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Page 01: GS 2 : International Relations

In a dramatic escalation of West Asian tensions, Iran launched missile strikes on U.S. military bases in Qatar (al-Udeid Air Base) and Iraq (Ain al-Assad Base). The retaliation follows U.S. airstrikes on Iranian nuclear facilities, further aggravating the already fragile geopolitical climate in the region.

Iran launches missiles at U.S. bases in Qatar, Iraq

Will never leave violation of 'territorial integrity' unanswered, says Iran after targeting the largest U.S. base in West Asia; Qatar temporarily suspends airspace after U.S. issues advisory for citizens

Stanly Johny
DOHA

Iran launched missile attacks at the al-Udeid Air Base in Qatar, the largest American base in West Asia, on Monday evening in retaliation for the U.S.'s strikes at the Islamic Republic's nuclear facilities on Sunday. Qatar said it "successfully intercepted" the missiles and that there were no deaths and injuries.

The attack came in response to the "blatant military aggression by the criminal regime of the United States" against the nuclear facilities of the Islamic Republic, the Iranian armed forces said in a statement. "Under the directive of the Supreme National Security Council and the command of the Khatam al-Anbiya Central Headquarters, the Islamic Revolution Guards Corps (IRGC) launched a powerful and devastating missile strike on the al-Udeid base in Qatar," it added. Iran will "never leave any violation of its territorial integrity, sovereignty, or national security unanswered", it said.

Qatar, which lies 190 km south of Iran across the Persian Gulf, houses about 10,000 American soldiers at the base, which also serves as the headquarters of the U.S. Central command.

Iran also targeted the Ain al-Assad base housing U.S. troops in western Iraq, an Iraqi security official told *The Associated Press*.

On Monday evening, Qatar's Foreign Ministry announced the temporary suspension of airspace,

Doubling down

Iranian armed forces said that the attack came in response to the 'blatant military aggression by the criminal regime of the United States'

■ Qatar's al-Udeid Air Base houses about 10,000 American soldiers, and also serves as the headquarters of the U.S. Central command

■ Iran strikes also target Ain al-Assad base housing U.S. troops in western Iraq

New front: Projectiles seen in the sky over Doha, Qatar, after Iran's armed forces targeted U.S. al-Udeid base on Monday night. REUTERS



"aimed at ensuring safety of residents and visitors", following an advisory from the U.S. Embassy in Doha asking American citizens to move to shelters.

By 7.40 p.m., several rounds of loud explosions were heard in central Doha, with multiple projectiles stopped by interceptors illuminating the night sky. The attack lasted a few minutes, and public life in Doha remained largely unaffected.

'Airspace safe'

Qatar's Defence Ministry said its air defences "successfully intercepted" Iran's missile attack. "The incident did not result in

any deaths or injuries," the Ministry said in a statement. The Ministry reiterated that the "airspace and territory of the state of Qatar are safe and that the Qatar Armed Forces are always ready to deal with any threat."

Earlier in the day, Israel carried out a series of strikes hitting government targets in Iran that followed a salvo of missiles and drones fired by Tehran at Israel.

Qatar's Foreign Ministry "strongly condemned" the Iran attack. "We consider this a flagrant violation of the sovereignty of the State of Qatar, its airspace, international law, and the Unit-

ed Nations Charter," Foreign Ministry spokesperson Majed Al Ansari said in a statement. "We affirm that Qatar reserves the right to respond directly in a manner equivalent with the nature and scale of this brazen aggression, in line with international law."

Just before the attacks, Iranian President Masoud Pezeshkian wrote on X: "We neither initiated the war nor seeking it. But we will not leave invasion to the great Iran without answer." Iran said earlier on Monday that its missiles targeted Israeli cities of Haifa and Tel Aviv, according to Iranian state television.

U.S. President Donald Trump remained quiet on Iran's missile attacks.

The Indian mission in Doha urged the Indian community "to be cautious and remain indoors".

The attack came after a meeting between Iran's Foreign Minister Abbas Araghchi and Russian President Vladimir Putin in Moscow. Mr. Araghchi described Iran-Russia ties as "very close and historic", and emphasised Iran's close coordination with Russia on regional and nuclear issues.

In Bahrain, a close neighbour of Qatar that hosts the U.S. Fifth Fleet, the American Embassy "temporarily shifted a portion of its employees to local telework", it said on X. On Monday, Bahrain suspended air traffic temporarily after the Iran attack.

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Key Developments:

- **Iran's Response:** Under the directive of its Supreme National Security Council, Iran's IRGC launched a "devastating" missile attack, labeling the U.S. action as "blatant military aggression." Iran asserted it would never leave violations of its sovereignty unanswered.
- **Targeted Bases:**
 - **Al-Udeid Air Base (Qatar):** Home to over 10,000 U.S. troops and the headquarters of U.S. Central Command.
 - **Ain al-Assad Base (Iraq):** Frequently targeted in past conflicts, including after the killing of General Qassem Soleimani in 2020.
- **Qatar's Reaction:** Though Qatar intercepted all incoming missiles and reported no casualties, it strongly condemned the Iranian action as a violation of its sovereignty, vowing proportional response under international law. It temporarily closed its airspace as a precaution.
- **Public and Diplomatic Fallout:**
 - Explosions heard in Doha, but daily life remained stable.
 - Indian mission in Doha urged Indian nationals to remain indoors.
 - Bahrain suspended air traffic and shifted embassy staff to remote work.
- **Global Responses:**
 - Iran coordinated with Russia, signaling an evolving regional alliance.
 - U.S. President Donald Trump has yet to respond officially, indicating a potentially cautious or calculated approach.

Implications for International Relations:

1. **Geopolitical Tensions in West Asia:**
 - A direct Iran-U.S. military confrontation is unfolding.
 - Qatar, traditionally a diplomatic mediator, is now militarily impacted.
2. **Sovereignty vs. Security Dilemma:**
 - Iran invoked the principle of self-defence and territorial integrity, while Qatar stressed sovereignty and non-aggression.
 - Raises questions about legality of pre-emptive and retaliatory strikes under international law.
3. **Changing Regional Equations:**
 - Iran's coordination with Russia suggests bloc formation in West Asia.
 - With Israel already involved and targeted, the conflict risks drawing in multiple regional and global actors.
4. **Impact on India:**
 - Safety of Indian nationals and diaspora in Qatar, Bahrain, and UAE becomes a concern.
 - Disruption in energy supplies or increased oil prices due to instability in the Persian Gulf.
 - India's balancing act in maintaining ties with U.S., Iran, Israel, and Gulf countries gets complicated.

5. Global Peace and Diplomacy:

- UN and international community may be pressured to intervene.
- Raises the possibility of UN Security Council deliberations and debates around war powers and diplomatic backchannels.

Conclusion:

The missile strikes mark a significant turning point in West Asian geopolitics, with far-reaching consequences for regional stability, energy security, and global diplomacy. For India, a measured diplomatic approach is critical, focusing on safeguarding national interests, securing citizens abroad, and advocating peace through multilateral platforms.

UPSCMainsPractice Question

Ques : "West Asia remains a theatre of strategic competition and fragile diplomacy." In light of recent Iran-U.S. confrontations and missile attacks in Qatar and Iraq, critically analyze the evolving geopolitical dynamics in the region. **(250 Words)**

In a press conference highlighting the achievements of India's scientific departments, Union Minister Jitendra Singh stated that India's private sector is still in a 'developing stage', especially in strategic sectors like space technology and biotechnology. This comes amidst questions over the lack of private participation in manufacturing India's Small Satellite Launch Vehicle (SSLV) despite the government's push to liberalize these sectors.

Indian private sector still in a 'developing' stage: Minister

The space sector has opened up to the private sector only a few years ago, so its capacity building has started only just now; we need a robust, developed private sector, says Jitendra Singh

Jacob Koshy
NEW DELHI

India's private sector is still in a developing stage and will need some time to acquire the "acumen" to make space vehicles or have biotechnology start-ups grow large enough to invite interest from the public markets, Minister for Science, Space and Atomic Energy Jitendra Singh said at a press conference here on Monday.

"We need a robust, developed private sector. There are some gaps... but that's also because past policy has not favoured the robust development of the private sector. It is only after Prime Minister Narendra Modi came that this has started happening. The space sector has opened up to the private sector only four-five years ago and so their capacity building has started only just now. Several projects have been rolled out but we don't have the private sector acumen. This will take time but there is now a shift in the policy," Dr. Singh said.

He was responding to a question on why, despite the government's multiple



Jitendra Singh and Ajay Kumar Sood, Principal Scientific Adviser during a press conference in New Delhi on Monday. R. V. MOORTHY

Many projects have been rolled out but we don't have the private sector acumen, says Minister

claims of championing private sector participation in the space sector, no private company was selected to manufacture the Small Satellite Launch Vehicle (SSLV).

Last week, the public sector defence company Hindustan Aeronautics Limited (HAL) bagged a Transfer of Technology (ToT) deal, valued at ₹511

crore, from the Indian Space Research Organisation to build and operate SSLVs.

Bidding for SSLV

The SSLV is a three-stage vehicle to launch satellites that weigh less than 500 kg into the lower earth orbit (LEO). Apart from the HAL, which had applied independently, two other technically qualified bidders were shortlisted: Alpha Design Technologies Ltd. (ADT), Bengaluru, leading a consortium with Agnikul Cosmos and Walchand Industries Ltd.; and Bharat Dynamics Ltd., Hyderabad, leading a con-

sortium with Skyroot Aerospace, Keltron and Bharat Heavy Electricals Ltd. (BHEL). ADT is a subsidiary of the Adani conglomerate. Among the three, the HAL emerged as the highest bidder.

'Sign of success'

Rajesh Gokhale, Secretary, Department of Biotechnology, which oversees the BIRAC (Biotechnology Industry Research Assistance Council) programme that funds biotechnology start-ups since 2012, said that while a start-up listing in the public markets was a sign of success, it was also important to consider market equity.

"The equity of biotechnology start-ups is currently around ₹7,000 crore...they have longer incubation periods," he said in response to a query on when an Indian biotech start-up would hit the public markets.

Dr. Singh was addressing a press conference on the achievements of scientific departments – the Departments of Science and Technology, Biotechnology, Council of Scientific and Industrial Research, and the Ministry of Earth Sciences.

Key Highlights:**1. Underdeveloped Private Sector Capabilities:**

- Despite recent liberalisation, India's private sector has not yet developed the technical acumen or scale required to independently produce and operate complex technologies like SSLVs.
- Dr. Singh attributed this gap to historic policy limitations which did not foster private sector growth in core scientific and defence technologies.

2. Space Sector Opening:

- The space sector was formally opened to private players only 4–5 years ago, with the creation of IN-SPACe and reforms under PM Modi's administration.
- Capacity building in this domain is still at a nascent stage.

3. SSLV Manufacturing Bid Outcome:

- Despite claims of private sector promotion, HAL (a public sector unit) won the ₹511 crore contract to manufacture SSLVs.
- Competing consortia led by Agnikul Cosmos, Skyroot Aerospace, and Bharat Dynamics Ltd. were technically qualified but lost out in commercial bidding.

4. Biotechnology Sector Status:

- Despite consistent support through BIRAC since 2012, no Indian biotech start-up has yet entered public markets.
- Current estimated equity valuation of the sector stands at around ₹7,000 crore — indicating potential, but not maturity.

Policy and Structural Implications:**1. Historical Policy Inertia:**

- India's strategic sectors (space, defence, nuclear, biotech) were long state-dominated, leaving private players out of the innovation and manufacturing ecosystem.

2. Need for Ecosystem Development:

- Private sector participation requires technology transfers, ease of market access, access to capital, and long-term policy stability.
- Government reforms must focus not just on entry, but on hand-holding and capability enhancement.

3. Role of PSUs in Transition:

- Public sector enterprises like HAL may continue to dominate the landscape in the interim, while the private sector matures.

4. Global Competitiveness & Atmanirbhar Bharat:

- Strategic autonomy and innovation leadership depend on co-opting private players into the technology and R&D value chain.

Conclusion:

India's ambition to become a global hub for space and biotech innovation hinges not just on liberalisation, but on institutional support, investment in R&D, and time-bound capacity building in the private sector. While the government's intent is visible through policy shifts, its implementation must now focus on bridging the capability gap, ensuring that Indian private companies evolve from start-ups to scalable, globally competitive tech firms.

UPSC Mains Practice Question

Ques: Discuss the role of government policy in shaping the capabilities of India's private sector in high-tech areas such as space and biotechnology. (250 words)

In a significant ruling on May 20, 2025, the Supreme Court of India upheld a mandatory requirement of three years of litigation experience at the Bar before a candidate can appear for entry-level judicial service examinations. The Court justified this decision on the grounds of ensuring practical exposure and preparedness of future judges. However, the decision has sparked concerns among law graduates and aspirants, many of whom are challenging it through review petitions.

SC's three-year Bar experience rule for judge exam triggers concern

Soibam Rocky Singh

NEW DELHI

The Supreme Court's landmark ruling last month reinstating the requirement that candidates must have at least three years of litigation experience before they can sit for the judicial service examination for entry-level judgeships has prompted concerns over the challenges it may pose for recent graduates.

The court's decision was rooted in the belief that judicial officers must have practical exposure to the courtroom before donning the robe.

"The judges from the very day on which they assume office have to deal with the questions of life, liberty, property and reputation of litigants," the apex court said in the May 20 judgment.

It observed, "Neither



The review petition argues that the court has overlooked key aspects of the very report it cited — the Shetty Commission.

knowledge derived from books nor pre-service training can be an adequate substitute for the first-hand experience of the working of the court system and the administration of justice. This is possible only when a candidate is exposed to the atmosphere in the court by assisting the seniors and observing how the lawyers and the

judges function in the court." The ruling has triggered concerns among law graduates and aspirants. A review petition filed by Chandrasen Yadav, a young advocate enrolled with the Bar Council of Uttar Pradesh, argues that the mandatory three-year requirement infringes on his fundamental rights.

Mr. Yadav submitted that the mandatory three-year practice rule should be implemented only from 2027 to avoid unjust exclusion of recent graduates (2023-2025) who prepared under the previous eligibility criteria.

"Immediate enforcement causes retrospective hardship, violating principles of fairness, legitimate expectation, and equal opportunity under Article 14 of the Constitution," he said.

Another petitioner,

Chandra Sharma, who comes from an Army background, highlighted the requirement to obtain a practice certificate from a lawyer with 10 years of standing.

"Lawyers I have worked with had five or seven years of experience. The new norms will make it more difficult for me to get a certificate," she said.

Robust training

The review petition argues that the apex court has overlooked key aspects of the very report it cited — the Shetty Commission. While the 1999 report had recommended a three-year practice period, it also noted that due to practical court training being integrated into modern legal education, such a requirement may not be necessary if robust training is provided post-selection.

Key Issues and Developments:

1. Supreme Court's Rationale:

- Cited importance of practical courtroom exposure for judges to handle complex issues involving liberty, property, and justice.
- Book knowledge and pre-service training, it said, cannot substitute for real-world legal experience.
- Referred to Shetty Commission recommendations (1999), which initially proposed such a requirement.

2. Concerns Raised by Aspirants:

- **Violation of legitimate expectations:** Many candidates (graduates from 2023 to 2025) had prepared under the older eligibility norms, which did not require litigation experience.
- **Retrospective hardship:** Sudden implementation causes exclusion without transitional relief.
- **Access and equality issues:** Petitioners argue that this violates Article 14 (equality before law) and Article 19 (right to profession).
- **Practical difficulties:** Applicants highlight challenges in securing practice certificates from senior advocates with 10+ years of standing — especially difficult for candidates from rural, economically weak, or non-traditional legal backgrounds.

3. Shetty Commission Nuance:

- While recommending a 3-year practice period, it also observed that if robust post-selection training is institutionalized, this requirement may not be essential.
- Modern legal education already includes moot courts, internships, and clinical legal education — partially fulfilling practical exposure needs.

Constitutional and Governance Implications:

- **Access to Judiciary Careers:** The decision could limit access to the lower judiciary, especially for socially and economically disadvantaged sections.
- **Judicial Independence vs Accessibility:** While judicial competence is vital, eligibility restrictions must be balanced with inclusivity and diversity in judicial recruitment.
- **Policy Implementation:** The Court's ruling may inadvertently impose retrospective disqualification, which challenges established principles of fairness and transitional justice.
- **Debate on Legal Education:** Raises broader questions on whether legal education reforms and post-recruitment training can substitute for mandatory litigation experience.

Conclusion:

The Supreme Court's intent to ensure high standards in judicial appointments is laudable. However, abrupt enforcement of the 3-year Bar experience rule raises legitimate concerns around fairness, access, and inclusivity. A phased implementation or transitional relief for recent graduates could strike a balance between judicial competence and constitutional equity. The issue also underscores the urgent need to strengthen post-recruitment judicial training and reimagine legal education for future-ready judges.

UPSC Mains Practice Question

Ques: "Judicial competence must be balanced with inclusivity and access." In light of the Supreme Court's recent ruling mandating three years of Bar experience for judicial service aspirants, critically examine its implications for access to the judiciary. (250 Words)

Page 08 : GS 2 : Indian Polity

The recent by-elections in five Assembly constituencies across Gujarat, Kerala, Punjab, and West Bengal showcased regional political dynamics and emerging challenges in India's electoral processes. Beyond the electoral outcomes, these by-polls are also notable for the proactive transparency measures undertaken by the Election Commission of India (ECI), even as concerns over booth-level transparency and violence persist.

Key Political Highlights:

1. Kerala (Nilambur):

- **Won by Congress-led UDF.**
- Seat falls under Wayanad Lok Sabha constituency, held by Priyanka Gandhi.
- BJP performed poorly.
- May influence coalition alignments and campaign strategies ahead of 2026 Kerala Assembly polls.

2. West Bengal (Kaliganj):

- TMC's Alifa Ahmed won with a huge margin.
- Election marred by violence – a child died in a crude bomb blast, raising concerns over law and order.
- Reflects pattern of electoral violence in the state.

3. Gujarat (Kadi – SC) & Visavadar:

- BJP retained Kadi.
- AAP reclaimed Visavadar, signaling resilience in Gujarat politics post-Delhi defeat.

4. Punjab (Ludhiana West):

- AAP's Sanjeev Arora secured victory, helping the party retain its presence in the state it governs.

Electoral Process & ECI's Reforms:

The Election Commission of India introduced several reforms aimed at enhancing accessibility, transparency, and credibility:

Polls and processes

The ECI is taking some proactive steps towards transparency

The results of the by-elections in five Assembly constituencies – Kadi (SC) and Visavadar in Gujarat, Nilambur in Kerala, Ludhiana West in Punjab and Kaliganj in West Bengal – indicate the factors at play at the local and regional levels. The Congress-led United Democratic Front candidate Aryadan Shoukath won the Nilambur seat. P.V. Anvar, who had won in 2021 as a Left-backed independent, vacated the seat after a spat with the ruling coalition, contested as a Trinamool Congress (TMC) candidate (which was rejected) and then stood as an independent. The seat falls in the Wayanad Lok Sabha constituency represented by Congress leader Priyanka Gandhi. The Bharatiya Janata Party (BJP) candidate performed poorly. The outcome could impact the tone of the campaigning for the Kerala Assembly elections due next year. The alignment of communities and relative power of parties in both Fronts will be affected by the Nilambur result. In the Kaliganj constituency in Nadia district, the ruling TMC's candidate Alifa Ahmed won by a margin of over 50,000 votes. Her father's death had led to the by-poll. Counting day was marred by the death of a child in a crude bomb explosion, a sign of the continuing and disturbing role of violence in the State. Assembly elections in West Bengal will take place next year.

The Aam Aadmi Party (AAP)'s wins in Visavadar and Ludhiana West are significant for a party that lost power in Delhi, its original stronghold, in February. Its MLA in Visavadar had defected to the BJP, and the renewed mandate helps AAP retain its stake in State politics. Its former State president Gopal Italia is the winner. AAP's former Rajya Sabha Member of Parliament and industrialist Sanjeev Arora won the Ludhiana West seat in a State it rules. The BJP retained Kadi. The by-polls were also notable for the new initiatives by the Election Commission of India (ECI) to reinforce the integrity of the electoral process and make it more accessible. These include mobile deposit facility for the electors at all polling stations, upgraded voter turnout sharing process resulting in faster updating of the approximate polling trends, and most significantly, webcasting at 100% of polling stations. The issues of disputes over heavy polling in sensitive booths in the concluding hours of voting and transparency related to video records of booth activities remain, and the ECI must continue to take proactive measures to not only be fair but also to be seen so.

- Mobile deposit facilities at all polling stations.
- Faster sharing of turnout data for real-time monitoring.
- 100% webcasting from all polling booths to deter malpractices and enhance transparency.

However, concerns remain:

- Disproportionate polling in sensitive booths, especially during the final voting hours.
- Lack of clarity on the accessibility and auditability of video records from webcasts.
- Persisting electoral violence, particularly in West Bengal, undermines voter confidence and democratic norms.

Broader Implications:**1. Federal Political Dynamics:**

- Results from multiple states indicate fragmented political preferences and the importance of local issues.
- AAP's mixed performance reflects the challenge of sustaining influence beyond Delhi and Punjab.

2. Role of Electoral Institutions:

- The ECI's technological and administrative innovations show its commitment to strengthening democracy.
- Yet, trust in electoral integrity hinges not just on systems, but also on visible impartiality and enforcement.

3. Need for Electoral Reforms:

- Strengthening booth-level transparency, ensuring video record audits, and addressing electoral violence are critical for free and fair elections.
- Credibility of ECI as a neutral institution must be reinforced through consistent and timely action.

Conclusion:

The by-election results reflect a mix of regional political churn and evolving voter preferences. While the Election Commission's proactive steps in using technology and improving voter facilitation are commendable, lingering concerns regarding booth-level irregularities and poll-time violence highlight the need for deeper reforms. Ensuring that the electoral process is not just fair but visibly fair remains a foundational challenge for Indian democracy.

UPSC Mains Practice Question

Ques : "An election is not only about being free and fair, but also about being seen to be so." In the light of recent by-elections and the Election Commission's reforms, critically examine the challenges and progress in ensuring electoral transparency in India. (250 Words)

Page : 09: GS 3 : Indian Economy

India witnessed a notable drop in inflation in May 2025 (2.8%), comfortably within the RBI's target band. However, this occurred alongside a rise in unemployment to 5.8%, and slowing GDP growth to 6.5% from 9.2% the previous year. This disconnect between macroeconomic indicators has reignited the debate on the effectiveness of monetary policy, the true drivers of inflation, and structural economic issues in India.

Inflation falls but not unemployment

At less than 3%, the inflation figure for May is well within the target set by the government of India. This has led to a celebration in the media of the Reserve Bank of India's prowess in macroeconomic management. What has received next to no acknowledgement, though, is that in the same month, unemployment had risen. Thus, while year-on-year inflation fell from 3.2% in April to 2.8% in May, the latest Periodic Labour Force Survey shows that the unemployment rate rose from 5.1% in April to 5.8% in May.

For those employed, as most commentators on the economy are likely to be, a reduction in inflation is good news, to the extent that their purchasing power is being eroded at a lower rate. But for those seeking employment, it makes no difference. They remain unemployed. A branch of economic theory dominant in the U.S. asserts that the unemployed have chosen not to work, as the market mechanism enables everyone who wishes to work to find employment. One needs only to visit the town centre in semi-urban areas to find migrant labourers milling around at midday to conclude that this would be a preposterous claim to make for India.

So, the first thing to note is that to monitor inflation while neglecting unemployment, as the pundits do, is not a credible way of assessing the state of an economy. While missing the higher unemployment rate in May may be overlooked, as it is not part of the discourse on India's economy today, it is surprising that the considerable reduction in growth has not received as much attention, when growth has been the centrepiece of the government's pronouncements on the economy this past decade. The figures are as follows. GDP growth slid from 9.2% during 2023-24 to 6.5% in 2024-25. The observed rise in unemployment is consistent with this decline in growth.



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Monitoring inflation while ignoring unemployment is not a credible way of assessing economic performance

The provisional estimates of GDP show the decline in growth to be spread across three quarters of the economy. Apart from Public Administration, for which the growth rate held, every other sector slowed in 2024-25.

Agriculture alone grew faster, and much faster too. This development provides the clue to the decline in inflation. In 2024-25, the relative rates of growth of the agricultural and non-agricultural sectors would have led to a reduction of the supply-demand gap for agricultural goods, particularly food, in turn contributing to a lowering of the inflation rate. This is evident in the sharp deceleration in food-price inflation from the peak of close to 11% in October 2024 to less than 1% in May 2025.

Monetary policy, which is the RBI's means for inflation control, could not have achieved the observed configuration of events. It would be difficult to maintain that an increase in the repo rate of just over 10% in June 2022, which has not been exceeded since, could have triggered so great a reduction in food inflation from late 2024. It is equally difficult to imagine that it could have brought about so widespread a slowing of the economy in 2024-25, especially of services, a large segment of which is unlikely to be dependent upon formal credit. On the other hand, the impact of a narrowing difference in the rates of growth of the agricultural and non-agricultural sectors of the economy, as witnessed, can have a direct impact on the inflation rate. The reduction in food-price inflation impacts inflation directly, as food prices are part of the consumer price index, and indirectly via rising wages, which feed into the price of non-agricultural goods.

Econometric evidence

We have so far evaluated the role of monetary policy in relation to events. The economics profession usually settles empirical issues via econometrics—the application of

statistical methods to economic models. This leaves little in doubt as to the inefficacy of monetary policy for inflation management. In our article "Inflation in India: Dynamics, distributional impact and policy implication" ('Structural change and Economic Dynamics', June 2025), we demonstrate that there is no conclusive evidence of the role of the interest rate in controlling inflation in India.

On the other hand, there is conclusive econometric evidence of the overwhelming role of the price of agricultural goods, driven by the relative rates of growth of the agricultural and non-agricultural sectors. Inflationary pressure generated by such a mechanism requires augmenting supply to be controlled. Inflation targeting, which works via contraction of demand, is not a solution. If, in the face of a persistent excess demand for agricultural goods, inflation is lowered by hiking the interest rate in order to restrain demand, other things remaining the same, inflation will rise when next the interest rate is lowered and growth revives.

Two final observations should seal the debate on RBI's role in lowering inflation rate. First, an allegedly sophisticated view of RBI's 'inflation targeting' holds that a central bank can control inflation by influencing expectations of economic agents. When we study the RBI's own data on the expectation of inflation by households, we find that it has remained almost unchanged from March 2024 to May 2025, and has been far higher than the RBI's target of 4%. Hence, the recent decline could not have been engineered by inflation targeting. Secondly, after the last Monetary Policy Committee meeting, RBI Governor expressed willingness to lower repo rate again if inflation continues to decline. Such a stance would imply that India's monetary policy merely follows inflation rather than directing its course.

Key Issues Highlighted:

1. Inflation vs. Unemployment Disconnect:

- While falling inflation benefits consumers by slowing erosion of purchasing power, unemployment concerns remain unaddressed, especially for job seekers.
- India's labour market does not reflect full employment assumptions, unlike developed countries; large informal and underemployed segments exist.

2. Slowing Economic Growth:

- GDP growth declined sharply in 2024–25.
- The slowdown was broad-based, affecting most sectors except agriculture and public administration.
- Rise in unemployment is consistent with the slowing economy, pointing toward structural demand issues.

3. Agriculture-led Inflation Reduction:

- A faster growth in agriculture compared to non-agriculture helped narrow the supply-demand gap in food items, reducing food price inflation from 11% (Oct 2024) to less than 1% (May 2025).
- This structural realignment—not repo rate adjustments—was largely responsible for easing inflation.

4. Limitations of Monetary Policy:

- The RBI raised repo rate by over 1% in June 2022 but has kept it steady since then.
- Services sector, which dominates GDP, is less sensitive to formal credit; hence, limited impact of repo rate changes.
- Empirical studies (including the cited paper in *Structural Change and Economic Dynamics*) show weak correlation between interest rate changes and inflation in India.

5. Inflation Expectations and Policy Credibility:

- Household inflation expectations remained consistently above 4% target, showing limited influence of RBI's policy on public sentiment.
- RBI's willingness to reduce repo rate only after inflation falls suggests it reacts to inflation trends, rather than controlling them proactively.

Broader Implications:

1. Rethinking Inflation Targeting:

- India's inflation is supply-driven, especially in food prices.
- Conventional inflation targeting via repo rate hikes, which reduce demand, are ineffective when the inflation is due to supply constraints.
- A production-oriented approach may be more suitable – focusing on boosting supply in agriculture and infrastructure.

2. Employment-Centric Macroeconomic Policy:

- Neglecting unemployment undermines the overall well-being of citizens and sustainability of growth.
- India needs a dual focus on inflation control and job creation, possibly requiring fiscal support, skill development, and targeted employment generation.

3. Need for Improved Measurement and Discourse:

- Public and policy focus often skews towards inflation, neglecting equally critical indicators like unemployment, underemployment, and informal sector distress.
- A comprehensive view of macroeconomic stability is needed, not driven by headline inflation alone.

Conclusion:

The sharp fall in inflation in May 2025 should not overshadow the worrying rise in unemployment and slowing economic growth. The current data points to structural issues in employment generation and limited effectiveness of monetary policy in addressing India's inflation dynamics. It is imperative for economic policy to move beyond repo rates and CPI figures to address the real economy challenges of joblessness and sectoral imbalances. Only then can macroeconomic management be considered truly successful.

UPSC Mains Practice Question

Ques: "A fall in inflation is not necessarily a sign of economic health if unemployment continues to rise." Critically examine this statement in the context of recent economic trends in India. **(250 words)**

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The sorry state of South Asian economic integration

In the year so far there were two major incidents that shook India's economic and national security landscape: the reciprocal tariffs imposed by the Trump administration and the terror attack in Pahalgam. While these events may seem unrelated, their underlying causes and consequences are deeply interlinked, highlighting the urgent need for a comprehensive regional approach to security and economic stability. Economic and national security are often discussed separately, but they are deeply intertwined.

Border disputes among South Asian nations significantly hamper trade and economic cooperation, preventing the region from achieving its full potential. Economic instability fuels unrest, while security threats disrupt trade and investment. No country can achieve lasting security without economic prosperity, and vice versa.

One of the least integrated

The South Asian region is one of the least economically integrated regions in the world. Intra-regional trade of South Asia (South Asian Free Trade Area or SAFTA) accounts for barely 5% to 7% of its total international trade, which is the lowest when compared to other trading blocs. In contrast, intra-regional trade accounts for approximately 45% of total international trade within the European Union (EU), 22% within the Association of Southeast Asian Nations (ASEAN), and around 25% within North American Free Trade Agreement (NAFTA).

Current trade among South Asian Association for Regional Cooperation (SAARC) countries is just around \$23 billion, far below the estimated \$67 billion. According to a United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) study, South Asia's potential trade could have reached \$172 billion by 2020, which means over 86% of its capacity remains unexploited. Even if we consider this



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assessment to be optimistic, the immense potential for significantly increasing intra-SAARC trade can never be denied. South Asia, the most populous region of the world (25% of the world's population), represents a combined market of only \$5 trillion in GDP. On the other side, the EU, with 5.8% of the world's population, accounts for \$18 trillion in GDP, and NAFTA has a GDP of \$24.8 trillion. This clearly shows the underexploited capacity of the South Asian region.

There is much potential

As estimated by the UNESCAP South Asia Gravity Model of intraregional trade, in spite of trade liberalisation under SAFTA, intraregional trade in South Asia is less than a third of its potential. Bangladesh has the highest unexploited proportion, at 93%, followed by the Maldives (88%), Pakistan (86%), Afghanistan (83%), and Nepal (76%). Because of terror insurgencies and border disputes, trade between India and Pakistan has seen a significant decline over the years. Bilateral trade between India and Pakistan fell from \$2.41 billion in 2018 to \$1.2 billion in 2024. Further, Pakistani exports to India fell from \$547.5 million in 2019 to just \$480,000 in 2024.

South Asia's trade-to-GDP ratio decreased from 47.30% in 2022 to 42.94% in 2024. Additionally, the World Bank reported a softened growth forecast of 5.8% for 2025, down from 6% in 2024. As imports have grown faster than exports for all South Asian countries, the trade deficit of the subregion has widened from \$204.1 billion in 2015 to \$339 billion in 2022. However, the value of overall trade, covering both exports and imports, increased significantly between 2015-22 to approximately \$1,335 billion.

Despite SAFTA, trading with neighbours is not 'free'. The inefficient trade governing mechanism and an unpromising political environment increase the cost of intraregional trade, which is one of the major reasons for significantly smaller intra-regional trade. Costs of trading within South

Asia remain high at 114% of the value of the goods being exported, making trading with neighbouring nations more expensive or less competitive, compared to trading with distant partners.

For instance, South Asia's bilateral trade cost with the U.S. is only 109% despite the vastly greater distance. It is about 20% more costly for a company in India to trade with Pakistan than with Brazil, which is 22 times farther away. This discourages the formation of regional value chains despite the geographic contiguity. In contrast, intraregional trade costs for ASEAN are some 40% lower than intra-SAARC trade costs, at 76%, creating high incentives for interdependence in that bloc.

The main hurdles

The low level of intraregional trade in South Asia demonstrates the absence of strategic policies. SAFTA and other regional agreements have the potential to create greater economic linkages. Besides, over two-thirds of the potential of intraregional trade in goods, the potential of trade in services, and investments in South Asia remain untapped. To this end, greater regional cooperation could facilitate the development of complementary and mutually beneficial export sectors by focusing on lowering trade barriers.

SAARC had the aim of ending distrust and tension, but trust deficits and regional conflicts hinder the full implementation of agreements such as SAFTA. Political diversity, regional disputes, minority issues and terrorism are major obstacles to regional cooperation. Most SAARC countries are in conflict with each other, preventing effective regional integration. Lesser trade opportunity means lesser capacity for innovation, production and investment in the people of the country. Therefore, to exploit the full potential of the South Asian region, members must work actively to enhance intra-regional trade, keeping aside their bilateral conflicts.

Paper 02: International Relations

UPSC Mains Practice Question: "The failure of SAARC reflects the dominance of geopolitics over geo-economics in South Asia." Critically examine this statement in the context of the region's low intra-regional trade. (250 words)

Context :

Despite being home to 25% of the world's population, South Asia remains one of the least economically integrated regions globally. Intra-regional trade under SAFTA (South Asian Free Trade Area) constitutes barely 5–7% of total trade, in stark contrast to other regional blocs like the EU, ASEAN, and NAFTA. The recent dip in India-Pakistan trade, rising trade deficits, and untapped trade potential expose the failure of SAARC-led regionalism and the need for renewed political and economic commitment.

Key Data Points:

- **Intra-SAARC trade:** \$23 billion (vs potential \$67–\$172 billion).
- **South Asia's trade-to-GDP ratio:** Declined from 47.3% (2022) to 42.94% (2024).
- **Trade costs within SAARC:** 114% of export value (higher than cost with the U.S.).
- **India–Pakistan trade:** Declined from \$2.41 billion (2018) to \$1.2 billion (2024).
- **SAARC combined GDP:** ~\$5 trillion vs EU (\$18 trillion) and NAFTA (\$24.8 trillion).

Core Issues:

1. Security-Economy Nexus:

- Persistent border conflicts, terrorism, and cross-border mistrust directly affect trade relations.
- National security concerns often override regional economic cooperation, notably between India and Pakistan.

2. High Trade Costs:

- Intra-regional trade remains costlier than trade with distant economies (e.g., U.S., Brazil).
- Poor logistics, inadequate infrastructure, non-tariff barriers, and complex border procedures raise costs.

3. Institutional Inefficiency:

- SAFTA remains under-implemented, with limited trust among member states.
- SAARC's institutional weakness, infrequent summits, and lack of enforcement mechanisms stifle integration.

4. Lack of Political Will:

- Political tensions, minority issues, and mutual suspicion among SAARC members block consensus on trade facilitation.
- Domestic politics often impede regional diplomacy.

5. Underutilised Trade Potential:

- Trade in services and investments remains largely unexplored.
- Regional value chains have not developed due to lack of trust, infrastructure, and coordinated policies.

Comparative Perspective:

- **ASEAN and EU have succeeded due to:**
 - Strong institutional frameworks.
 - Strategic policy alignment.
 - Depoliticised economic cooperation.
 - Lower trade costs (~76% in ASEAN).

South Asia, despite geographical contiguity, lacks interdependence, which is key to sustainable integration.

Broader Implications:

1. **Missed Opportunities for Growth:**
 - Limited regional trade reduces opportunities for innovation, production scaling, employment, and poverty reduction.
2. **Strategic Vulnerability:**
 - The lack of internal regional integration pushes countries to depend more on external powers, affecting strategic autonomy.
3. **People-to-People Disconnect:**
 - Reduced trade and mobility result in cultural isolation and hinder people-level trust-building.

Way Forward:

- Reforming SAFTA to include services, investments, and digital trade.
- **Decoupling trade from politics:** Encourage economic cooperation even amidst political differences.
- Investing in cross-border infrastructure: Roads, railways, customs harmonisation.
- **Creating sectoral alliances:** E.g., energy grid, tourism circuit, agricultural markets.
- Strengthening institutions like BIMSTEC where SAARC falters, while keeping SAARC dialogue open.

Conclusion:

South Asia's economic under-integration is both a cause and consequence of political disunity. While the region has immense potential in terms of population, market size, and shared cultural-historical linkages, it continues to underperform. A strategic reset focused on trust-building, institutional strengthening, and delinking trade from politics is critical to unlocking South Asia's regional promise.
