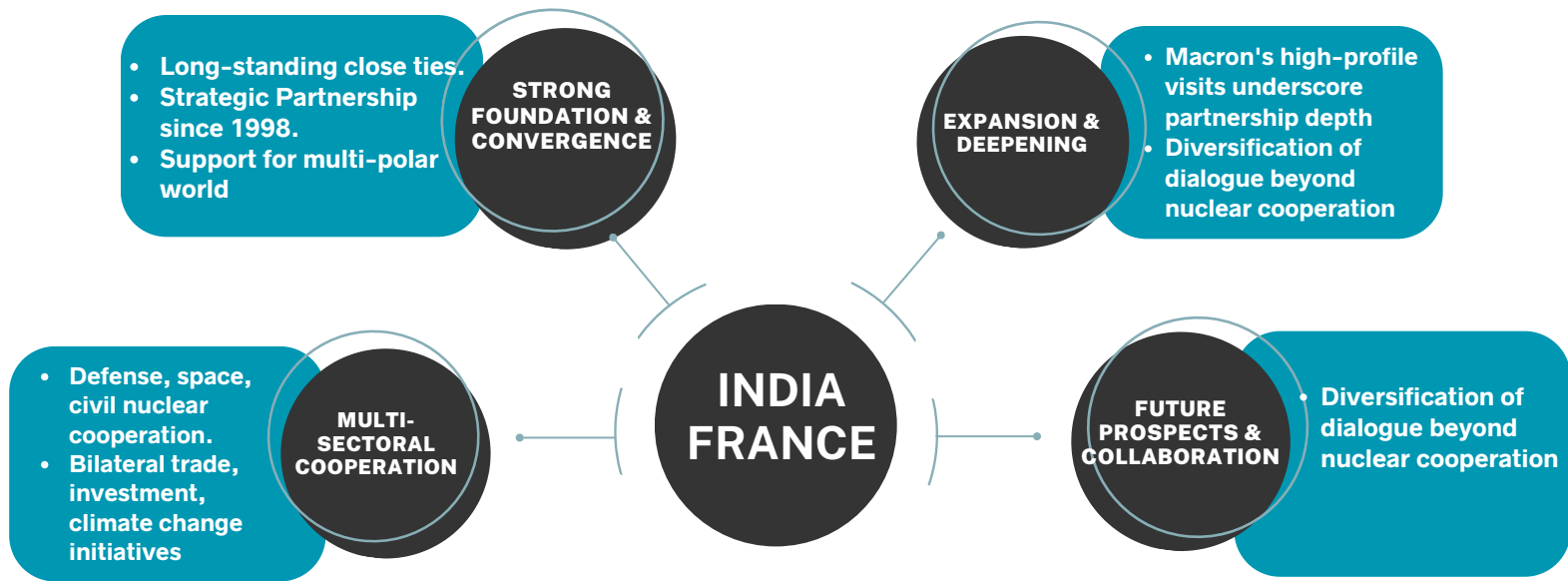
Minilaterals facilitate network-based cooperation, enabling countries to forge connections across regions and sectors. This approach allows for greater strategic flexibility and enhances regional influence.

Minilaterals challenge China's narrative of regional dominance and its portrayal of the United States as an outsider. The purposeful vigour of minilateralism has surprised Beijing and countered its dismissive attitude towards initiatives like the Quad.

Minilateralism is not limited to the Asia-Pacific region but is also emerging in other regions as a response to the limitations of traditional multilateralism and alliances. This trend suggests that minilateral formats are likely to become a permanent feature of the global institutional landscape.



WHAT MAKES THE INDIA-FRANCE 'STRATEGIC PARTNERSHIP' TICK



Rakesh Sood

Rakesh Sood argues that there is a need to broaden and deepen the partnership beyond government domains into commercial and civilian spaces.

India and France have traditionally had close and friendly relations. 1998 - Strategic Partnership which is emblematic of their convergence of views on a range of international issues. **The areas of defence cooperation, space cooperation and civil nuclear cooperation constitute the three principal pillars of our Strategic Partnership.** Both support a multi-polar world order.

France has continued to support India's claim for permanent membership of the Security Council and the reforms of the United Nations along with support to India's candidature for the membership of all the four Multilateral Export Control regimes.

Bilateral trade - reached a new peak at USD 13.4 billion in 2022-23, with exports from India crossing USD 7 billion.

France is the 11th largest foreign investor in India, with a cumulative investment of USD 10.49 billion from April 2000 to December 2022.

Climate change- **India has supported France in the Paris Agreement** expressing its strong commitment to mitigating the effects of climate change. Both countries launched the ISA i.e. International Solar Alliance in 2015.

Macron's visit marks the third time a French President has been the chief guest at India's Republic Day, indicating the depth of the strategic partnership between the two countries. Prime Minister Modi had visited France for Bastille Day celebrations in 2023.

The strategic convergence between India and France dates back to 1998 when French President Jacques Chirac visited India and declared support for India's inclusion in the global nuclear order. France's understanding of India's security concerns, especially post-1998 nuclear tests, laid the foundation for their partnership.

Despite differences in historical alliances (India's non-alignment and France's initial NATO membership), **both countries have embraced multipolarity and strategic autonomy.** This convergence is significant in the context of shifting global power dynamics, especially in the Asia-Pacific region.

The strategic dialogue between India and France has expanded beyond nuclear cooperation to include defence, space, counter-terrorism, and cyber-security. Key defense collaborations include submarine construction, Rafale aircraft acquisition, and joint military exercises.

The partnership extends to economic and civilian domains, with collaborations in areas such as civil aviation, IT, agriculture, and education. There is an increasing number of Indian students studying in France and initiatives to ease visa procedures for students and professionals.

Cooperation in the space domain, which began in the 1960s, has been revitalized, with joint missions between ISRO and CNES. The two countries are exploring opportunities for collaboration in optimizing space domain awareness.

Rakesh Sood argues that there is a need to broaden and deepen the partnership beyond government domains into commercial and civilian spaces. Initiatives such as joint working groups and the Young Professionals Scheme aim to enhance collaboration in various sectors.

INDIA-FRANCE DEFENCE TIES TAKE A BIGGER LEAP

Suhasini Haider

India and France announced a defence industrial roadmap during talks between Prime Minister Narendra Modi and French President Emmanuel Macron. This roadmap aims at future collaboration on co-design, co-development, and co-production of military hardware, aligning with India's efforts to enhance its defense capabilities.

Alongside the defence roadmap, the two countries signed agreements on a defence-space partnership, space cooperation, coordinating satellite launches, and partnerships in various other sectors like energy, digital health, agriculture, and education.

Airbus and Tata agreed on a joint venture for local manufacturing of civilian helicopters during Macron's visit. However, **no progress was announced on negotiations for major defense deals like fighter jets, engines, and submarines.**

Mega defense deals, including the procurement of Rafale-M fighter jets and additional Scorpene-class submarines, are in the cost negotiation phase and could be finalized by year-end.

The primary focus of the defense industrial roadmap is to identify opportunities for partnership in the defense sector, emphasizing co-designing, co-development, and co-production. It aims to strengthen defense supply chains between India and France and enhance security partnerships with other countries.

Discussions regarding civil nuclear cooperation, particularly the agreement to build reactors at Jaitapur, are ongoing, with considerations such as technical elements, financing mechanisms, and localizing supplies still being discussed between EDF and NPCIL.

The depth of the strategic partnership between India and France is reflected in their joint efforts for defense co-design and co-development. Macron's acceptance of Modi's Republic Day invitation underscores the significance both leaders attach to the partnership.

Macron's visit marks the third time he has visited India since January 2023 and the sixth time a French President has been invited to India's Republic Day celebrations, reflecting the importance both countries place on the relationship.

Probable questions on India France ties

With the shift of global politics towards the Indo Pacific and turmoil in Europe, India's relations with France are key to securing India's vital national interests. Comment.

INDIA BHUTAN RELATIONS

01

Pivotal

Geographical barrier and a layer of security for India

02

Time tested

India and Bhutan share a deep-rooted civilizational and cultural bond that spans centuries

03

Mutual respect

Neighbourhood first by India and Bhutan reveres India as "Gyagar"

04

Grass roots

India's engagement extends to grassroots development through (HICDPs)/(SDPs).

India's Neighbourhood First policy is aimed at enhancing physical, digital and people-to-people connectivity across the South Asia region, as well as augmenting trade and commerce. In line with India's 'Neighbourhood First' policy, the largest share of the aid portfolio from interim budget 2024-25 has been granted to Bhutan with an allocation of Rs 2,068 crore against Rs 2,400 crore in 2023-24.

Bhutan, nestled snugly between the Asian giants of India and China, holds a pivotal position as a buffer state. **Its strategic location not only serves as a geographic barrier but also adds an extra layer of security** for India against potential northern threats.

During the tense Doklam standoff in 2017 between India and China, **Bhutan played a significant role by permitting Indian troops to enter its territory**, aiding in resisting Chinese incursions. This event underscored the deep-rooted strategic partnership between India and Bhutan.

India's commitment to Bhutan's socio-economic development is evident through **substantial financial support**. As part of the 12th Five Year Plan (2018-2023), India has pledged Rs. 45 billion, with Rs. 28 billion allocated for Project Tied Assistance (PTA). This assistance encompasses a wide array of sectors, including health, education, culture, livestock development, and infrastructure.

Moreover, **India's engagement extends to grassroots development** through High Impact Community Development Projects (HICDPs)/Small Development Projects (SDPs).

These projects, situated in remote areas of Bhutan, focus on infrastructure creation such as farm roads, livestock centers, and water supply systems, fostering local capacity development.

Hydro-power cooperation forms a cornerstone of bilateral economic ties between India and Bhutan. Governed by a bilateral agreement signed in 2006 and its subsequent protocol in 2009, this cooperation has led to the successful operation of four hydroelectric projects (HEPs), generating a total of 2136 MW of electricity for India.

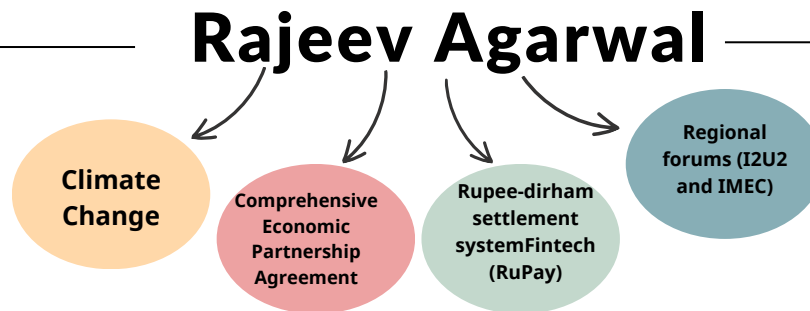
The recent **commissioning of the 720 MW Mangdechhu project** in August 2019 further solidifies this collaboration. Additionally, ongoing projects like the 1200 MW Punatsangchhu-I and the 1020 MW Punatsangchhu-II, undertaken in an Inter-Governmental mode, underscore the commitment to mutual growth and energy security.

A landmark achievement in this partnership is the inauguration of the **600 MW Kholongchhu hydropower project**, the first-ever joint venture between the two countries. This venture not only aims to generate surplus hydroelectricity for Bhutan but also promises to bolster revenue and employment opportunities for the country.

Beyond economic cooperation, India and Bhutan share a deep-rooted civilizational and cultural bond that spans centuries. Bhutan reveres India as **"Gyagar,"** or the holy land, owing to its status as the birthplace of Buddhism, the predominant religion in Bhutanese society.

A PRIVILEGED STRATEGIC PARTNERSHIP, WITHOUT A GULF

Rajeev Agrawal argues that strategic partnership between India and the UAE, emphasizing mutual respect, is a convergence of interests, and a shared vision for future cooperation.



Prime Minister Narendra Modi's upcoming visit to the UAE highlights the strengthening bilateral relationship between the two countries. This relationship has evolved into one of the most prominent for India, with close ties between Modi and UAE President Sheikh Mohamed bin Zayed Al Nahyan.

The relationship extends beyond religious and cultural ties, encompassing various sectors such as economics, trade, technology, and energy. Both countries have **collaborated on global issues like climate change**, as evidenced by their joint initiative at COP28.

Bilateral trade has grown significantly, with the UAE becoming India's third-largest trading partner and second-largest export destination. Agreements like the **Comprehensive Economic Partnership Agreement** aim to further boost economic ties, with a focus on increasing trade in services.

Collaboration in fintech, highlighted by the acceptance of **RuPay cards in the UAE** and a rupee-dirham settlement system, reflects mutual efforts to enhance digital infrastructure and promote financial inclusion.

The UAE is a trusted **partner in India's energy security**, with strategic oil reserves stored in India and agreements to invest in crude oil storage facilities.

Both countries have made exceptions for each other, demonstrating strong diplomatic ties. India's involvement in the Abu Dhabi Festival and Modi's conferment of the Order of Zayed highlight the mutual respect between the nations.

India and the UAE are closely aligned in various **regional and international forums**, including the **I2U2** grouping and the India-Middle East-Europe Economic Corridor. Their strategic partnership is expected to strengthen further in the coming years. The visit comes amid regional tensions, particularly the war in Gaza, providing an opportunity for the leaders to confer on critical issues.

Rajeev Agrawal argues that strategic partnership between India and the UAE, emphasizing mutual respect, is a convergence of interests, and a shared vision for future cooperation.

15TH BRICS SUMMIT

Inclusion of new members holds geo strategic significance. India faces various obstacles in its involvement with the group

The 15th BRICS summit held in Johannesburg marked a significant moment as the BRICS group, comprising Brazil, Russia, India, China, and South Africa, decided to **expand its membership by inviting six additional nations.**

Among these new invitees were Iran, Saudi Arabia, and the United Arab Emirates (UAE) from West Asia; Egypt and Ethiopia from Africa; and Argentina from Latin America.

Originally coined by British Economist Jim O'Neill in 2001 to describe the emerging economies of Brazil, Russia, India, and China, the BRICS grouping formalized during the first BRIC Foreign Ministers meeting in 2006. South Africa joined in December 2010, leading to the adoption of the acronym BRICS.

The outcomes of the 15th BRICS Summit highlighted several key areas of focus. Firstly, **the leaders reaffirmed their commitment to multilateralism** and called for reforms in global organizations to better serve the needs of developing nations. Additionally, **the summit saw the approval of an expanded membership** and discussions on the possibility of a common currency for trade among BRICS nations.

The leaders also explored **opportunities for space cooperation and addressed various** regional and global concerns, including the COVID-19 pandemic, climate change, and terrorism.

The expansion of BRICS membership was influenced by regional developments, such as the **pursuit of independent foreign policies by Saudi Arabia and the UAE, the resolution of the Qatar blockade, and efforts to normalize relations between the UAE and Iran.** These developments presented opportunities for enhanced economic cooperation and connectivity projects, particularly in regions like West Asia and Africa.

The inclusion of new BRICS members holds geostrategic significance, especially in terms of energy resources, diversification of energy suppliers, strategic geographical presence, and Latin American economic influence.

India, as a key member of BRICS, faces various obstacles in its involvement with the group, including **adapting to shifting global alliances, coordinating on multilateral platforms, addressing challenges from China's rise,** upholding democratic principles, and managing bilateral differences with other member countries.

To leverage the BRICS platform to its advantage, **India must embrace a global governance philosophy, advocate for universal security, promote collaboration within the group,** ensure economic contributions, and enhance public health governance. Additionally, India emphasizes the need for reforms in other multilateral institutions and warns against the consequences of failure to adapt to the 21st-century global landscape.



GREECE'S GATEWAY TO ASIA, INDIA'S GATEWAY TO EUROPE

The political determination to move Greece-India ties forward is linked to the view by Athens that India is both an old and traditional friend, and a rising power”

The state visit of Greek Prime Minister Kyriakos Mitsotakis to India signifies the ongoing efforts to strengthen the strategic relationship between India and Greece, which was initiated by Prime Minister Narendra Modi's visit to Greece in August 2023.

Both leaders emphasize the mutual benefits of deepening bilateral ties, with Mitsotakis highlighting Greece as a gateway to Europe for India and India as a gateway to Asia for Greece.

India is seen as an old friend and a rising global power by Greece, leading to a determination to enhance cooperation in various fields.

Both countries recognize the importance of security and stability in their respective regions, acknowledging the interdependence between the East Mediterranean region (where Greece is situated) and the Indian Ocean region.

Bilateral cooperation extends beyond military exercises to economic ties, with examples such as joint construction projects, investments, shipping ventures, and financial partnerships.

The concept of the India-Middle East-Europe Economic Corridor (IMEEC) is gaining traction, especially as Greece aims for sustainable economic growth and positions itself as the eastern flank of the EU and NATO in the Eastern Mediterranean.

There is a call for strengthening people-to-people ties through initiatives like student exchange programs, cultural exchanges, media cooperation, and increased travel links.

The exchange of visits between Greek and Indian political leaders reflects their commitment to advancing the bilateral relationship, signaling urgency and determination in this endeavor.

The year 2024 is seen as critical for strengthening the Greece-India strategic partnership, with both countries recognizing the importance of collaboration in the changing global landscape.

THE NB8 VISIT TO INDIA FOCUSES ON COOPERATION AND TRUST

In a time of geopolitical shifts, the security of both the Nordic-Baltic region and the Indo-Pacific is interconnected.

The Nordic-Baltic countries, comprising Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, are committed to promoting trust, dialogue, and cooperation in times of global turmoil and conflict.

These **countries share deep historical, social, economic, and cultural ties**, along with a commitment to democracy, human rights, multilateralism, and international law.

The Nordic-Baltic cooperation with India spans various fields such as innovation, green transition, maritime, health, technology, space, education, culture, and trade. There's a recognition of India's democratic tradition and shared core values, leading to productive cooperation.

In a time of geopolitical shifts, **the security of both the Nordic-Baltic region and the Indo-Pacific is interconnected**. Cooperation is essential to uphold international law, tackle security threats, and address shared challenges.

Amidst global health, climate-related, and geopolitical shocks, there's a pressing need to shift towards a more positive agenda for global cooperation. The Nordic-Baltic countries aim to enhance cooperation with India to address common challenges.

Russia's illegal invasion of Ukraine severely affects global food and energy security, supply chains, stability, and growth. Upholding international law and supporting Ukraine's diplomatic efforts for peace are paramount.

India Nordic Ties

- Both Norway and Finland have ongoing free trade agreements and investments negotiations (FTA) with India.
- Finland, as a member of the European Union (EU), is a part of the EU-India FTA negotiations, and Norway is negotiating through the European Free Trade Association.
- 2020, India and Denmark elevated their relations to a Green Strategic Partnership to advance political cooperation, expand economic relations and green growth, create jobs and strengthen cooperation on addressing global challenges.
- Norway recently established a new Climate Investment Fund for investment in renewables abroad, and almost Rs 1,500 crore have been invested so far in India.
- Leadership for Industry Transition (LeadIT) that focuses on low carbon transition of the industrial sector was launched by Sweden and India at the UN Climate Action Summit, 2019.

The international community, including the Nordic-Baltic countries, supports **Ukraine's peace formula for a comprehensive, just, and lasting peace based on international law and the UN Charter**.

The visit to India by the Nordic-Baltic countries marks the first joint high-level delegation outside Europe, highlighting the importance of dialogue and cooperation with India on global issues.

The Nordic-Baltic countries **aim to deepen partnership and cooperation with India**, focusing on development, health, green transition, digitalization, peace, and stability.

The commitment of the Nordic-Baltic countries is towards promoting trust, dialogue, and cooperation globally, with a particular emphasis on strengthening ties with India to address common challenges and advance shared objectives.



UTTARAKHAND'S UCC

CRITIQUES ARGUE THAT ITS NEITHER UNIFORM NOR CIVIL

Uttarakhand UCC is only the latest of the State's attempts to control intimate relationships. It should be consigned to the dustbin of illegality

Gautam Bhatia

Uttarakhand's enactment of the **Uniform Civil Code (UCC)** stands as a groundbreaking development within India's legal sphere. Rooted in Article 44 of the Indian Constitution, the UCC is envisioned to **establish uniform laws governing civil matters across the nation, transcending religious boundaries.**

The UCC in Uttarakhand ambitiously **covers a wide array of provisions** concerning marriage, divorce, inheritance, and live-in relationships, among other aspects. Notably, **it standardizes the age of marriage, prohibits bigamy and polygamy** across all communities, and ensures **gender equality in divorce proceedings.**

Drawing inspiration from the Indian Succession Act of 1925, inheritance laws are made uniform across all religions. Furthermore, the UCC **explicitly defines and mandates registration for live-in relationships**, accompanied by penalties for non-compliance, thus aiming to provide legal recognition and protection to individuals in such relationships.

Despite its aspirations for uniformity, critics argue that the UCC falls short of its objectives. One significant critique is its **exclusion of tribal communities**, raising concerns about its comprehensiveness. Additionally, the UCC's **silence on Hindu Undivided Family** and the introduction of criminal provisions within a civil code raise doubts about its efficacy and coherence. Critics argue that such exceptions and discrepancies undermine the very essence of uniformity and civil law.

Numerous challenges and concerns loom over the implementation of Uttarakhand's UCC, potentially hindering its intended impact. Firstly, **it fails to align with recent judicial directives**, particularly concerning the recognition and rights of same-sex relationships, thus raising questions about its relevance and adaptability in contemporary society.

Moreover, **discrepancies between state and union laws, such as the minimum age of marriage for women**, underscore a lack of synergy and coordination within the legal framework.

Not Uniform
Excludes tribals

1

Live-in relation
violates privacy

2

LGBTQ
Against Navtej
Singh Johar

3

As far as mandatory registration of "Live-in" relationship is concerned, **how it will ever be possible to enforce a law seeking to regulate something as fluid as a relationship.** Others have raised serious concerns about the infringement upon the **right to privacy**, and pointed out how this law will be used as a weapon of harassment. These concerns are well-taken.

Additionally, critiques contend that the **UCC infringes upon the religious freedoms of certain communities**, notably Muslims, and encroaches upon individual autonomy and privacy through provisions such as mandatory registration and parental notification clauses, which some argue could have adverse implications on personal choices and liberties.

In conclusion, Uttarakhand's pioneering step towards implementing the Uniform Civil Code represents a significant milestone in India's legal evolution.

However, its journey is fraught with challenges and complexities that must be navigated with utmost care and consideration. As the nation's inaugural attempt at instituting a uniform civil law, the successes and failures of the UCC in Uttarakhand will undoubtedly serve as invaluable lessons for future endeavors, particularly in the ongoing discourse surrounding a national-level UCC, as alluded to by the Supreme Court in the landmark Shah Bano case. Hence, a nuanced examination of its implications and adaptations is imperative for the continued evolution and refinement of India's legal landscape.

SUPREME COURT RULES ELECTORAL BONDS SCHEME UNCONSTITUTIONAL

QUESTION 1

Does the electoral bond scheme violate the Right to Information under Article 19(1)(a)?

QUESTION 2

Is curbing the circulation of black money in electoral financing a legitimate reason to restrict the right to information (RTI)?

SC ASKS FUNDAMENTAL QUESTIONS

QUESTION 3

Whether the infringement of RTI is justified for the protection of donor privacy?

QUESTION 4

Whether unlimited political contributions by companies are unconstitutional.



In a landmark decision, the Supreme Court of India, in the case of **Association for Democratic Reforms vs Union of India**, has rendered a profound verdict, terming the Electoral Bonds Scheme as **"unconstitutional and arbitrary."** This verdict brings into question the very fabric of political funding in the country and sets a significant precedent for transparency and accountability in the electoral process.

The Electoral Bonds Scheme, introduced amidst much fanfare in the Union Budget of 2017-18, purported to cleanse the system of political funding in India. However, **lurking beneath its noble intentions were provisions that raised substantial concerns regarding the transparency of political financing.** Civil society organizations, alongside the Election Commission, brought these concerns to the forefront, leading to a legal battle that culminated in the apex court's decisive ruling.

At the heart of the matter were critical questions regarding the scheme's compatibility with constitutional principles. The Supreme Court meticulously deliberated on four pivotal issues, each shedding light on the scheme's flaws and its ramifications on democratic integrity.

Firstly, the court addressed the violation of the Right to Information under Article 19(1)(a), emphasizing the indispensable role of transparency in fostering informed electoral choices. It underscored the inherent link between economic inequality and political influence, asserting that the Electoral Bonds Scheme curtailed the freedom of speech and expression guaranteed to citizens.

Secondly, the court scrutinized the legitimacy of restricting the right to information under the pretext of curbing black money. While acknowledging the government's objectives, the court applied a stringent proportionality test, questioning the necessity and effectiveness of the scheme in achieving its purported goals.

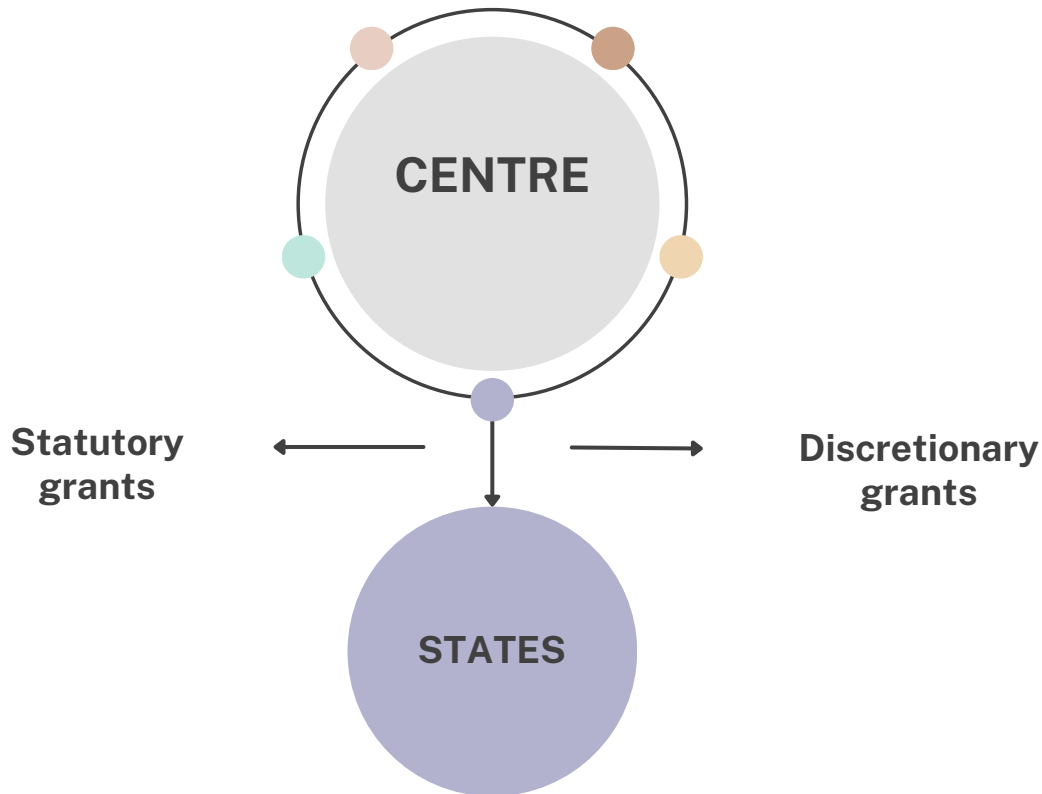
Thirdly, the court delved into the realm of donor privacy, recognizing the significance of safeguarding political affiliations from state surveillance. It affirmed that the right to informational privacy encompasses political contributions, rejecting the notion that corporate interests should supersede individual rights.

Lastly, **the court addressed the constitutional validity of unlimited political contributions by companies.** It denounced the disparity in influence wielded by corporations, highlighting the transactional nature of corporate donations and the potential for undue influence in policymaking.

In its verdict, the Supreme Court resolutely declared the Electoral Bonds Scheme, along with associated legislative provisions, as violative of constitutional provisions. It mandated the cessation of bond issuance and directed the disclosure of pertinent information to ensure transparency in political funding.

This verdict marks a pivotal moment in India's democratic journey, reaffirming the judiciary's role as the guardian of constitutional principles. It serves as a beacon of hope for a more transparent, equitable, and accountable electoral process, thereby reinforcing the foundational pillars of democracy. As the nation charts its course forward, it must heed the Supreme Court's clarion call for integrity and transparency in political financing, for these are the bedrock upon which a vibrant democracy thrives.

CENTRE-STATE FINANCIAL RELATIONS IN THE CONTEXT OF THE HORIZONTAL DEVOLUTION BY FINANCE COMMISSION



As States begin their annual budget-making exercise, they are increasingly faced with a daunting task in managing their finances. With the spending on social welfare schemes taking precedence ahead of the elections and States' own tax and non- tax revenues growing at a sluggish pace, attention inevitably turns to their share in the divisible pool of union taxes, grants, and loans from the Centre.

As States begin their annual budget-making exercise, they are increasingly faced with a daunting task in managing their finances. With the spending on social welfare schemes taking precedence ahead of the elections and States' own tax and non- tax revenues growing at a sluggish pace, attention inevitably turns to their share in the divisible pool of union taxes, grants, and loans from the Centre.

Issues with Finance commission's revenue sharing model:

Weightage of population and area combined has increased since 2005: Weight for population in the devolution formula was just 10% under the 11th Finance Commission (2000-05) which increased to 15% under the 15th Finance Commission based on 2011 census. The weight given to the area has also doubled from 7.5% under the 11th Finance Commission to 15 per cent under the 14th Finance Commission. **These tilts the scales in favour of States with large area and large population.** Southern states have opposed this move as they argue that they are being penalised for controlling their fertility rates.

Income Distance: Income distance is calculated by deducting the GSDP per capita of a state from the GSDP per capita of the state which scores the highest on this metric. It has the highest weightage under the horizontal devolution formula, based on the principle of federalism which requires the wealthier states to share their excess revenue with not so wealthier states for overall development of the nation. **This has benefitted the north Indian states disproportionately.**

Demographic performance: This criterion was introduced by 15th Finance Commission to cater to the demands of the South Indian states who have performed well to control population explosion in their states. However, the formula for calculating the weight for demographic performance inverses the TFR and multiplies it by the population in 1971. **This results in higher weight once again going to more populous states.**

Tax and Fiscal efforts: Fifteenth Finance Commission has introduced 2.5 per cent weight for States which improve their tax and fiscal performance. But the weight for fiscal discipline was much higher at 17.5 per cent under the Thirteenth Finance Commission.

Disproportionate devolution: Budget estimates for FY24 suggest that Bihar is set to receive a massive ₹1.02-lakh crore as the Centre's Tax share. This amounts to 67.4% of the State's total tax revenue. UP's share is equally humungous at ₹1.83-lakh crore, which is 42% of the total tax revenue. On the other hand, in case of Haryana, the share of Union taxes was just ₹11,164 crore (13% of the total tax revenue). In all southern states, the share from the centre's divisible pool formed less than 30% of their total tax revenue. While Bihar received ₹7.26 and UP got back ₹2.49 for every rupee that went into the Centre's pool, Maharashtra, Haryana and Karnataka received 8 paise, 14 paise and 17 paise respectively.

Shrinking devolution: Though the Finance Commission enhanced states' share in the divisible pool of taxes, it didn't result in concomitant increase in the actual devolution. This is because, **over the last few years, Central government has reduced the tax rates and increased the cess and surcharges** which are not mandated to be shared with the states. Cess and surcharges are part of central taxes but not part of the divisible tax pool and do not have to be shared with States. Ex: Share of cess and surcharge as a percentage of Gross Tax revenue of Center has increased sharply from 2.3% in 1980-81 to 15% in 2019-20.

Ceiling on the states' borrowing: Union Budget has kept 3.5% of GSDP as their borrowing limit for FY24 and it restricted borrowing power of the states. (As per Article 293, states cannot raise loans without the consent of the Union if there is any outstanding loan made by the state government with a guarantee given by the center.)

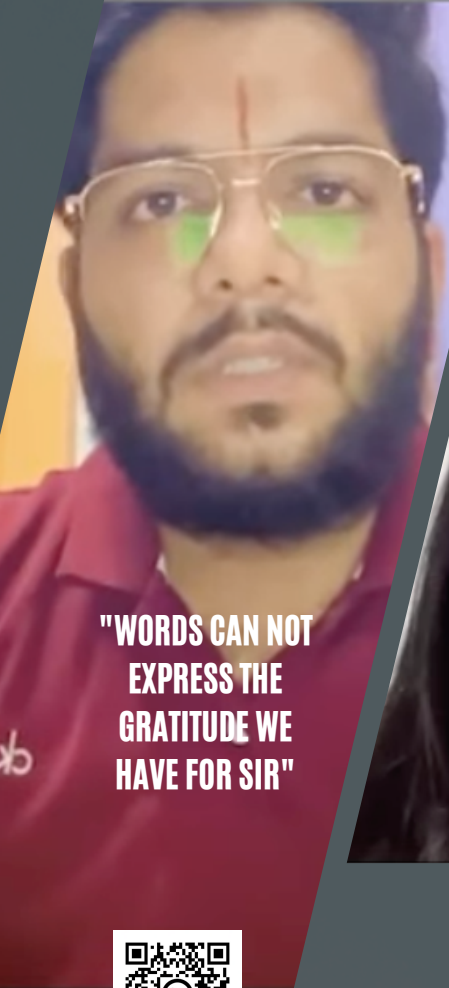
Loss of taxation rights under GST mechanism: with the advent of GST, the states lost their rights to increase tax revenues by changing the tax rates on sale of many goods and services. (GST rates and slabs are decided by GST council with 3/4th majority vote).

Restrictions on off-budget borrowings: Union Government had notified in FY22 that such off-budget borrowings would be considered as borrowings made by the state. This has reduced the capacity of states to increase their borrowings

without violating fiscal deficit targets.

Giving taxation autonomy to states with sound fiscal performance or states which are more disaster prone like Kerala. Including states in deciding the terms of consideration of the Finance Commission.

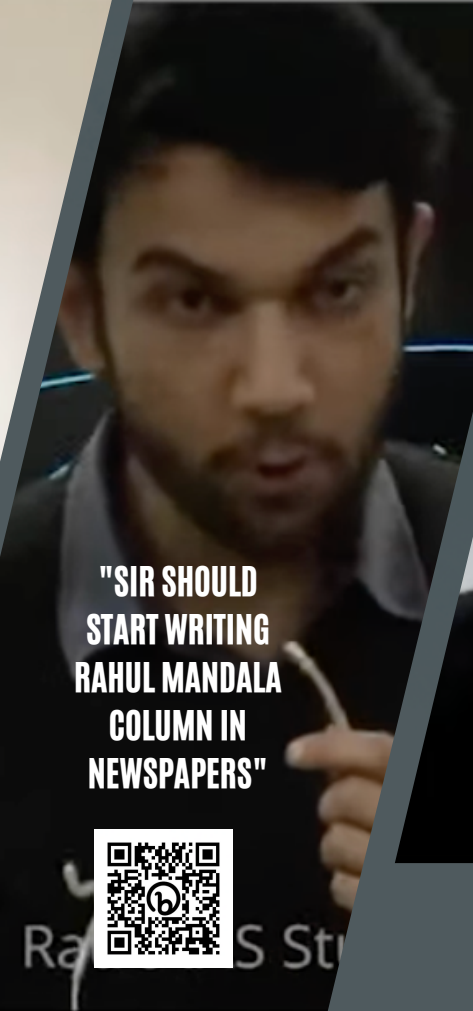
Weightage of demographic performance can be raised to 15 to 20 per cent. Weightage given to 'income distance' must be reduced, as that may help southern states with a higher per capita income. Rationalising the share of cess and surcharges in the gross tax revenue of the center.



"WORDS CAN NOT EXPRESS THE GRATITUDE WE HAVE FOR SIR"



"I COULD NEVER EXPECT TO LEARN SO MUCH IN MY OWN GRADUATION SUBJECT"



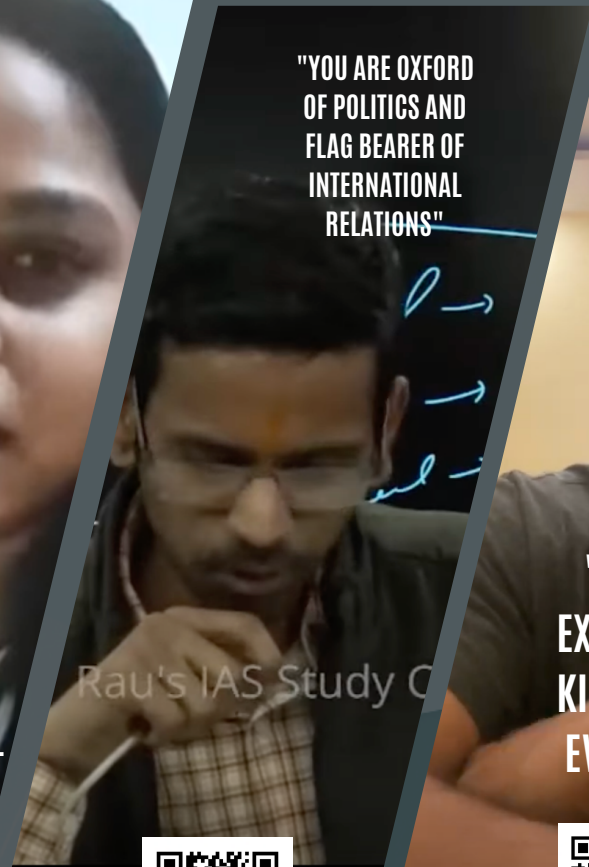
"SIR SHOULD START WRITING RAHUL MANDALA COLUMN IN NEWSPAPERS"



"RAHUL SIR BECAME MY GO TO PERSON FOR ALL GUIDANCE AND NOT JUST PSIR"



"ONLY ONE DECISION THAT I WILL ALWAYS BE PROUD ABOUT IS CHOOSING RAHUL SIR FOR PSIR"



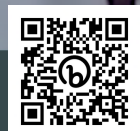
"YOU ARE OXFORD OF POLITICS AND FLAG BEARER OF INTERNATIONAL RELATIONS"



"I HAVE NEVER EXPERIENCED THIS KIND OF TEACHING EVER IN MY LIFE"

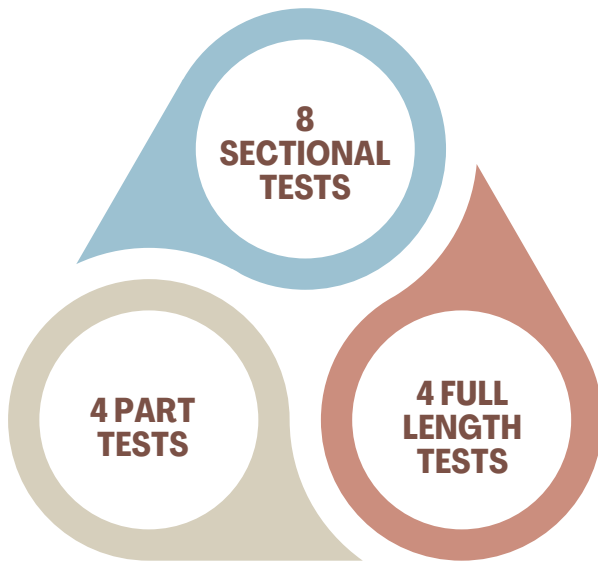


"DIFFICULT TO BELIEVE YOU HAVE TOUGHT SO MUCH IN 150 CLASSES"



Target Mains PSIR 2024

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