

DAILY NEWSP APER ANALYSIS

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**CHANAKYA IAS ACADEMY
SECTOR 25 CHANDIGARH**

Gherao of judicial staff a challenge to SC: CJI

He says the violence was a 'calculated move' to demoralise judiciary and sway the adjudication

The court says incident exposed 'complete failure of officials and police in the State of West Bengal'

'Everyone speaks political language, I have never seen such a politically polarised State', CJI adds

Krishnadas Rajagopal
NEW DELHI

The Supreme Court on Thursday said a mob gherao of seven judicial officers, confining them without food or water for more than nine hours at a government office in Malda district of West Bengal, reportedly after several voters were struck off the electoral rolls in the special intensive revision (SIR) was not only a "brazen attempt" to browbeat the officers but also amounted to a challenge to the authority of the top court.

Hundreds of judicial officers have been deployed on the basis of a Supreme Court order to function as Election Registration Officers and adjudicate objections raised by voters excluded from the rolls during the SIR ahead of the Assembly election scheduled for April 23 and 29.

Noting that three of the judicial officers were women, the court said the in-

cident exposed the "complete failure of the civil and police administration in the State of West Bengal".

Chief Justice of India Surya Kant, heading a three-judge Bench, asked what the political leaders were doing during all those hours of captivity — could they not have gone to the spot and calmed down the situation.

A shocked court pointed out that the judicial officers were pelted with stones as they were finally released and led out by the police after being detained from 3.30 p.m. on Wednesday till well past midnight.

"This was not a routine incident. It was *ex facie* a calculated, well-planned and deliberate move to demoralise the judicial officers and impact the ongoing process of adjudication of objections. We will not allow anyone to interfere and take law into their hands by causing fear in the minds of judicial officers. This undoubtedly amounts to criminal contempt," Chief Justice Kant observed. He said he had never seen such a "politically polarised State like West Bengal".

"You are forcing us to say, unfortunately in your State, each one of you speaks a political language... I have never seen such a politically polarised State. Even in court orders, the politics is reflected... We passed the order deploying judicial officers because we thought we could have a neutral structure for



Row over rolls: People lay siege to the BOO office at Kallachak Block II in Malda, where seven judicial officers were gheraoed on Wednesday. SPECIAL ASSIGNMENT

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JUSTICE SURYA KANT
CHIEF JUSTICE OF INDIA

the adjudication of objections, and this is how people are behaving? Do you think we are not aware who are the miscreants behind this incident? I was monitoring events till 2 a.m.," Chief Justice Kant addressed the West Bengal side.

"Contempt of court" Justice Jyotsnaya Bagchi said political leaders who form part of the executive of the State and leaders in the Opposition must con-

demn the incident in one voice. "The orders of the judicial officers are deemed to be the orders of this court. This incident sought to scuttle the entire effort, discourage judicial officers... It amounts to contempt of court," Justice Bagchi remarked.

The court directed the Election Commission (EC) to assign the Central Bureau of Investigation or National Investigation Agency with the task to probe the incident. It directed the

Commission to requisition Central forces to protect the life, liberty and families of the judicial officers.

The Bench narrated that the Registrar General of the Calcutta High Court had informed the local police and civil administration for immediate backup on learning about the gherao.

"The matter was met with conspicuous inertia until approximately 8:30 p.m.," it said. The official had then contacted the Home Secretary, the Director General of Police (DGP) and the Chief Justice of the High Court.

Finally, the High Court Chief Justice had to intervene personally, following which the Home Secretary and the DGP had turned up at his residence at midnight.

Chief Justice Kant said the High Court Chief Justice, in his letter to the apex court, had strongly deprecated the delay on the part of the police and the civil administration. The apex court said the

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- **Prises concern over:**
 - Safety of officials conducting electoral roll revision, a core democratic exercise.

Static Linkages

- Article 324: Superintendence, direction, and control of elections vested in Election Commission.
- Article 50: Separation of judiciary from executive.
- Contempt of Courts Act, 1971:
 - Criminal contempt includes acts that lower authority of court or obstruct administration of justice.

KEY HIGHLIGHTS

Context of the News

- The Supreme Court of India took suo motu cognisance of a mob gherao incident in Malda, West Bengal.
- Judicial officers deployed as Election Registration Officers (EROs) were:
 - Confining for over 9 hours without food or water.
 - Allegedly targeted after voters were excluded during Special Intensive Revision (SIR) of electoral rolls.
- Officers were deployed as per Supreme Court orders to ensure neutral adjudication of voter objections.
- The Court termed the incident:
 - A "brazen attempt to browbeat" judiciary.
 - Amounting to criminal contempt of court.
- The Court directed the Election Commission of India to consider probe by:
 - Central Bureau of Investigation (CBI) or
 - National Investigation Agency (NIA).

Key Points

- Judicial officers' decisions = deemed orders of the Supreme Court.
- Incident highlighted:
 - Failure of law & order machinery (State administration, police).
 - Politicisation of electoral processes.
- Supreme Court:
 - Issued show-cause notices to senior officials (DGP, DM, SP).
 - Directed deployment of Central forces for protection.
- Emphasis on:
 - Judicial independence.
 - Free and fair elections as part of the basic structure doctrine.

- Basic Structure Doctrine (Kesavananda Bharati case, 1973):
 - Includes rule of law, judicial independence, free and fair elections.
- Model Code of Conduct (MCC):
 - Ensures level playing field during elections.
- Electoral Roll Revision:
 - Conducted under Representation of the People Act, 1950.

Critical Analysis

Major Concerns

- Threat to Judicial Independence Physical intimidation undermines constitutional authority.
- Breakdown of Rule of Law Mob justice replacing institutional mechanisms.
- Administrative Failure Delay in police response indicates governance gaps.
- Electoral Integrity at Risk Interference in voter list revision impacts democracy.

Stakeholder View

- Judiciary → Protect institutional credibility
- Election Commission → Ensure neutral elections
- State Administration → Maintain law & order
- Citizens → Right to fair representation

Ethical Dimensions (GS4)

- Integrity of public institutions
- Courage under pressure
- Accountability of public officials

Way Forward

- Strengthen security framework for judicial/election officials
- Ensure time-bound accountability of administrative authorities
- Enhance coordination between EC, judiciary, and police
- Promote depoliticisation of governance mechanisms
- Build public trust through transparent electoral processes

Cabinet's advice on grant of remission to convicts is binding on Governor: HC

Mohamed Imranullah S.
CHENNAI

A Full Bench of the Madras High Court on Thursday held that the Governor, whether he/she likes it or not, is bound by the advice of the Council of Ministers while exercising powers under Article 161 of the Constitution in matters relating to remission and premature release of convicts.

The Bench comprising Justices A.D. Jagdish Chandira, G.K. Ilanthirayan and Sunder Mohan ruled that the Governor, under no circumstance, could exercise any discretion whatsoever to take a different view from the one taken by the Council of Ministers.

The Bench was answering a reference made to it by a Division Bench.

The Division Bench consisting of Justices M.S. Ramesh (since retired) and V. Lakshminarayanan had referred the matter to the larger Bench, for an authoritative pronouncement, in September 2025 after coming across two conflicting decisions delivered in 2024 by two other Division Benches of the High Court on the issue.

While answering the reference, the Full Bench agreed with State Public Prosecutor Hasan Mohamed Jinnah and advocate M. Radhakrishnan that the issue had been settled by a Constitution Bench of the Supreme Court in as early as 1980.

The Constitution Bench in 1980 decision comprised Justices V.R. Krishna



The Governor, under no circumstances, may take a different view from that of the Council of Ministers, the Bench ruled. FILE PHOTO

Full Bench of the Madras High Court was answering a reference over two conflicting decisions in 2024 by two other Division Benches

na Iyer, Y.V. Chandrachud, P.N. Bhagwati, Syed Murtaza Fazlali and A.D. Koshal.

Mr. Jinnah also said, the 1980 judgment delivered in Maru Ramu's case was followed by the Supreme Court in 2022 too while ordering the release of former Prime Minister Rajiv Gandhi assassination case convict A.G. Perarivalan. He also relied upon Supreme Court's 1974 verdict in Shamsheer Singh versus State of Punjab.

'Consistent stance'
After concurring with his submission, the Full Bench said, the top court had consistently held the Governor could not exercise any discretion while exercising powers under Article 161 of the Constitution and it had been reflected even in its recent decision on the Governor's power to withhold Bills passed by the

State legislature. One of the Division Benches of the High Court had rightly followed the law, while the other Bench had wrongly relied upon the Supreme Court's judgment in the 2003 M.P. Special Police Establishment case which was related to the Governor's statutory function of granting sanction to prosecute Ministers in corruption cases.

The Full Bench further pointed out the Supreme Court had delivered its verdict in A.G. Perarivalan's case only after considering the M.P. Special Police Establishment case.

"Therefore, it is clear that the ruling [by one of the Division Benches of the High Court] in Murugan alias Thirumalal Murugan is *per incuriam* (a judgment passed without taking the correct position of law into consideration) to the limited extent that it holds that the ruling in M.P. Special Police Establishment permits the Governor to act in his own discretion in exercise of powers under Article 161 of the Constitution," the Bench led by Justice Chandira concluded.

KEY HIGHLIGHTS

Context of the News

- A Full Bench of the Madras High Court ruled that the Governor is bound by the advice of the Council of Ministers while exercising powers under Article 161.
- The ruling clarified that the Governor has no discretionary power in matters of remission or premature release of convicts.
- The issue arose due to conflicting 2024 Division Bench judgments, leading to a reference for authoritative clarification.
- The court relied on landmark judgments of the Supreme Court of India, particularly:
 - Maru Ram vs Union of India
 - Shamsheer Singh vs State of Punjab
 - A.G. Perarivalan Case

Key Points

- Article 161: Empowers the Governor to grant pardons, reprieves, respites, remissions, or commute sentences for offences against State laws.
- The Full Bench held:
 - Governor is constitutionally bound by aid and advice of the Council of Ministers.
 - No independent discretion exists in remission matters.
- The judgment reaffirmed:
 - The principle of parliamentary executive supremacy at the State level.

- Clarified confusion:
 - Distinguished from M.P. Special Police Establishment case, which dealt with statutory discretion (sanction for prosecution), not constitutional remission powers.
- Declared contrary HC ruling (Murugan case) as *per incuriam*.
- Reinforced that:
 - The Governor is a constitutional head, not an independent decision-maker in executive functions.

Static Linkages

- Articles 72 & 161: Pardoning powers of President and Governor.
- Article 163: Council of Ministers to aid and advise the Governor.
- Concept of "constitutional head" vs "real executive".
- Doctrine of aid and advice (borrowed from British system).
- Distinction between:
 - Constitutional powers vs statutory powers.
- Judicial doctrines:
 - *Per incuriam*
 - Binding precedent (Article 141)

Critical Analysis

Pros

- Prevents arbitrary gubernatorial action
- Strengthens elected government supremacy
- Ensures uniformity via SC precedents

Concerns

- Risk of political misuse of remission
- Weakens independent oversight
- Governor's role becomes largely ceremonial

Way Forward

- Codified remission guidelines
- Ensure transparency + judicial review
- Strengthen cooperative federalism
- Clear demarcation of discretionary powers

ECI transfer controversy, top court's clarifications

Recently, the Election Commission of India (ECI) transferred a number of senior officers in some of the election-bound States as soon as their election schedules were announced. In the election schedule for 2026, polls are to be held in four States, namely, Assam, Kerala, Tamil Nadu and West Bengal, and the Union Territory of Puducherry.

In the State of West Bengal, the Chief Secretary and Director General of Police – the head of State administration and the head of the police force – were among several officials transferred overnight without the consent or prior knowledge of the State government. The ECI claimed that such a step had been taken to ensure free and fair elections in those States. The States concerned, particularly West Bengal, were virtually stunned by the ferocity of these transfer orders, which have almost paralysed the administration. The crucial question here is whether it is within the powers of the ECI to transfer, in this manner, the heads of State administration in the name of ensuring free and fair elections. Are we then to conclude that, without transferring a handful of top officers, the ECI cannot conduct free and fair elections? There are many such disturbing questions that arise from these transfers.

It is difficult to find any statute under which such transfers can be made by the ECI. Of course, it always points to Article 324 of the Constitution (Superintendence, direction and control of elections to be vested in an Election Commission) to justify such actions. It is true that the Article confers unspecified powers on the ECI to conduct free and fair elections.

Article 324 and scope of powers
The Supreme Court of India had, in *Mohinder Singh Gill and Anr. vs The Chief Election Commissioner, New Delhi and Ors.* (1978), and in a host of other cases, held that Article 324 is a plenary provision which is in fact a reservoir of powers that can be used by the ECI whenever the need arises to ensure free and fair elections. But in all such cases the Court has added a rider that such powers can be used only where the field is unoccupied by a statute. In other words, the ECI cannot draw any such power from Article 324 where a law made by Parliament or a State legislature holds the field in which case it has to obey that law.

In *Mohinder Singh Gill*, the Court made the following significant observations which have clearly laid out the scope of the powers under this Article as well as its limitations. It said, "The



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Constitution, contemplates a free and fair election and vests comprehensive responsibilities of superintendence, direction and control of the conduct of elections in the Election Commission. This responsibility may cover powers, duties and functions of many sorts, administrative or other, depending on the circumstances".

However, there is a caveat. The Court added, "Two limitations at least are laid on its plenary character in the exercise thereof. Firstly, when Parliament or any State Legislature has made valid law, relating to or in connection with elections, the Commission shall act in conformity with, not in violation of such provisions but where such law is silent Art. 324 is a reservoir of power to act for the avowed purpose of, not divorced from pushing forward a free and fair election with expedition. Secondly, the Commission shall be responsible to the rule of law, act bona fide and be amenable to the norms of natural justice in so far as conformance to such canons can reasonably and realistically be required of it as fairplay-in-action in a most important area of the constitutional order, viz., elections."

The issue of statutory backing

The officers belonging to the all India services are governed by the All India Services Act and the rules made thereunder. The transfer of an officer is the exclusive prerogative of the government.

The all India service officers who are serving a State government are under the administrative control of the State government which has exclusive authority to transfer them at any time.

Under the Seventh Schedule of the Constitution, the State Public Services are under the exclusive control of the State governments. It is the exclusive function of the governments – the State and the Union – to deal with all aspects of the services of the officers serving under these governments.

The crucial question that has arisen in the context of the transfer of senior officials of the State governments under the orders of the ECI is whether this action has any statutory backing. The duty of the ECI is to conduct elections in a free and fair manner. Of course, it has all the powers to perform this task in accordance with the mandate of the Constitution and statute.

Article 324(6) requires the State government or the Union government to make available to the ECI on demand the staff required by it to conduct elections. The Representation of the People Act of 1950 as well as the Representation of the People Act, 1951 contain elaborate provisions that deal with the duties and powers of the ECI. Nowhere

do any of these Acts contain any provision that empowers the ECI to transfer the head of a state administration or the head of the state police force, while keeping the State government in the dark, on the ground that their continuance in their posts will hamper the conduct of free and fair elections.

It is true that the Court has held that Article 324 has plenary powers to ensure free and fair election. But the Court has never dealt with the transfer of the senior-most officers in States by the ECI, taking the State governments by surprise and resulting in a paralysis of the administration, in the exercise of its plenary powers under Article 324. Apart from that, the Court has itself clarified that if the field is occupied by the law, the ECI needs to obey that law. It may be argued that the law mentioned by the Court must be related to, or in connection with, the election. It may also be argued that the All India Services Act or its rules are not laws relating to elections, but that is a very narrow, technical view.

The crucial point is that the ECI is not empowered to bypass a law made by Parliament dealing with the transfers and postings of all India Service officers, and cannot transfer such officers at will over the heads of the State government.

The underlying assumption in such transfers is that those officers will not allow the ECI to conduct elections in a free and fair manner.

On "unchecked power"

The ECI has a proud history of conducting elections in the country since 1952. It has always depended on State government officials to accomplish this task as the ECI does not have any machinery of its own to undertake such a gigantic exercise. The ECI, by branding them as men lacking integrity and removing them from their posts on the eve of an election is a new trend that will most certainly demoralise civil servants in the country. It is also not clear under what procedure the ECI has reached the conclusion that these officers are biased and unsuitable for conducting free and fair elections. Article 324 does not give unfettered powers to the ECI. The Court, which granted plenary powers to the ECI, had also said this in *Mohinder Singh Gill* – "No one is an imperium in imperio in our constitutional order. It is reasonable to hold that the Commissioner cannot defy the law armed by Article 324. Likewise, his functions are subject to the norms of fairness and he cannot act arbitrarily. Unchecked power is alien to our system."

These words from the highest court of the land are loud and clear enough.

Statutory Framework:

- Representation of the People Act, 1950 & Representation of the People Act, 1951:
 - Do not empower ECI to transfer officials.
- All India Services Act, 1951:
 - Transfers of AIS officers are under executive control of State/Union governments.
- Article 324(6):
 - Allows ECI to requisition staff, but not to transfer or remove top officials.
- Federal Concerns:
 - State Public Services fall under State List (Seventh Schedule).
 - ECI intervention may be seen as encroachment on State executive powers.

Static Linkages

- Article 324 – Constitutional body & independent authority
- Seventh Schedule – Division of powers (State List: Public Services)
- Doctrine of Plenary Powers vs Statutory Limits
- Principle of Rule of Law & Natural Justice
- Civil Services: Executive control & neutrality
- Judicial interpretation of constitutional provisions

Critical Analysis

Positives

- Ensures neutral administrative setup
- Strengthens free and fair elections (basic feature)

Concerns

- No statutory backing → legal ambiguity
- Possible overreach of Article 324
- Undermines federal structure
- Risk of arbitrariness & lack of transparency
- May demoralize civil services

Way Forward

- Define clear legal framework for ECI powers
- Ensure consultation with State governments
- Develop transparent criteria for transfers
- Strengthen judicial oversight
- Balance electoral integrity with federalism

KEY HIGHLIGHTS

Context of the News

- The Election Commission of India (ECI) transferred senior officials, including Chief Secretaries and DGPs, in election-bound States (Assam, Kerala, Tamil Nadu, West Bengal, Puducherry) ahead of the 2026 elections.
- In West Bengal, these transfers were executed without prior consultation with the State government, causing administrative disruption.
- The ECI justified its action citing its mandate to ensure free and fair elections under Article 324.
- The issue has raised concerns about:
 - Scope of ECI's powers
 - Federal balance
 - Legality of such transfers without statutory backing

Key Points

- Article 324:
 - Provides superintendence, direction, and control of elections to the ECI.
 - Considered a plenary (residuary) power.
- Supreme Court Interpretation:
 - In *Mohinder Singh Gill vs Chief Election Commissioner*:
 - Article 324 is a "reservoir of powers".
 - However, it operates only when no law exists on the subject.
 - ECI must act in conformity with existing laws.

Article 324 does not give unfettered powers to the Election Commission of India

A path to peace in West Asia beyond Pakistan talks

A much talked about meeting finally took place in Pakistan. The Foreign Ministers of Saudi Arabia, Türkiye and Egypt sat together with Pakistan, in Islamabad on March 29, to explore ways out of the war in West Asia. Just before this, Pakistan Prime Minister Shehbaz Sharif had a long conversation with Iranian President Masoud Pezeshkian. Then, Pakistan Deputy Prime Minister and Foreign Minister Ishaq Dar was in China to hold talks on restoring peace and stability in West Asia. All this sounds grand but is only a tiny step in a long process, where the devil lies in the details.



Tara Kartha
Former Director,
National Security
Council Secretariat

Therefore, Tel Aviv will remain lukewarm toward an end to the war.

In terms of the subject of 'exhaustion', the U.S., of all sides, witnessed one of the largest non-violent marches in American history. True, the 'No Kings' protest was not specifically against the war, but it still counts politically. Meanwhile, at least two aircraft carriers of the United States have moved out of range, amid reports of munitions shortages. Israel is being hit, regardless of the famed 'Iron Dome' – its air defence system – though the extent is debatable. Iran is bleeding, and badly. Each side has summarily rejected the demands of the other – at least in public.

Second, mediation is a process. The first step is a ceasefire, which is no easy task when there is zero trust. The U.S., after all, attacked Iran even as negotiations were on. Washington, in turn, accused Israel of unilaterally attacking the Pars gas field, causing a serious escalation. In this case, a ceasefire will need a force capable of enforcing it; primarily, only a physical presence can provide security guarantees. That needs a United Nations mandate to be legal in what is an entirely illegal war.

In sum, a UN Security Council (UNSC) member will have to vote for a peacekeeping force that can act in case of transgressions. That is farcical, even assuming that the U.S. would heed a despised UN.

Revisiting history

There is, however, a way out. In the 1956 Suez Crisis, when Egypt nationalised the Suez Canal, France and the United Kingdom blocked UNSC action. The General Assembly passed the 'Uniting for Peace' resolution which authorised peacekeepers in a rare move that bypassed the UNSC. It brought peace, but only because a U.S. President, in this case Dwight D. Eisenhower, twisted allies' arms. In sum, the UN only works when a strong country decides it should.

Third is the question of troop contributors.

Presumably, that will include Egypt, Türkiye and Pakistan, all with large standing armies. Egypt recognises Israel, and Türkiye is a member of the North Atlantic Treaty Organization. Pakistan may consider a token presence rather than having to honour its Strategic Mutual Defence Agreement with Saudi Arabia, which was signed in 2025. Mr. Dar's visit to China yielded only a five-point peace plan, which also called for the delivery of humanitarian aid. This will require some presence of aid agencies, presumably under UN cover.

Primarily, China is expected to persuade Iran to accept a ceasefire, though 'persuasion' will require something more concrete than a plan. A direct security commitment is out of the question. No one wants a third world war. Other countries, such as Indonesia and Malaysia – both of whom support the Pakistani initiative – may weigh in, with the whole effort funded by the Gulf countries.

So far, so good. But Iran does not entirely trust the mediators. Saudi Arabia and the United Arab Emirates are allegedly pushing the Americans to attack Iran and 'finish the job. In 2024, the Pakistanis bombed Iran, and Türkiye's Kurdish problem has Iranian tentacles.

A role for New Delhi

India had best keep out of such dubious ventures, though it should talk to all sides to prevent escalation. While China is an unlikely partner in this, there is also Australia, the Southeast Asian countries and India's neighbours, all of whom have been hit hard by the energy crisis.

This might be the time for Indian diplomacy to fire up and rally the 'Global South' at the UN, fostering a united opposition to the war and pushing for a lasting ceasefire. A global voice must be heard, not just through a single channel, no matter how busy. That might just be the impetus that the UN needs.

- India's stance:
 - Maintain strategic autonomy
 - Engage diplomatically without direct involvement

Static Linkages

- UN Charter: Chapter VI (Pacific Settlement of Disputes)
- UN Charter: Chapter VII (Enforcement Measures)
- Uniting for Peace Resolution, 1950
- Concept of Strategic Chokepoints (Strait of Hormuz)
- Balance of Power (IR theory)
- India's Strategic Autonomy (Non-Alignment 2.0)
- Energy Security (Economic Survey, IEA reports)

Critical Analysis

Pros

- Multilateral engagement improves chances of negotiated settlement
- Regional participation increases legitimacy
- Revival of UN-based mechanisms

Cons

- Trust deficit among stakeholders
- UNSC ineffectiveness due to veto politics
- Mediators have conflicting geopolitical interests
- Risk of escalation affecting global economy

Key Challenges

- Enforcement of ceasefire
- Lack of neutral peacekeeping force
- Energy supply disruptions

Way Forward

- Use UNGA mechanisms when UNSC is blocked
- Promote inclusive diplomacy involving Global South
- Develop credible ceasefire monitoring mechanisms
- Strengthen humanitarian assistance frameworks
- India to balance neutrality with proactive diplomacy

KEY HIGHLIGHTS

Context of the News

- Diplomatic consultations were held involving Pakistan, Saudi Arabia, Türkiye and Egypt to explore resolution of the ongoing West Asia conflict.
- Parallel engagements included talks with Iran and China focusing on ceasefire and regional stability.
- The conflict between United States/Israel and Iran continues with unclear end goals and absence of trust.

Key Points

- Ceasefire remains difficult due to:
 - Conflicting objectives (denuclearisation, regime change, strategic control)
 - Continued hostilities during negotiations
- Role of mediators:
 - Regional powers (Egypt, Türkiye, Pakistan) attempting facilitation
 - China proposing diplomatic solutions without military commitment
- UN-related issues:
 - United Nations peacekeeping requires mandate
 - UN Security Council faces veto-based paralysis
- Alternative mechanism:
 - 'Uniting for Peace' resolution (UNGA intervention during deadlock)
 - Historical precedent: Suez Crisis (1956)
- Strategic dimensions:
 - Importance of Strait of Hormuz for global energy security
 - Rising energy insecurity and supply disruptions

India could lead a Global South initiative at the United Nations to mediate the West Asia war

A betrayal foretold

After Trump's taunts, threats, Europe has to reimagine its security paradigm

The U.S. appears poised to break with 77 years of partnership with Western European nations under the security umbrella of NATO, especially after its President Donald Trump has said that he is "absolutely" considering withdrawing from the alliance, which in his view is a "paper tiger". This and similar remarks by Mr. Trump have followed White House's apparent frustration that European and other allies did not expediently send military assets into West Asia to assist the U.S. and Israel in their war campaign against Iran, particularly to secure safe passage for oil tankers through the Strait of Hormuz, currently under Tehran's control. Mr. Trump has frequently complained about getting less from NATO than Washington was putting into it, saying recently to the media, "... it's a one-way street". He has further hinted that NATO may have become an ineffectual global force when he recently observed that Russian President Vladimir Putin also "knows" that NATO lacks teeth to defend its members – a comment that gains additional salience in the context of Moscow's military aggression against Ukraine and its likely further military adventurism in the Baltic states region.

At the heart of the heightened tension in the U.S.-NATO relationship is Washington's constant refrain that defence spending by its European partners has fallen short of expectations – even if the immediate trigger for talk of withdrawing from NATO is the Iran war context. A prior question of legality remains unanswered too: under section 1250A of the 2024 National Defense Authorization Act, signed into force by former President Joe Biden, no U.S. President may unilaterally withdraw from NATO; rather they would require either a two-thirds Senate supermajority or an act of Congress towards this end. In the longer arc of history spanning the two Trump terms, a split with NATO, a security alliance, might not be of the same order as the eviscerating institutions of global governance and cooperation, which include the WTO and UN system organisations. But it is part of Mr. Trump's simultaneous pursuit of American global dominance and splendid isolation. On the one hand it may come as a relief to some that Mr. Trump's inward turn, pulling the U.S. back from global collaborative engagements could leave a security vacuum that could be opportunistically exploited by middle powers. However, for the world at large, and from a growth and economic stability perspective, the shock of a partner-nation abandoning its commitments worldwide will likely lead to a recalibration of trust and strategic calculus, ultimately remaking the rules-based international order and the global balance of cooperation across emerging powers. In this new post-Pax Americana world, Europe, more than most, will have to reimagine its security paradigm from first principles.

KEY HIGHLIGHTS

Context of the News

- The North Atlantic Treaty Organization (NATO), a transatlantic security alliance formed in 1949, is facing internal strain due to statements by Donald Trump about possible U.S. withdrawal.
- The U.S. has expressed dissatisfaction with European allies over low defence spending and lack of support in the ongoing West Asia tensions involving Iran and Israel.
- The trigger includes reluctance of NATO allies to deploy forces for securing oil routes like the Strait of Hormuz.
- Legal constraints exist under the 2024 National Defense Authorization Act (Section 1250A), limiting unilateral withdrawal by the U.S. President.
- The issue arises amid ongoing geopolitical tensions such as the Russia-Ukraine War, raising concerns about NATO's deterrence credibility.

Key Points

- NATO follows collective defence (Article 5) – attack on one is treated as attack on all.
- The U.S. contributes ~70% of NATO's total defence expenditure (NATO reports).

- NATO guideline: 2% of GDP defence spending by members (many European nations lag historically).
- Strategic importance:
 - Acts as a deterrent against Russian expansionism.
 - Ensures security architecture in Europe post-World War II.
- U.S. concerns:
 - "Burden-sharing imbalance"
 - Strategic overextension globally
- Implications of potential U.S. exit:
 - Weakening of NATO cohesion
 - Security vacuum in Europe
 - Increased role for middle powers and regional blocs

Static Linkages

- Collective security vs Balance of power theories in international relations
- Cold War origins of military alliances (NATO vs Warsaw Pact)
- Strategic importance of maritime chokepoints in global trade
- Role of defence alliances in maintaining global peace and stability
- Constitutional checks on executive powers in democratic systems
- Impact of geopolitical conflicts on global oil supply chains
- Concept of "Pax Americana" in post-World War II order

Critical Analysis

Positives

- Push for European strategic autonomy
- Strengthening of multipolar world order

Negatives

- Weakening of collective defence mechanism
- Increased risk for Eastern Europe
- Undermining rules-based order

Concerns

- Legal hurdles in U.S. withdrawal
- NATO cohesion crisis
- Increased geopolitical instability

Way Forward

- Ensure fair burden-sharing within NATO
- Strengthen European defence capabilities
- Promote multilateralism and diplomacy
- Maintain balance between alliances and strategic autonomy
- India to adopt issue-based alignment strategy

In the running

The Artemis II launch assures the U.S.'s partners that NASA is on track

The sight of the giant rocket bearing the NASA Artemis II mission and its crew of four ascending into the sky in the early hours of April 2 (IST) brought cheers among on-lookers on the ground and around the world. The mission has taken many years and several billion dollars to develop and brings the prospect of returning humans to the moon an equally giant step closer. The U.S. and China are currently leading the two poles of an international moonward race. A race implies winners and losers because they are keen to corner precious water deposits and landscapes on the moon and set up functional lunar bases, which could bias future missions in the winner's favour. NASA's Artemis programme and China's International Lunar Research Station are designed to include research outposts, refuelling depots, communication relays, and resource extraction sites, which would give their operators a head-start on any mission that depends on venturing further into cis-lunar space or towards Mars. While the idea of winning and losing is objectionable *vis-à-vis* the celestial commons, which should present equal opportunities to all participants in the global space programme, it is also naive to believe that the race is motivated by the urge to explore the universe. Extending geopolitical borders into space and projecting national prestige have been considerable driving forces of the new Space Age.

China's efforts have been more sheltered and powered predominantly by its own impetus, although they are no less impressive. The U.S., however, has included commercial operators and dozens of other countries via the Artemis Accords. The latter arrangement has made for apparently slower progress but in exchange for greater predictability in future, if and when the Artemis programme succeeds in full and assuming that the U.S. leadership will honour its commitment. India signed the Accords in 2023, thus agreeing to use outer space peacefully, transparently, and interoperably and to share data and resources according to their norms. While India is not an active participant in the Artemis missions in the way that Europe and Japan are, its human spaceflight programme, 'Gaganyaan', is in the works and it also plans to build a space station and take Indians to the moon by 2040. India could thus provide payloads and experiments for future launches, explore joint Artemis-Gaganyaan missions, and co-develop lunar activities under the Accords rather than start from scratch. These are useful benefits. In addition to reassuring the U.S. government that NASA remains in the race to the moon, the Artemis II launch allows the country's partners to look to the next steps.

KEY HIGHLIGHTS

Context of the News

- NASA successfully launched Artemis II mission (April 2026, IST), marking a major step toward human return to the Moon.
- The mission is part of the broader Artemis Programme, aimed at establishing a sustained human presence on the Moon.
- A renewed global space race is visible, primarily between the U.S. and China, focusing on lunar exploration and resource utilisation.
- Competing initiatives:
 - NASA Artemis Programme
 - International Lunar Research Station
- India joined the Artemis Accords in 2023, aligning with norms of peaceful and cooperative space exploration.

Key Points

- Artemis II Mission First crewed mission under Artemis programme (post-Apollo era).
- Objective: Test deep-space human capabilities in cis-lunar space.
- Strategic Importance of Moon Presence of water ice at lunar poles → potential for fuel (hydrogen-oxygen).
- Moon as a launchpad for Mars missions (lower gravity advantage).

- Geopolitical Competition U.S. promotes multilateralism via Artemis Accords (40+ countries).
- China follows a state-led, strategic model with limited partnerships.
- Infrastructure Plans Lunar bases, refuelling depots, communication relays, resource extraction hubs.
- India's Position Signatory to Artemis Accords (2023).
- Developing Gaganyaan.
- Plans: Indian astronaut on Moon by 2040; indigenous space station.
- Economic Dimension Space economy projected to reach \$1 trillion by 2040 (Morgan Stanley/NASA estimates).

Static Linkages

- Outer space governed by Outer Space Treaty:
 - Non-appropriation principle (no sovereignty claims).
 - Peaceful use of outer space.
- Concept of Global Commons (similar to high seas, Antarctica).
- ISRO milestones:
 - Chandrayaan-3 – soft landing near lunar south pole.
- Role of Department of Space & ISRO in India's space policy.
- NCERT Geography: importance of resources and strategic locations.

Critical Analysis

Pros

- Encourages technological innovation and deep-space exploration.
- Promotes international cooperation (Artemis Accords model).
- Enables resource utilisation (water ice → fuel economy).
- Boosts private sector participation (SpaceX, Blue Origin).

Cons

- Risk of space militarisation and geopolitical rivalry.
- Possible violation of global commons principle (resource capture).
- Unequal access → developing countries may be marginalized.
- Legal ambiguity on space mining rights.

Stakeholder Perspectives

- U.S. & allies: rule-based order, interoperability.
- China: strategic autonomy, long-term dominance.
- India: balanced approach—cooperation + self-reliance.
- Private sector: commercial opportunities.

Way Forward

- Strengthen global space governance framework.
- Ensure equitable access to lunar resources.
- India: balance strategic autonomy + cooperation.
- Accelerate indigenous capabilities (ISRO, private sector).

A journey to the moon, a mission to understand the dawn of the universe

THE MOON is about to welcome four humans who will orbit it aboard a spacecraft larger and more powerful than any launched before. It's a flyby mission, serving as a test for future, more ambitious landing missions. The last time humans orbited the Moon was in December 1972, when astronauts from the Apollo 17 mission left the Moon's surface and headed back home.

The Orion spacecraft, which will be their home for 10 days, is significantly larger than the command module that Apollo astronauts had. The computers and the software installed are more powerful than the Apollo Guidance Computers, which required constant ground support. The deep space avionics system in Orion doesn't need a pilot at the stick during an emergency: The uncrewed Artemis I mission of 2022 tested its capabilities as a confidence-gaining measure before putting humans in it. The launch vehicle (Space Launch System) for Artemis is also larger than the Saturn rocket used back then.

The Orion spacecraft will have to dock with a landing module, such as the Starship Lander. The current mission is a step towards understanding how Orion navigates near the Moon, how its radiation shields protect astronauts as they fly through zones notorious for harmful radiation exposure, and how its life support system creates a human-worthy environment inside the spacecraft.

The next step, during the Artemis III mission — tentatively scheduled for the middle of 2027 — will be to test the docking manoeuvre with the Starship Lander. As-

tronauts will carry this out in low Earth orbit. Neil Armstrong and David Scott did this during the Gemini 8 mission in 1966 as preparation for the Moon landing mission. If all goes well, then the Artemis IV mission will probably land humans on the Moon after decades.

Why return to the Moon when Apollo astronauts had already explored it multiple times? While the launch for the Artemis II mission cost around \$4 billion, the broader programme has already cost over \$90 billion. Space agencies from Canada, Europe, and Japan are collaborating with the Americans: The current mission has one Canadian crew member, Jeremy Hansen.

The stated reasons for the return to the Moon are several. Recently discovered ice on the Moon has spurred interest in exploring the possibility of using the Moon as a station for more ambitious missions. India's Chandrayaan-2 mission played a crucial role in this discovery. A large amount of ice is likely hidden in the shadowed areas of the Moon, such as near its South Pole, which has more craters than the North Pole and can contain ice deep inside the craters where sunlight rarely reaches. Ice will be crucial for building a space station on the Moon, not only for life support but also for the hydrogen and oxygen extracted from it, which can be used as fuel for rocket launches from the Moon.

This will turn the Moon into a fuelling station for spacecraft, enabling cheaper and more extensive exploration of the solar system, including Mars and Venus. The Artemis programme is a crucial step in that di-



BIMAN NATH

rection. Plans involve mining minerals and developing a cosmic supply chain for larger space missions. Future Chandrayaan missions from India will also carry payloads for detailed studies of the lunar surface.

While the Moon is likely to become a focal point for geopolitical competition among global powers vying to claim prime mining sites, including the South Pole, astronomers could also benefit from these efforts because the Moon can provide an ideal platform for scientific research. Large telescopes on the Moon can be much more sensitive than those on Earth because the Moon lacks an atmosphere. Our atmosphere, which causes stars to twinkle and blurs their images, is a major obstacle to capturing sharp images with telescopes. That's why space telescopes have been launched recently. If a station can be built on the Moon, it could be possible to plan for constructing telescopes there, which might be more cost-effective in the long run. There will be challenges — such as protecting the telescopes from moon dust — but astronomers have already begun planning.

The radio-quiet zone on the Moon could also enable deep radio astronomy observations that could answer many questions about the universe's history. Earth's atmosphere is blanketed by the ionosphere — a layer of charged particles — that allows radio stations to operate, since radio waves are reflected by this layer. Radio waves from outer space encounter this layer as they enter our atmosphere. Low-frequency radio waves (of wavelengths longer than 10

metres) from cosmic distances are also reflected away because of this, never reaching telescopes on Earth. The Moon doesn't have any ionosphere, and there is no such obstacle there for low-frequency radio waves. Turns out that these radio waves, impossible to detect on Earth, carry crucial information regarding the epoch of the universe after the first stars were born, in the first billion years after the Big Bang. Radiation from hydrogen atoms before the first stars ionised them would have been stretched by the expansion of the universe, making their wavelengths as long as several metres. Detecting these waves has become one of the Holy Grails of modern astrophysics.

Scientists at the Raman Research Institute in Bengaluru are collaborating with the Indian Space Research Organisation to develop a highly sensitive detector that, while orbiting the Moon, will be able to collect low-frequency radio waves. Dubbed "PRATUSH" (acronym for "Probing Reionization of the universe using Signal from Hydrogen"), this instrument may one day reveal what happened during the era of first stars, the "dawn" of the universe. There are even plans by astronomers elsewhere to use the shape of lunar craters for building radio telescope dishes. As Joseph Silk has argued in his recent book *Return to the Moon: The Next Giant Leap for Humankind*, scientific research from the Moon can open up new vistas for some of humanity's most profound questions.

The writer is visiting professor, IISER Mohali, and was earlier an astrophysicist at the Raman Research Institute, Bengaluru

- Scientific opportunities:
 - Absence of atmosphere → better telescopes
 - Radio-quiet environment → study early universe
- India's contribution:
 - Raman Research Institute + ISRO developing PRATUSH for studying cosmic dawn.

Static Linkages

- Outer Space Treaty (1967): No national appropriation of celestial bodies
- Concept of escape velocity and orbital mechanics (NCERT Physics)
- Cryosphere and water ice stability in extreme environments
- Hydrogen economy and fuel cells (Energy security)
- Ionosphere and radio wave propagation (Geography/Physics)
- Public goods vs global commons debate
- Role of space technology in development (India Year Book, ISRO reports)

Critical Analysis

Advantages

- Enables interplanetary exploration
- Promotes global cooperation
- Scientific breakthroughs (cosmic dawn studies)
- Economic opportunities (space mining)

Challenges

- Geopolitical competition (Moon race)
- Legal vacuum on resource extraction
- High costs
- Space debris & environmental risks
- Technological uncertainties

Way Forward

- Strengthen international space governance
- Ensure equitable access to lunar resources
- Promote sustainable exploration
- Increase India's participation (ISRO missions)
- Develop clear legal regime for space mining

KEY HIGHLIGHTS

Context of the News

- Artemis II mission marks a major step toward human return to the Moon after the Apollo 17 mission.
- It is a crewed flyby mission to test systems like life support, navigation, and radiation shielding for future lunar landings.
- The mission uses the advanced Orion spacecraft and Space Launch System (SLS), significantly more powerful than earlier systems.
- Artemis programme aims to establish long-term human presence on the Moon, especially near the South Pole due to ice deposits.
- Renewed global interest in lunar exploration is driven by scientific, economic, and geopolitical factors.

Key Points

- Artemis II will test deep-space human travel systems before landing missions like Artemis III (planned ~2027).
- Discovery of lunar ice (notably supported by Chandrayaan-2) has increased strategic importance of the Moon.
- Lunar ice can provide:
 - Drinking water
 - Oxygen for breathing
 - Hydrogen + oxygen for rocket fuel
- Moon may act as a refuelling station for deep-space missions (Mars, Venus).
- Growing international collaboration: U.S., Canada, Europe, Japan involved.
- Potential for:
 - Mining minerals
 - Building space infrastructure
 - Scientific research platforms

Can't govern digital world with rules that keep changing



MEGHNA BAL
AND AVNEET
OBEROI

ON MARCH 30, the Ministry of Electronics and Information Technology (MeitY) released the latest set of draft amendments to the IT Rules. The draft amendments require digital intermediary platforms to comply with clarifications or advisories issued by the ministry. Advisories are an instrument of governance. In recent times, they have followed major incidents involving emerging technologies. For instance, a series of advisories was issued in 2024 and 2025 in response to different incidents involving deepfakes arising from gaps in the diligence. Because advisories tend to be reactionary, they focus on expedited enforcement rather than measured governance. Illustratively, a March 2024 advisory introduced a licensing regime for AI systems that would have brought AI development in the country to a standstill.

Unlike rules and laws, advisories typically lack procedural safeguards such as prior consultation, a clearly defined scope, or predictable timelines. This allows them to be issued quickly. While the appeal of such governance tools is understandable, given the rapid pace of the digital world, they can create a shifting compliance landscape for firms. This makes it difficult for businesses to anticipate regulatory changes, assess compliance obligations, and plan investments. Governance through advisories risks introducing a significant degree of regulatory uncertainty, which raises serious economic concerns.

Economic scholarship indicates that uncertainty in online rules introduces friction in the form of reduced efficiencies and higher transaction costs. These effects are not confined to digital markets, as they are deeply interlinked with the physical economy. Vast swathes of the real economy market their products online. A 2023 BCG report estimates that more than 2.5 million digital creators influence \$350-400 billion of annual household consumption, a figure expected to reach \$1 trillion by 2030. Our research at the Esya Centre shows that a sizeable number of Indian MSMEs depend on targeted advertising on digital platforms to drive revenue and acquire customers,

both domestically and internationally.

The fact that the draft amendments to the IT Rules introduce such an ad hoc and uncertain mode of online governance suggests that their broader economic implications may not have been fully considered. Evidence indicates that when the interlinkages between the digital and physical economy are overlooked, regulatory effects spill over well beyond digital markets. A study by the Esya Centre found that 85 per cent of surveyed firms — across both data-intensive and traditional sectors — expected compliance costs arising from gaps in the Digital Personal Data Protection Act, 2023, to significantly affect their turnover. Another study on the impact of restrictions on targeted advertising on digital platforms for children found that firms producing goods such as toys and entertainment content could face substantial revenue losses.

Experience shows that the governance model proposed by the draft amendments to the IT Rules, which involves advisory governance, may effectively operate as governance by fiat, where advisories are issued rapidly in response to specific incidents without prior warning. The resulting uncertainty may pose a challenge to businesses that rely on digital platforms for market signalling and customer acquisition, as the ensuing increase in transaction costs will lead to a higher cost of marketing products. This could suppress investment and output, potentially forcing smaller firms to exit as they are unable to accurately price regulatory risk.

The digital world cannot be governed through ever-changing rules. Decision-makers must meaningfully engage with the complexity of digital governance, which includes an appreciation for the dynamism and technicality of digital markets, and their interdependencies with physical ones. Overlooking this threatens to undermine growth, turning regulatory uncertainty into economic risk.

Bal is director and Oberoi is a research assistant at Esya Centre, a New Delhi-based think tank

The model proposed by the draft amendments to the IT Rules may effectively operate as governance by fiat, where advisories are issued rapidly in response to specific incidents

KEY HIGHLIGHTS

Context

- On March 30, the Ministry of Electronics and Information Technology released draft amendments to the IT Rules.
- The amendments mandate digital intermediaries to comply with government advisories/clarifications.
- Increased use of advisories seen in regulating AI, deepfakes, and digital platforms (2024–25).
- Signals a shift toward executive-driven, flexible regulation in the digital domain.

Key Points

- Nature of Advisories Not formal laws; lack statutory backing and procedural safeguards.
- Can be issued quickly without consultation.
- Regulatory Concerns Creates uncertainty and unpredictability for businesses.
- Frequent changes increase compliance burden.
- Economic Impact Digital economy strongly linked with physical economy.
- MSMEs depend on online platforms and targeted advertising.
- Regulatory uncertainty → higher transaction costs, reduced investment.
- Data Protection Context Digital Personal Data Protection Act, 2023 introduces compliance obligations impacting firms.

- Studies show significant cost implications for businesses.
- Governance Issue Advisory-based regulation may resemble “governance by fiat”.
- Weakens predictability and rule-based governance.

Static Linkages

- Rule of Law – Predictability, non-arbitrariness (Indian Polity – Laxmikanth).
- Delegated Legislation – Requires safeguards like consultation and publication.
- Ease of Doing Business – Stable regulatory environment essential for investment.
- Market Efficiency (NCERT) – Uncertainty raises transaction costs.
- Digital Economy (Economic Survey) – Key driver of growth, employment, MSMEs.

Critical Analysis

Pros

- Enables quick response to emerging risks (AI misuse, deepfakes).
- Provides flexibility in fast-changing digital ecosystem.

Cons

- Lack of transparency and consultation.
- Creates regulatory uncertainty affecting investment climate.
- Higher compliance costs, especially for MSMEs/startups.
- Risk of executive overreach and arbitrary decision-making.

Way Forward

- Move toward rule-based, predictable regulatory framework.
- Ensure pre-legislative consultation and stakeholder engagement.
- Introduce Regulatory Impact Assessment (RIA).
- Define legal status and limits of advisories.
- Promote innovation-friendly regulation (e.g., sandbox approach).
- Balance data protection, innovation, and economic growth.

No Trump roadmap, India needs its own

IN HIS 19-minute address to the nation on Wednesday, his first since ordering strikes on Iran on February 28, US President Donald Trump offered little clarity on how he intended to wind down the conflict over the next "two to three weeks". Instead, he talked up the war to his war-wary domestic constituency, claiming that the US was "on track to complete all of America's military objectives shortly". Despite his previous claims about "good" and "productive" talks with Iran, he signalled that he will escalate if Tehran does not agree to his terms. Even as he invoked "your children and your grandchildren's future" as justification for the war, Trump cloaked it in ambiguity to keep all options open.

That's of little comfort. Along with other countries, India, heavily dependent on the Gulf for energy supplies, must now brace itself to contend with this uncertainty. Even if the war were to end within Trump's timeline of two to three weeks, the energy shock it has triggered will take longer to dissipate. Oil prices are likely to remain high for months after hostilities cease. Trump has washed his hands of the Strait of Hormuz despite control over it being key to what lies next. Shipping contracts, insurance and other arrangements will need to be renewed. It could take months to repair the oil and gas infrastructure that has been hit, and restoring production to pre-war levels will take time, delaying both price stabilisation and the normalisation of supply chains. The challenge, then, is to prepare the economy to withstand the consequences of whatever course Trump chooses. The US has long been the primary guarantor of Gulf security and, by extension, of the flow of energy to the global economy. That assumption can no longer be taken for granted — Trump's speech underlined this.

Chairing a Cabinet Committee on Security meeting Wednesday, PM Narendra Modi directed concerned departments to "take all possible measures to ameliorate the problems of citizens and sectors affected" due to the war. But a larger and longer task lies ahead. India has made progress in diversifying energy sources and importing partners. This effort must continue, alongside a renewed push to explore and develop untapped oil reserves. India must expand its civil nuclear power programme. Commerce Minister Piyush Goyal has talked of measures to help exporters, which include "more balanced trade" with China. Delhi will need to be nimble in its diplomacy, striking arrangements like the one between Australia and Singapore, to keep energy supplies flowing.

KEY HIGHLIGHTS

Context of the News

- Donald Trump ordered military strikes on Iran, escalating tensions in West Asia.
- The US indicated possible escalation while keeping a short timeline for conflict resolution.
- Rising uncertainty over global oil supply, particularly through the Strait of Hormuz.
- India, being highly import-dependent, faces economic risks.
- Government has initiated measures to mitigate the impact on economy and energy supply.

Key Points

- Strait of Hormuz handles ~20% of global oil trade.
- India imports ~85% of its crude oil requirement.
- Key implications:
 - Rise in crude oil prices
 - Supply chain disruptions
 - Imported inflation
 - Widening Current Account Deficit (CAD)
- Oil infrastructure damage may delay supply normalization.
- Reduced US security role in Gulf increases geopolitical uncertainty.

Static Linkages

- Strategic Petroleum Reserves (ISPR).
- OPEC and global oil pricing.

- Chokepoints in geography (Hormuz, Malacca – NCERT).
- Cost-push inflation (fuel-driven).
- Balance of Payments (CAD impact).
- Civil nuclear energy as alternative source.

Critical Analysis

- Challenges: High oil prices → inflation and fiscal stress
- Supply disruptions → industrial slowdown
- Dependence on Gulf → strategic vulnerability
- Opportunities: Push for diversification of energy sources
- Strengthening strategic reserves
- Enhancing energy diplomacy

Way Forward

- Diversify crude import sources (Russia, Africa, US).
- Expand Strategic Petroleum Reserves.
- Accelerate renewable energy targets.
- Promote nuclear energy expansion.
- Strengthen long-term energy supply agreements.

NDD ban: Is it the end of speculative games in rupee?

George Mathew
Mumbai, April 2

the country.

What's the NDD market?

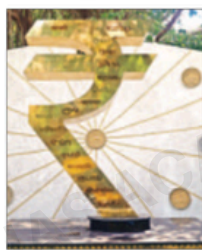
THE RESERVE Bank of India's (RBI) latest directive to bar banks from non-deliverable derivative (NDD) contracts in the rupee — often misused and manipulated by big currency players — marks a decisive shift toward tighter control and transparency in the foreign exchange market.

The move boosted the battered rupee, which had fallen below the 95 level against the dollar, to 93.10, a sharp rally of Rs 1.73 on Thursday.

By eliminating a key avenue for speculative exercise, the central bank is attempting to stabilise currency movements, hit hard by the rising oil prices and capital outflows in the wake of the West Asia conflict, and reinforce the primacy of the onshore market in

NDDs, which are typically traded outside India in financial hubs like Singapore, Hong Kong, London or Dubai, allow participants to bet on the rupee's direction without actual delivery of the currency.

An NDD is a derivative contract where two parties agree on a future exchange rate for the rupee, but settle the difference in cash, usually in US dollars. As India has capital controls, offshore investors can't freely trade in the rupee in physical form. This led to the creation of the NDD markets in the rupee. These instruments have long been criticised for distorting price discovery and manipulation as such an offshore sentiment can diverge sharply from domestic funda-



The ban aims to curb offshore speculation that often leads to rupee volatility. EXPRESS PHOTO

mentals and movements.

The NDD market is widely used by foreign investors, hedge funds and global banks who cannot freely access and play in the Indian rupee market, as well as by firms looking to hedge currency risk. These

trades take place offshore, outside the control of the RBI. This often acts as a price discovery mechanism for the rupee, even influencing expectations before Indian markets open. The ban on NDD is aimed at curbing offshore speculation that often leads to rupee volatility.

Misuse of NDD market

The NDD market was also misused by some market participants. Previously, some participants would cancel and re-enter contracts to take advantage of favourable movements, effectively turning hedging tools into speculative instruments.

Taking advantage of the geopolitical and trade tensions, big offshore traders sometimes take huge positions betting that the rupee will fall, impacting it in India's onshore market.

"This was happening when the West Asia conflict started in late February. By disallowing this practice, the RBI is closing a loophole that enabled regulatory arbitrage," said an analyst.

Another significant aspect is the RBI's restriction on transactions with related parties. This move addresses concerns on intra-group dealings that could obscure true risk exposure or be used to shift profits and risks across jurisdictions. By aligning definitions with global accounting standards, the RBI is signalling its intent to bring Indian forex practices in line with international best practices, thereby boosting investor confidence.

In the near term, the rupee is likely to see reduced volatility as speculative trades diminish.

FULL REPORT ON

WWW.INDIANEXPRESS.COM

KEY HIGHLIGHTS

Context of the News

- Reserve Bank of India has restricted banks from participating in Non-Deliverable Derivative (NDD) contracts in the Indian rupee.
- The move comes amid sharp depreciation of the rupee (crossing ₹95 per US dollar) due to:
 - Rising crude oil prices
 - Capital outflows
 - Geopolitical tensions in West Asia
- Following the announcement, the rupee appreciated to around ₹93 per US dollar, reflecting reduced speculative pressure.
- Objective: Curb offshore speculation, improve transparency, and stabilise the foreign exchange market.

Key Points

- Non-Deliverable Derivatives (NDDs): Offshore derivative contracts settled in foreign currency (usually USD)
- No physical delivery of the rupee
- Reason for Existence: India follows partial capital account convertibility, restricting free rupee trading offshore
- Participants: Foreign investors, hedge funds, global banks
- Concerns: Promote speculative trading instead of genuine hedging
- Distort exchange rate determination
- Offshore rates influence domestic market sentiment
- Misuse: Re-entering contracts to exploit short-term volatility
- Large speculative bets during global uncertainties
- RBI Measures: Restriction on bank participation in NDDs
- Limits on related-party transactions

- Alignment with global accounting standards
- Impact: Reduced volatility in rupee
- Strengthening of onshore forex market

Static Linkages

- Exchange rate determination under managed float system
- Concept of capital account convertibility (Tarapore Committee)
- Role of central bank in forex market intervention
- Balance of Payments (BoP) and impact of capital flows
- Derivatives as hedging vs speculative instruments

Critical Analysis

Positives

- Reduces speculative attacks on the rupee
- Improves transparency and regulatory control
- Strengthens domestic price discovery mechanism
- Enhances investor confidence in financial markets

Concerns

- May reduce liquidity in forex derivatives market
- Limits hedging avenues for foreign investors
- Risk of migration to less regulated offshore channels
- Possible short-term impact on foreign investment flows

Way Forward

- Deepen and develop onshore forex derivative markets
- Move towards gradual rupee internationalisation
- Strengthen coordination with global financial regulators
- Provide efficient and transparent domestic hedging instruments
- Maintain balance between market freedom and regulatory oversight