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DAILY BRIEF

ABOUT THIS INITIATIVE

Briefs, scans the best academic platforms, national newspapers & leading think tanks to pick the most relevant articles & research. It converts them into crisp, high-impact points you can directly use in your mains answers.

PSIR OPTIONAL BY
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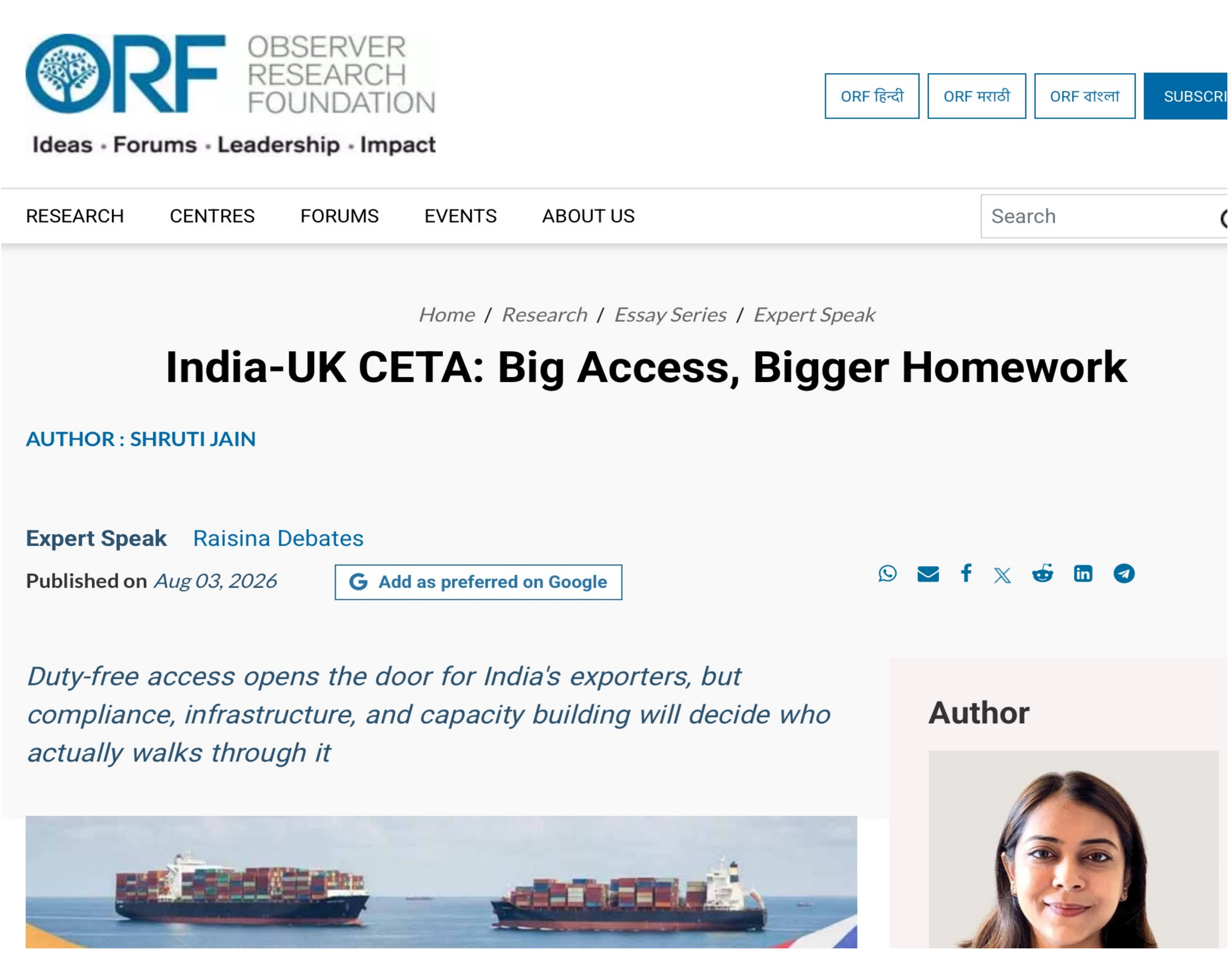
India - UK CETA - Big access, bigger homework



Context The duty-free market access through India-UK CETA alone means little unless India fixes its compliance, infrastructure & capacity building gaps at home.

Facts

- India-UK CETA on 15 July 2026: 12 major sectors & 137 sub-sectors (IT, telecom, finance, hospitality, transport etc).

- Gains across sectors: textiles, footwear, gems & jewellery, agriculture & IT services, MSMEs.

- Already enjoy duty free UK access: Vietnam, Cambodia, Bangladesh, Singapore, Philippines.

Analytical Crux

CETA marks India's decisive turn from a protectionist to an export-oriented trade strategy, but its value lies far less in tariff lines than in whether India can clear the "behind-the-border" conditions. It includes Rules of Origin, SPS norms, testing, traceability, labour standards that govern who get into highly regulated market. In most labour-intensive sectors India is pulling level with Vietnam & Bangladesh who already have UK access. The CETA does not translate into immediate gains for India's industry & export economy. In certain sectors, therefore, the CETA will only allow India to catch up with these competitors rather than gain any additional comparative advantage.

Verbatim Quotes

"Duty-free access opens the door for India's exporters, but compliance, infrastructure & capacity building will decide who actually walks through it."

— Shruti Jain

India's BRICS presidency-managing challenges & promoting cooperation

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India's BRICS Presidency: Managing Challenges and Promoting Cooperation

Ruchita Beri, Senior Fellow, VIF

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India's BRICS Presidency: Managing Challenges and Promoting

Context

India's succes in BRICS depends on managing internal contradictions while steering members toward low-controversy, functional cooperation in energy, food, health and security.

Facts

- BRICS holds 45% of global population, 35% of world GDP, 30% of global oil output, 22% of global merchandise exports.
- India is set to host 18th summit on 4 pillars i.e. Building for Resilience, Innovation, Cooperation and Sustainability.
- BRICS institutions : the New Development Bank and the Contingent Reserve Arrangement.

Analytical Crux

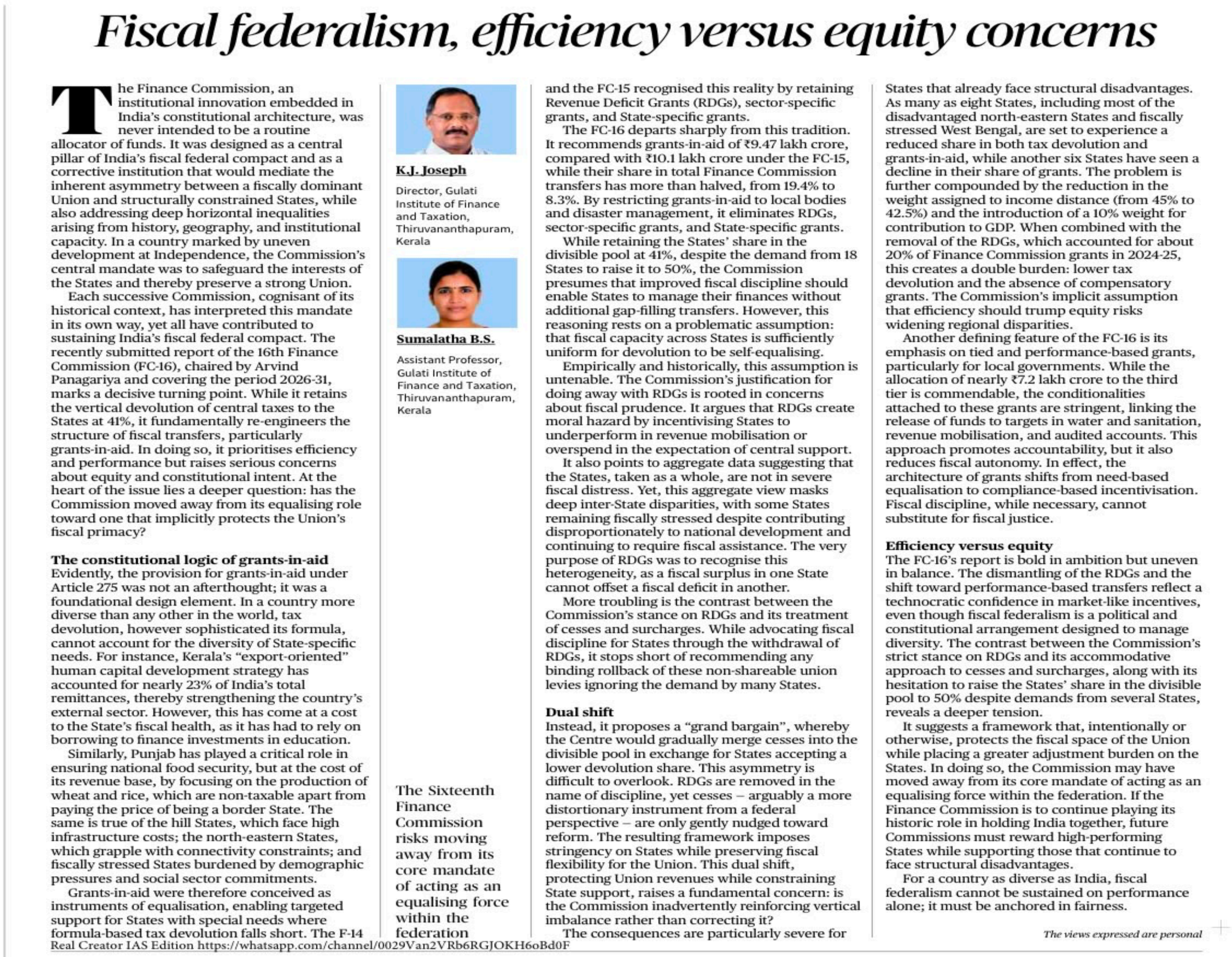
India's 2026 BRICS presidency is essentially an exercise in managing a paradox i.e. an enlarged BRICS carries far greater demographic & economic heft but that expansion has imported regional rivalries & ideological fault lines. India's response is to depoliticise the agenda & keep BRICS "non-Western, not anti-western," resist a hard de-dollarisation line and channel energy into functional, human-centric cooperation. The test of India's diplomacy is whether it can turn its convening role into cohesion i.e. building bridges on shared practical interests rather than letting great-power rivalry splinter the platform.

Verbatim Quotes

"India continues to perceive its participation in multilateral groupings like BRICS. Quad or the SCO as an exercise of strategic autonomy and multi alignment."

–Ruchita Beri

Fiscal federalism, efficiency versus equity concerns



Fiscal federalism, efficiency versus equity concerns

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The Finance Commission, an institutional innovation embedded in India's constitutional architecture, was never intended to be a routine allocator of funds. It was designed as a central pillar of India's fiscal federal compact and as a corrective institution that would mediate the inherent asymmetry between a fiscally dominant Union and structurally constrained States, while also addressing deep horizontal inequalities arising from history, geography, and institutional capacity. In a country marked by uneven development at Independence, the Commission's central mandate was to safeguard the interests of the States and thereby preserve a strong Union.

Each successive Commission, cognisant of its historical context, has interpreted this mandate in its own way, yet all have contributed to sustaining India's fiscal federal compact. The recently submitted report of the 16th Finance Commission (FC-16), chaired by Arvind Panagariya and covering the period 2026-31, marks a decisive turning point. While it retains the vertical devolution of central taxes to the States at 41%, it fundamentally re-engineers the structure of fiscal transfers, particularly grants-in-aid. In doing so, it prioritises efficiency and performance but raises serious concerns about equity and constitutional intent. At the heart of the issue lies a deeper question: has the Commission moved away from its equalising role toward one that implicitly protects the Union's fiscal primacy?

The constitutional logic of grants-in-aid

Evidently, the provision for grants-in-aid under Article 275 was not an afterthought; it was a foundational design element. In a country more diverse than any other in the world, tax devolution, however sophisticated its formula, cannot account for the diversity of State-specific needs. For instance, Kerala's "export-oriented" human capital development strategy has accounted for nearly 23% of India's total remittances, thereby strengthening the country's external sector. However, this has come at a cost to the State's fiscal health, as it has had to rely on borrowing to finance investments in education.

Similarly, Punjab has played a critical role in ensuring national food security, but at the cost of its revenue base, by focusing on the production of wheat and rice, which are non-taxable apart from paying the price of being a border State. The same is true of the hill States, which face high infrastructure costs; the north-eastern States, which grapple with connectivity constraints; and fiscally stressed States burdened by demographic pressures and social sector commitments.

Grants-in-aid were therefore conceived as instruments of equalisation, enabling targeted support for States with special needs where formula-based tax devolution falls short. The F-14 and the FC-15 recognised this reality by retaining Revenue Deficit Grants (RDGs), sector-specific grants, and State-specific grants.

The FC-16 departs sharply from this tradition. It recommends grants-in-aid of ₹9.47 lakh crore, compared with ₹10.1 lakh crore under the FC-15, while their share in total Finance Commission transfers has more than halved, from 19.4% to 8.3%. By restricting grants-in-aid to local bodies and disaster management, it eliminates RDGs, sector-specific grants, and State-specific grants.

While retaining the States' share in the divisible pool at 41%, despite the demand from 18 States to raise it to 50%, the Commission presumes that improved fiscal discipline should enable States to manage their finances without additional gap-filling transfers. However, this reasoning rests on a problematic assumption: that fiscal capacity across States is sufficiently uniform for devolution to be self-equalising.

Empirically and historically, this assumption is untenable. The Commission's justification for doing away with RDGs is rooted in concerns about fiscal prudence. It argues that RDGs create moral hazard by incentivising States to underperform in revenue mobilisation or overspend in the expectation of central support.

It also points to aggregate data suggesting that the States, taken as a whole, are not in severe fiscal distress. Yet, this aggregate view masks deep inter-State disparities, with some States remaining fiscally stressed despite contributing disproportionately to national development and continuing to require fiscal assistance. The very purpose of RDGs was to recognise this heterogeneity, as a fiscal surplus in one State cannot offset a fiscal deficit in another.

More troubling is the contrast between the Commission's stance on RDGs and its treatment of cesses and surcharges. While advocating fiscal discipline for States through the withdrawal of RDGs, it stops short of recommending any binding rollback of these non-shareable union levies ignoring the demand by many States.

Dual shift

Instead, it proposes a "grand bargain", whereby the Centre would gradually merge cesses into the divisible pool in exchange for States accepting a lower devolution share. This asymmetry is difficult to overlook. RDGs are removed in the name of discipline, yet cesses – arguably a more distortionary instrument from a federal perspective – are only gently nudged toward reform. The resulting framework imposes stringency on States while preserving fiscal flexibility for the Union. This dual shift, protecting Union revenues while constraining State support, raises a fundamental concern: is the Commission inadvertently reinforcing vertical imbalance rather than correcting it?

The consequences are particularly severe for States that already face structural disadvantages. As many as eight States, including most of the disadvantaged north-eastern States and fiscally stressed West Bengal, are set to experience a reduced share in both tax devolution and grants-in-aid, while another six States have seen a decline in their share of grants. The problem is further compounded by the reduction in the weight assigned to income distance (from 45% to 42.5%) and the introduction of a 10% weight for contribution to GDP. When combined with the removal of the RDGs, which accounted for about 20% of Finance Commission grants in 2024-25, this creates a double burden: lower tax devolution and the absence of compensatory grants. The Commission's implicit assumption that efficiency should trump equity risks widening regional disparities.

Another defining feature of the FC-16 is its emphasis on tied and performance-based grants, particularly for local governments. While the allocation of nearly ₹7.2 lakh crore to the third tier is commendable, the conditionalities attached to these grants are stringent, linking the release of funds to targets in water and sanitation, revenue mobilisation, and audited accounts. This approach promotes accountability, but it also reduces fiscal autonomy. In effect, the architecture of grants shifts from need-based equalisation to compliance-based incentivisation. Fiscal discipline, while necessary, cannot substitute for fiscal justice.

> The Sixteenth Finance Commission risks moving away from its core mandate of acting as an equalising force within the federation

Efficiency versus equity

The FC-16's report is bold in ambition but uneven in balance. The dismantling of the RDGs and the shift toward performance-based transfers reflect a technocratic confidence in market-like incentives, even though fiscal federalism is a political and constitutional arrangement designed to manage diversity. The contrast between the Commission's strict stance on RDGs and its accommodative approach to cesses and surcharges, along with its hesitation to raise the States' share in the divisible pool to 50% despite demands from several States, reveals a deeper tension.

It suggests a framework that, intentionally or otherwise, protects the fiscal space of the Union while placing a greater adjustment burden on the States. In doing so, the Commission may have moved away from its core mandate of acting as an equalising force within the federation. If the Finance Commission is to continue playing its historic role in holding India together, future Commissions must reward high-performing States while supporting those that continue to face structural disadvantages.

For a country as diverse as India, fiscal federalism cannot be sustained on performance alone; it must be anchored in fairness.

The views expressed are personal

Context

16th Finance Commission has drifted from its constitutional role as an equaliser toward protecting the Union's fiscal primacy & putting efficiency ahead of equity.

Facts

- 16th Finance Commission's report chaired by Arvind Panagariya (2026-31): vertical devolution of central taxes at 41% despite 18 states demanding 50%.
- Restricts grants-in-aid: to local bodies & disaster management, eliminates Revenue Deficit Grants (RDGs), sector-specific grants and State-Specific grants.

Analytical Crux

The Finance Commission was designed as a corrective, equalising institution to offset the structural asymmetry between a fiscally dominant Union and Constrained States. FC-16 imposes fiscal discipline on States (invoking "moral hazard") while leaving the Union's distortionary cesses and surcharges "gently nudged". The cut to the income-distance weight and the new GDP-contribution weight penalise the disadvantaged States (the north-east, West Bengal) that need support. The fiscal federalism is a political & constitutional arrangement for managing diversity, not a technocratic efficiency exercise. Rewarding performance cannot come at the cost of fairness & fiscal discipline cannot substitute for fiscal justice.

Verbatim Quotes

"This dual shift, protecting Union revenues while constraining state support, raises a fundamental concern : is the Commission inadvertently reinforcing vertical imbalance rather than correcting it."

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