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1. Draft CAFE 3 Norms: India's Push for Automotive Decarbonisation

Key Highlights & Summary

- **Third-Phase Rollout:** The Ministry of Power unveiled the draft Corporate Average Fuel Efficiency (CAFE) 3 norms, scheduled to take effect from April 1, 2027, through 2032.
- **Core Fleet Mechanics:** Unlike individual vehicle emission limits (BS-VI), CAFE targets the average carbon dioxide (CO_2) emissions of an entire automaker's sales fleet, mandating progressively lower carbon intensity.
- **Expanded Scope:** Plans are underway to extend CAFE-like efficiency requirements to two-wheelers, driving powertrain diversification into EV, CNG, and hybrid segments.


What's new in the draft CAFE-III norms? | Explained

The latest draft leaves most of the April proposal unchanged, suggesting the government has broadly stuck to the compromise it arrived at after months of intense negotiations between manufacturers of small cars and larger SUVs.

- **Flexibility Instruments:** Compliance mechanisms include 'super-credits' (multi-counting zero/low-emission vehicles) and potential credit-trading frameworks between manufacturers.

- **Market Dynamics:** Strict targets will likely phase out high-emission diesel models, accelerate multi-fuel technology adoption, and lead to marginal price adjustments in price-sensitive segments.
- **Penalization Structure:** Non-compliance attracts a flat penalty of ₹10 lakh alongside variable fines ranging from ₹25,000 to ₹50,000 per non-compliant unit sold.

Essential Definitions

- **CAFE (Corporate Average Fuel Efficiency):** A regulatory mechanism setting ceiling targets on total CO_2 emissions produced across the weighted average of all vehicles sold by a manufacturer in a financial year.
- **Super Credits:** Regulatory incentives where clean-fuel vehicles (e.g., EVs, strong hybrids) are assigned a multiplier greater than one, helping automakers offset high emissions from conventional ICE vehicles.
- **Powertrain:** The complete group of components that generate power and deliver it to the road surface, including the engine, transmission, driveshafts, and differentials.

Legal and Constitutional Framework

- **Energy Conservation Act, 2001:** Under Section 14, the Ministry of Power (via the Bureau of Energy Efficiency) holds statutory authority to prescribe fuel consumption standards for motor vehicles.
- **Motor Vehicles Act, 1988:** Enables the Ministry of Road Transport and Highways (MoRTH) to enforce compliance and penal provisions through vehicle registration and type-approval regulations.
- **Constitutional Underpinnings:**
    - **Article 21:** Right to a clean environment recognized as part of the Fundamental Right to Life (*Subhash Kumar v. State of Bihar, 1991*).
    - **Article 48A (DPSP):** Mandates the State to protect and improve the environment and safeguard forests and wildlife.
    - **Article 51A(g):** Imposes a Fundamental Duty on citizens to protect and improve the natural environment.

Conclusion

Draft CAFE 3 norms mark a critical transition from simple tailpipe emission control to comprehensive fleet decarbonisation. Balancing stringent climate commitments with industry competitiveness will depend on robust credit-trading protocols, domestic battery manufacturing ecosystems, and predictable policy support.

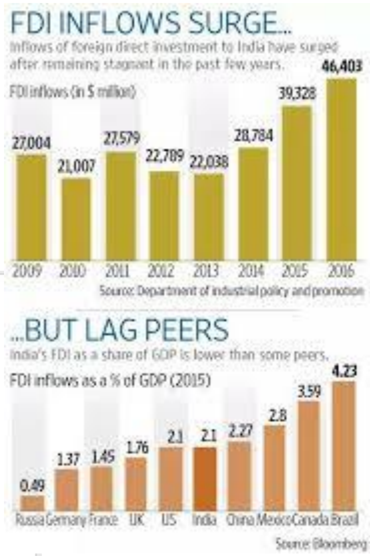
UPSC Relevance

- **GS Paper II:** Statutory bodies (BEE), government policies and interventions in industrial sectors.
- **GS Paper III:** Environment & Ecology (climate change mitigation, COP26 Panchamrit targets), Infrastructure (Electric Mobility), and Economic Development.

2. Foreign Direct Investment (FDI) Trends: India vs Emerging Market Peers

Key Highlights & Summary

- **FDI Inflow Rebound:** India registered a strong 44% surge in Foreign Direct Investment (FDI) inflows in 2025, reaching $38.9 billion following two consecutive years of decline.
- **Sub-Peak Recovery:** Despite the sharp rebound, total capital inflows remain below pre-pandemic levels (which reached over $60 billion in 2020), showing room for further growth.
- **Emerging Market Peer Analysis:** In 2025, China led major emerging markets with $104.7 billion, followed by Brazil ($76.9 billion) and Mexico ($40.9 billion), while India stood fourth ($38.9 billion) ahead of Indonesia ($21.4 billion).
- **Supply Chain Dynamics:** Strategic movements like the 'China Plus One' strategy and nearshoring trends in Latin America continue to redistribute international capital flows across emerging economies.



- **Global Report Benchmark:** According to UN Trade and Development (UNCTAD) data in the World Investment Report 2026, cross-border equity capital reflects evolving global macroeconomic conditions.
- **Growth Trajectory:** While renewed investor confidence is evident, surpassing earlier peak inflows requires accelerated structural reforms, infrastructure expansion, and manufacturing incentives.

Essential Definitions

- **Foreign Direct Investment (FDI):** Cross-border investment made by an entity resident in one economy to acquire a lasting interest and significant management control (typically 10% or more voting power) in an enterprise operating in another economy.
- **Automatic Route:** An entry pathway under FDI policy where foreign investors do not require prior approval from the Government of India or the Reserve Bank of India (RBI).
- **Government Route:** An investment pathway requiring mandatory prior approval from the relevant ministry or government department before capital infusion.

Legal and Constitutional Framework

- **Foreign Exchange Management Act (FEMA), 1999:** Primary legislation empowering the RBI and the Central Government to regulate foreign capital flows, equity investment, and foreign exchange holdings.
- **Consolidated FDI Policy:** Formulated and updated periodically by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, detailing sectoral caps and entry routes.
- **Constitutional Underpinnings:**
    - **Seventh Schedule (Union List):** Entry 36 (Foreign exchange) and Entry 41 (Trade and commerce with foreign countries) grant Parliament exclusive legislative authority over international trade and capital regulation.
    - **Article 301:** Ensures freedom of trade, commerce, and intercourse across the nation, providing a unified regulatory market for foreign and domestic investors.

Conclusion

India's FDI rebound in 2025 underscores strong underlying macroeconomic fundamentals amid global economic rebalancing. Capitalizing on this momentum requires streamlining regulatory procedures, improving logistics competitiveness, and deepening domestic industrial capability.

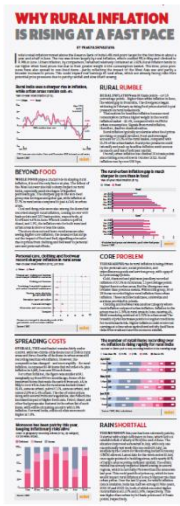
UPSC Relevance

- **GS Paper III:** Indian Economy (Mobilization of resources, foreign trade, investment models, and industrial policy).
- **GS Paper II:** Important international institutions (UNCTAD) and global economic developments impacting national interest.

3. Surge in Rural Inflation: Broad-Based Dynamics and Impact

Key Highlights & Summary

- **Target Breached:** India's retail inflation surpassed the Reserve Bank of India's (RBI) 4% mid-point target in June 2026, reaching 4.74% in rural areas compared to 3.92% in urban centers.
- **Widening Rural-Urban Gap:** The rural-urban inflation gap expanded to 80 basis points (0.8 percentage points) in June, marking its widest divergence in 18 months.
- **Broadening Price Pressures:** Items recording over 4% inflation in rural areas rose sharply from 88 in April to 119 in June, indicating broader price pressures beyond basic food items.
- **Non-Food Inflation Drivers:** Escalating global energy and geopolitical friction triggered cost hikes in personal care (personal care/clothing gap of 2.3%), fuel (diesel at 8.4%, petrol at 7.5%), and traditional rural fuels like gobar gas (17.7%) and coal (10.4%).
- **Higher Basket Weight:** Rural inflation carries a dominant weight of 55.4% in the overall national Consumer Price Index (CPI) basket, making rural price trends crucial for headline monetary targets.
- **Monsoon Risks:** A deficient monsoon—with nearly 80% of land area facing rainfall deficits by mid-July—has reduced kharif sowing by 6%, threatening to sustain food inflation.


WHY RURAL INFLATION IS RISING AT A FAST PACE

RURAL RUMBLE

BEYOND FOOD

CORE PROBLEM

SPREADING COSTS

RAIN SHORTFALL

Essential Definitions

- **Headline Inflation:** The total inflation measure within an economy, including volatile commodities like food and energy, calculated via the Consumer Price Index (Combined).
- **Core Inflation:** A underlying measure of inflation that excludes volatile components, specifically food, electricity, gas, and traditional fuel groups, to capture long-term price trends.
- **Kharif Sowing Deficit:** A delay or reduction in the cultivated land area for monsoon-dependent crops (e.g., rice, pulses, oilseeds), directly influencing forward food supply dynamics.

Legal and Constitutional Framework

- **Reserve Bank of India (RBI) Act, 1934:** Section 45ZA empowers the Central Government, in consultation with the RBI, to determine the inflation target (4% with a +/-2% tolerance band) once every five years.

- **Monetary Policy Committee (MPC):** Constituted under Section 45ZB, the statutory six-member committee sets the policy benchmark rate required to achieve price stability.
- **Constitutional Underpinnings:**
  - **Article 38 (DPSP):** Directs the State to promote public welfare and minimize inequalities in income, status, and purchasing power across regions.
  - **Seventh Schedule (Union List):** Entry 45 (Banking) and Entry 48 (Stock exchanges and futures markets) grant Parliament exclusive jurisdiction over monetary regulations.

Conclusion

The rapid rise in rural inflation reflects both supply-side monsoon vulnerabilities and international energy spillovers. Safeguarding rural purchasing power demands targeted supply-chain interventions, agricultural policy support, and prudent monetary oversight.

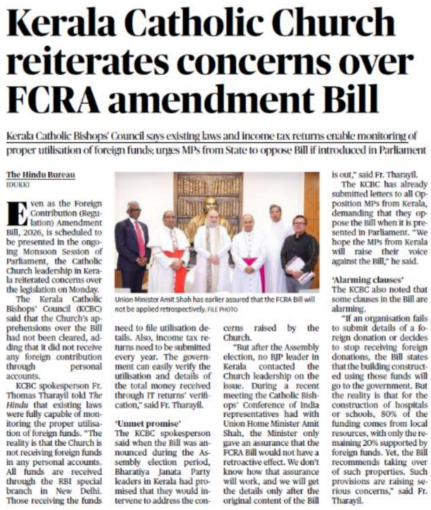
UPSC Relevance

- **GS Paper III:** Indian Economy (Inflation management, Monetary Policy Committee framework, crop sowing patterns, and monsoon dependencies).
- **GS Paper II:** Government policies and interventions impacting rural economic infrastructure and social safety nets.

4. Kerala Catholic Church Reiterates Concerns Over FCRA Amendment Bill

Key Highlights & Summary

- **Objections to Proposed Bill:** The Kerala Catholic Bishops' Council (KCBC) expressed strong apprehensions regarding the proposed Foreign Contribution (Regulation) Amendment Bill, scheduled for introduction in Parliament.
- **Adequacy of Existing Compliance:** Church leadership argued that existing regulatory frameworks, RBI special branches in New Delhi, and annual Income Tax return filings already ensure transparent tracking of foreign funds.
- **State Takeover Provisions:** The KCBC flagged alarming clauses stipulating that properties constructed using foreign contributions could be taken over by the government if an entity fails to submit donation details or surrenders its license.
- **Proportionality Concerns:** The Church highlighted that institutional assets like schools and hospitals are often built primarily (up to 80%) using local resources, making full government takeover for minor non-compliances disproportionate.
- **No Personal Account Routing:** Representatives emphasized that all church institutions receive funds through official channels rather than personal accounts, fulfilling utilization requirements diligently.
- **Appeal to Parliamentarians:** The KCBC submitted formal letters urging Members of Parliament from Kerala to oppose the stringent provisions when the Bill is presented in Parliament.



Kerala Catholic Church reiterates concerns over FCRA amendment Bill

Kerala Catholic Bishops' Council says existing laws and income tax returns enable monitoring of proper utilisation of foreign funds; urges MPs from State to oppose Bill if introduced in Parliament

The Hindu Bureau
IDUKKI

Even as the Foreign Contribution (Regulation) Amendment Bill, 2026, is scheduled to be presented in the ongoing Monsoon Session of Parliament, the Catholic Church leadership in Kerala reiterated concerns over the legislation on Monday.

The Kerala Catholic Bishops' Council (KCBC) said that the Church's apprehensions over the Bill had not been cleared, adding that it did not receive any foreign contribution through personal accounts.

KCBC spokesperson Fr. Thomas Tharayil told *The Hindu* that existing laws were fully capable of monitoring the proper utilisation of foreign funds. "The reality is that the Church is not receiving foreign funds in any personal accounts. All funds are received through the RBI special branch in New Delhi. Those receiving the funds need to file utilisation details. Also, income tax returns need to be submitted every year. The government can easily verify the utilisation and details of the total money received through IT returns' verification," said Fr. Tharayil.

Union Minister Amit Shah has earlier assured that the FCRA Bill will not be applied retrospectively. FILE PHOTO

'Unmet promise'

The KCBC spokesperson said when the Bill was announced during the Assembly election period, Bharatiya Janata Party leaders in Kerala had promised that they would intervene to address the concerns raised by the Church.

"But after the Assembly election, no BJP leader in Kerala contacted the Church leadership on the issue. During a recent meeting the Catholic Bishops' Conference of India representatives had with Union Home Minister Amit Shah, the Minister only gave an assurance that the FCRA Bill would not have a retroactive effect. We don't know how that assurance will work, and we will get the details only after the original content of the Bill is out," said Fr. Tharayil.

The KCBC has already submitted letters to all Opposition MPs from Kerala, demanding that they oppose the Bill when it is presented in Parliament. "We hope the MPs from Kerala will raise their voice against the Bill," he said.

'Alarming clauses'

The KCBC also noted that some clauses in the Bill are alarming.

"If an organisation fails to submit details of a foreign donation or decides to stop receiving foreign donations, the Bill states that the building constructed using those funds will go to the government. But the reality is that for the construction of hospitals or schools, 80% of the funding comes from local resources, with only the remaining 20% supported by foreign funds. Yet, the Bill recommends taking over of such properties. Such provisions are raising serious concerns," said Fr. Tharayil.

Essential Definitions

- **Foreign Contribution:** Any donation, delivery, or transfer made by a foreign source of any currency, security, or article (excluding gifts given for personal use within specified limits).
- **FCRA Registration:** Mandatory authorization granted by the Ministry of Home Affairs enabling Non-Governmental Organizations (NGOs) and religious/charitable institutions to receive overseas funding.
- **Non-Governmental Organization (NGO):** A non-profit, voluntary citizens' group organized on a local, national, or international level to address issues in support of the public good.

Legal and Constitutional Framework

- **Foreign Contribution (Regulation) Act (FCRA), 2010:** Regulates the acceptance and utilization of foreign contributions to ensure national security and prevent internal interference.
- **Enforcement Agency:** Ministry of Home Affairs (MHA) serves as the primary monitoring authority for registration, renewal, and compliance under FCRA regulations.
- **Constitutional Underpinnings:**
    - **Article 26:** Guarantees freedom to manage religious affairs, including establishing and maintaining institutions for religious and charitable purposes and acquiring property.
    - **Article 19(1)(c):** Protects the fundamental right of citizens to form associations or unions.
    - **Article 300A:** Establishes that no person shall be deprived of their property save by authority of law, ensuring constitutional protection against arbitrary state acquisition.

Conclusion

Balancing national security considerations with constitutional rights to administrative autonomy and institutional property remains vital in statutory reforms. Harmonizing regulatory oversight with proportional penalties will safeguard legitimate charitable activities while curbing illegal financial flows.

UPSC Relevance

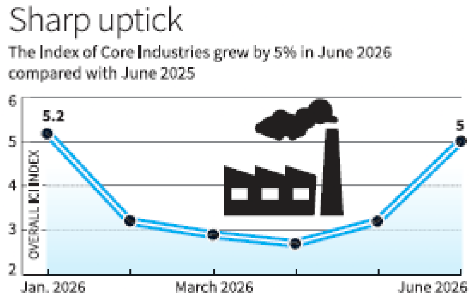
- **GS Paper II:** Statutory, regulatory, and various quasi-judicial bodies; Development processes and the development industry—the role of NGOs, SHGs, and religious/charitable associations.
- **GS Paper III:** Internal security, money laundering, and regulatory mechanisms governing cross-border financial flows.

5. Core Sectors Growth: Updated Index of Core Industries (ICI) Series

Key Highlights & Summary

JULY 21, 2026

- **Five-Month High Growth:** India's core industrial sectors grew by 5% in June 2026, marking the fastest expansion in five months.
- **Base Year Updated:** The Ministry of Commerce and Industry launched a new Index of Core Industries (ICI) series, shifting the base year from 2011-12 to 2022-23.
- **Expansion to Nine Sectors:** Iron ore has been formally added as the ninth sector owing to its intensive role in industrial production.



- **Iron Ore Surges:** Iron ore recorded the highest growth within the index at 43.9% in June 2026, benefiting significantly from a statistical base effect.
- **Mixed Sectoral Trends:** Electricity (9.8%), cement (9.8%), steel (4.6%), and coal (1.4%) recorded growth, whereas hydrocarbon and energy-related sectors contracted.
- **Methodological Overhaul:** The new series utilizes gross production data for steel and retains only raw coal to prevent double counting.

Essential Definitions

- **Index of Core Industries (ICI):** A monthly production index measuring the performance of key infrastructure sectors, compiled by the Office of the Economic Adviser, DPIIT.
- **Base Effect:** The impact of the corresponding figure from the previous year's comparison period, where a unusually low historical base inflates percentage growth rates.
- **Index of Industrial Production (IIP):** An indicator measuring short-term changes in the volume of production of a basket of industrial products over a given period.

Legal and Constitutional Framework

- **Department for Promotion of Industry and Internal Trade (DPIIT):** Operates under the Ministry of Commerce and Industry as the primary nodal authority for publishing industrial indices and data.
- **Collection of Statistics Act, 2008:** Provides statutory authorization to central and state agencies to gather industrial, economic, and administrative data for policymaking.
- **Constitutional Underpinnings:**
    - **Seventh Schedule (Union List):** Entry 52 (Industries regulated by Union) and Entry 54 (Mines and mineral development) empower Parliament to oversee industrial policies and mineral resources.
    - **Article 39(b) (DPSP):** Directs state policy toward ensuring that the ownership and control of material resources are distributed to serve the common good.

Conclusion

Updating the ICI series to the 2022-23 base year ensures macroeconomic indicators accurately capture structural shifts in the industrial ecosystem. Strengthening domestic manufacturing will rely heavily on stabilizing energy supply chains and sustaining raw material production.

UPSC Relevance

- **GS Paper III:** Indian Economy (Industrial growth, Index of Core Industries, IIP, infrastructure sectors, and economic planning).

- **GS Paper II:** Statutory and regulatory bodies, administrative mechanisms under the Ministry of Commerce and Industry.

6. Expanding Judicial Capacity: Supreme Court (Number of Judges) Amendment Bill, 2026

Key Highlights & Summary

- **Legislative Action:** Union Law Minister Arjun Ram Meghwal introduced the Supreme Court (Number of Judges) Amendment Bill, 2026, in the Lok Sabha to replace an executive ordinance.
- **Increased Sanctioned Strength:** The Bill seeks to raise the total sanctioned strength of Supreme Court judges from 34 to 38, including the Chief Justice of India (CJI).
- **Mitigating Case Backlog:** The structural expansion aims to address mounting pendency, enabling the apex court to dispose of accumulated cases more efficiently.
- **Facilitating Constitution Benches:** A larger bench capacity will allow the CJI to constitute Constitution Benches more frequently for hearing complex constitutional questions without disrupting regular appellate hearings.
- **Historical Evolution:** Initially establishing a bench of 8 judges in 1950 (1 CJI + 7 puisne judges), Parliament has periodically expanded judge strength (e.g., to 31 in 2009 and 34 in 2019) to match expanding dockets.
- **Financial Allocations:** The creation of four additional judicial positions along with secretarial support will entail an annual recurring expenditure charged to the Consolidated Fund of India.

Essential Definitions

- **Sanctioned Strength:** The maximum statutory limit of judges authorized by Parliament to serve on the Supreme Court at any given time.
- **Constitution Bench:** A bench of five or more Supreme Court judges constituted by the Chief Justice of India to decide cases involving substantial questions of law as to the interpretation of the Constitution.
- **Docket Explosion:** A significant surge in the volume of incoming litigation and appeals that outpaces the court's case-disposal capacity, resulting in persistent judicial backlogs.

Legal and Constitutional Framework

- **Article 124(1):** Empowers Parliament to alter the number of Supreme Court judges through ordinary legislation. Unlike High Courts (where judge strength is fixed by executive order under Article 216), altering the Supreme Court's strength requires a parliamentary law passed by a simple majority.
- **The Supreme Court (Number of Judges) Act, 1956:** The primary statutory framework regulating the maximum limit of puisne judges in the apex court.
- **Constitutional Underpinnings:**

- **Article 21:** Right to speedy trial and timely delivery of justice recognized as a fundamental aspect of the Right to Life and Personal Liberty (*Hussainara Khatoon v. Home Secretary, State of Bihar*).
- **Article 130:** Grants the Chief Justice of India authority, with Presidential approval, to appoint other places as seats of the Supreme Court to improve access to justice.

Conclusion

Raising the statutory bench strength to 38 judges is a crucial structural measure to tackle mounting case backlogs and accelerate justice delivery. However, long-term efficiency requires complementary procedural reforms, listing rationalization, and swift filling of judicial vacancies.

UPSC Relevance

- **GS Paper II:** Structure, organization, and functioning of the Executive and the Judiciary; Constitutional provisions regarding the Supreme Court under Article 124; Issues relating to judicial pendency and administrative reforms.

7. Regulatory Milestone: DCGI Approval for India's First Dengue Vaccine (QDENGA)

Key Highlights & Summary

- **First Dengue Vaccine Approved:** The Drug Controller General of India (DCGI) granted market authorization to Takeda Biopharmaceuticals' QDENGA (TAK-003), marking India's first approved dengue vaccine.
- **Target Demographics & Protocol:** Approved for individuals aged 4 to 60 years, it follows a two-dose regimen administered three months apart without requiring pre-vaccination screening.
- **Governing Regulatory Rules:** Clearance was granted under Form CT-20 of the New Drugs and Clinical Trials (NDCT) Rules, 2019, under the Drugs and Cosmetics Act, 1940.

- **Tetravalent Coverage:** The live-attenuated vaccine provides protection across all four dengue virus serotypes (DENV-1, DENV-2, DENV-3, DENV-4).
- **High Disease Burden:** India accounts for nearly one-third of global dengue cases, reporting over 113,000 cases in 2025, driven by rapid urbanization and climate factors.
- **Indigenous Pipeline:** Domestic vaccine candidates from Panacea Biotec, Bharat Biotech, Serum Institute of India, and Indian Immunologicals remain in advanced clinical trial stages.

Essential Definitions

- **Live-Attenuated Vaccine:** A vaccine created by reducing the virulence of a pathogen while keeping it viable, inducing a strong and durable immune response without causing severe disease in healthy individuals.
- **Tetravalent Vaccine:** A vaccine formulated to simultaneously protect against four distinct viral strains or serotypes of a single pathogen.

- **Vector-Borne Disease:** Infections transmitted to human beings and animals by vectors such as mosquitoes, ticks, and fleas.

Legal and Constitutional Framework

- **Drugs and Cosmetics Act, 1940 & Rules, 1945:** Regulates the import, manufacture, distribution, and sale of drugs and cosmetics in India to ensure quality, safety, and efficacy.
- **New Drugs and Clinical Trials (NDCT) Rules, 2019:** Governs the approval process for new drugs, investigational new drugs, and clinical trial protocols monitored by CDSCO.
- **Constitutional Underpinnings:**
    - **Article 21:** Guarantees the Right to Life, which includes the fundamental right to health and access to life-saving preventive care (*State of Punjab v. Ram Lubhaya Bagga*).
    - **Article 47 (DPSP):** Directs the State to raise the level of nutrition and standard of living of its people, imposing a primary duty to improve public health.

Conclusion

The clearance of QDENGA marks a paradigm shift from symptom-based management to preventive immunisation against vector-borne threats in India. Equitable access will depend on indigenous manufacturing partnerships, competitive pricing, and integrating the vaccine into public healthcare systems.

UPSC Relevance

- **GS Paper III:** Science and Technology—developments and applications in health and medicine; Biotechnology (vaccine platforms, recombinant technology).
- **GS Paper II:** Public health policies, government interventions in health security, and statutory role of regulatory bodies like CDSCO/DCGI.

8. Capitalizing on Indigenisation: Defence Sector Outperformance and Market Challenges

Key Highlights & Summary

- **Outperforming Market Benchmarks:** The Nifty Defence index grew nearly 20% year-to-date in 2026, significantly outpacing the broader Nifty 50 index which registered an 8% contraction.
- **Massive Procurement Approvals:** Between FY24 and FY26, the Defence Acquisition Council (DAC) approved procurement proposals worth nearly ₹16.6 trillion, heavily focused on 'Buy Indian-IDDM' and 'Buy & Make (Indian)' frameworks.

- **Export Expansion Trajectory:** Driven by rising geopolitical conflicts in West Asia and global demand, India's defence exports reached ₹384 billion in FY26, targeting ₹500 billion by FY29.
- **Robust Order Books:** Defence Public Sector Undertakings (DPSUs) maintain strong order book-to-revenue ratios ranging between 2x and 10x, offering medium-term revenue visibility.
- **Execution Paradigm Shift:** As market valuations expand, investor focus is shifting from order wins toward timely order execution, supply chain management, and earnings conversion.
- **Self-Reliance (Aatmanirbharta):** Heightened global volatility has accelerated localization efforts across raw materials, drone technology, ammunition, and full-scale military platforms.

Essential Definitions

- **Buy Indian-IDDM:** Primary procurement category under the Defence Acquisition Procedure prioritizing products Indigenously Designed, Developed, and Manufactured with at least 50% indigenous content.
- **Order Book-to-Revenue Ratio:** A financial metric measuring a company's total pending order book value against its annual revenue, indicating future operational scale and execution pipelines.
- **Defence Acquisition Council (DAC):** The highest decision-making body in the Ministry of Defence responsible for capital acquisitions and policy guidelines for the Armed Forces.

Legal and Constitutional Framework

- **Defence Acquisition Procedure (DAP), 2020:** The governing regulatory policy for capital procurement that enforces indigenous content thresholds and streamlines domestic defence manufacturing.
- **Positive Indigenisation Lists:** Statutory notifications issued by the Ministry of Defence imposing progressive import bans on specific military hardware and components to foster domestic manufacturing.
- **Constitutional Underpinnings:**
    - **Seventh Schedule (Union List):** Entry 1 (Defence of India), Entry 2 (Naval, military and air forces), and Entry 2(A) grant exclusive legislative powers to Parliament over national security and defence production.
    - **Article 296 & Property Powers:** Governs executive authority regarding state contracts and procurement for military infrastructure and strategic industrial assets.

Conclusion

The surge in defence equities reflects structural reforms transitioning India from a major arms importer to a global manufacturing hub. Sustaining this momentum requires overcoming execution bottlenecks, enhancing domestic R&D intensity, and scaling private sector participation across global supply chains.

UPSC Relevance

- **GS Paper III:** Security challenges and defense industrial base; Indigenization of technology and developing new technology; Effects of liberalization on the economy and industrial growth.

- **GS Paper II:** Statutory, regulatory, and decision-making bodies (DAC, Ministry of Defence) and policy formulation for national security.

9. India–Canada Strategic Defence and Technology Partnership

Key Highlights & Summary

- **Defence Policy Pivot:** Speaking at CANSEC 2026, Canadian Prime Minister Mark Carney outlined plans to rebuild, rearm, and reinvest in the Canadian Armed Forces due to evolving warfare technologies.
- **Defence Spending Targets:** Canada reached a defence expenditure of over 2% of its GDP in March 2026 and remains on track to hit 5% by 2035.
- **Enhanced Institutional Links:** Both nations accredited Defence Advisers in Ottawa and Delhi, established a dedicated Defence Dialogue, and participated in multi-national naval drills like RIMPAC and Talisman Sabre.
- **Co-Development & Industrial Ties:** Canada's Defence Investment Agency and Defence Industrial Strategy seek to engage partners like India in subsystem manufacturing, co-development, and aerospace innovation.
- **Aerospace and Space Synergies:** The partnership leverages Canada's advanced satellite technologies (e.g., RADARSAT) alongside India's expanding low-cost launch platforms and naval defense initiatives.
- **Critical Minerals Cooperation:** Under the 2026 Memorandum of Understanding on Critical Minerals Value Chain, India aims to secure supplies of cobalt, rare earth elements, tungsten, and uranium from Canada.

Essential Definitions

- **Critical Minerals:** Non-fuel mineral elements (e.g., cobalt, lithium, rare earths) that are essential for high-tech manufacturing, clean energy transition, and national defence systems.
- **Subsystem Manufacturing:** The production of specialized modular components that are integrated into larger military or aerospace platforms.
- **RADARSAT Constellation System:** A Canadian synthetic aperture radar (SAR) satellite mission used for earth observation, maritime domain awareness, and environmental monitoring.

Legal and Constitutional Framework

- **Foreign Trade (Development and Regulation) Act, 1992:** Regulates foreign trade and provides the statutory mechanism for importing strategic defence equipment and dual-use technologies.
- **Atomic Energy Act, 1962:** Provides the legal framework for international nuclear cooperation, civil nuclear supply agreements, and uranium imports for energy security.
- **Constitutional Underpinnings:**
  - **Article 51(c) (DPSP):** Instructs the State to foster respect for international law and treaty obligations in the dealings of organized peoples with one another.

- **Seventh Schedule (Union List):** Entry 1 (Defence of India), Entry 10 (Foreign affairs), and Entry 14 (Entering into treaties and agreements with foreign countries) vest exclusive power in Parliament.

Conclusion

The realignment in India–Canada bilateral relations signifies a strategic pivot toward joint defence manufacturing, critical mineral security, and space technology collaboration. Integrating Canada’s industrial assets with India’s manufacturing scale offers a durable foundation for regional security and resilient supply chains.

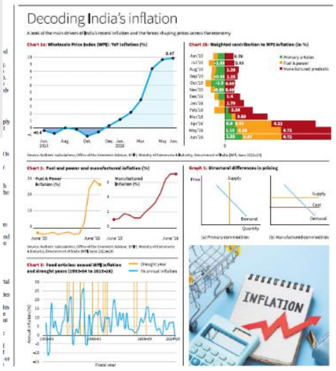
UPSC Relevance

- **GS Paper II:** Bilateral, regional, and global groupings and agreements involving India and/or affecting India’s interests; Effect of policies and politics of developed and developing countries on India's interests.
- **GS Paper III:** Indigenization of technology, transfer of technology, security challenges, and supply chain resilience for critical minerals.

10. Structural Inflation in India: Cost-Push vs. Demand-Pull Dynamics

Key Highlights & Summary

- **Surge in WPI Inflation:** India's Wholesale Price Index (WPI) inflation surged toward 10%, driven primarily by fuel, power, and manufactured products rather than aggregate demand overheating.
- **Kaleckian Pricing Mechanism:** Polish economist Michał Kalecki's structuralist framework explains that primary commodity prices are demand-determined, whereas industrial prices are cost-determined through a profit markup over production costs.
- **Cost-Push Transmission:** Escalating international crude oil prices directly inflated domestic fuel costs, which subsequently passed through as higher input costs in the manufacturing sector.



- **Supply-Shock Food Inflation:** Agricultural inflation was driven by supply-side shocks—specifically deficient monsoon patterns caused by El Niño—rather than shifting consumer demand curves.
- **Countercyclical Tax Policy:** The withdrawal of duty cuts on fuels exacerbated inflationary pressures; restoring excise and customs duty buffers can mitigate cost-push shocks.
- **Irrigation Capital Expenditure:** Long-term stabilization of primary food prices necessitates decoupling agriculture from climate variability via robust investments in irrigation infrastructure.

Essential Definitions

- **Kaleckian Structuralism:** An economic theory positing that prices in industrial sectors are set by cost plus a fixed markup, while primary commodity prices fluctuate based on demand-supply imbalances.
- **Cost-Push Inflation:** Price level increases caused by rising costs of raw materials, energy inputs, or labor, which push up overall production costs.

- **Demand-Pull Inflation:** Price level increases occurring when aggregate demand for goods and services outpaces total productive capacity.

Legal and Constitutional Framework

- **Essential Commodities Act, 1955:** Empowers the Central Government to control the production, supply, and distribution of essential goods to prevent hoarding and price spikes.
- **Fiscal Responsibility and Budget Management (FRBM) Act, 2003:** Sets guidelines for managing fiscal deficits while leaving room for countercyclical duty adjustments during macroeconomic shocks.
- **Constitutional Underpinnings:**
    - **Seventh Schedule (Union List):** Entry 83 (Duties of customs) and Entry 84 (Duties of excise on petroleum products) grant Parliament legislative power over key tax levers used for price stabilization.
    - **Seventh Schedule (Concurrent List):** Entry 33 governs trade and commerce in, and the production, supply, and distribution of, food products and raw materials.
    - **Article 38 (DPSP):** Directs the State to minimize inequalities and promote public welfare by ensuring price stability for basic commodities.

Conclusion

India's recent inflationary surge highlights structural vulnerabilities in energy imports and climate-dependent agriculture. Addressing these pressures requires shifting from pure monetary tightening toward structural fiscal measures, including countercyclical indirect tax adjustments and long-term irrigation development.

UPSC Relevance

- **GS Paper III:** Indian Economy (Inflation dynamics, WPI vs. CPI, cost-push vs. demand-pull inflation, agricultural supply chains, and fiscal policy).
- **GS Paper II:** Government policy interventions for price stabilization and economic management.