

ECONOMICS

INFLOWS INTO SMALL CAP FUNDS AT RECORD HIGH OF ₹ 5471.15 CR IN JUNE

The Association of Mutual Funds in India (AMFI) noted a significant increase in inflows into small-cap mutual funds in India from ₹3,282.50 Cr. in May, 2023 to ₹5,471.15 Cr. in June, 2023.

Factors responsible for surge in inflows into small-cap funds

1. Recent rally in the stock market
2. Expectation of strong earnings growth from small-cap companies
3. Relatively lower valuations of small-cap stocks.

SMALL-CAP FUNDS

Equity mutual fund that invests in small-cap companies, companies with a market capitalization of less than ₹ 500 crores. Small-cap mutual funds are typically more volatile than large-cap funds, because small-cap companies are more likely to be affected by changes in the market. But, they also have the potential to generate higher returns, because they also have the potential to grow at a faster rate. Investors who are looking for growth potential and are willing to take on some risk may want to consider investing in small-cap funds.

BENEFITS OF INVESTING IN SMALL-CAP MUTUAL FUNDS:

- **Potential for higher returns:** Potential to grow at a faster rate than larger companies, which means that small-cap mutual funds have the potential to generate higher returns.
- **Diversification:** Help to diversify the portfolio of investors and reduce risk.
- **Access to new growth opportunities:** Newer and more innovative than larger companies, which means that they may have access to new growth opportunities.

RISKS OF INVESTING IN SMALL-CAP MUTUAL FUNDS:

- **Volatility:** Prices of small cap funds fluctuate more in the short term than large-cap funds.
- **Lack of liquidity:** More difficult to buy or sell them, as small-cap stocks are less liquid than large-cap stocks.
- **Risk of loss:** Always the risk of losing money when investing in the stock market, and small-cap funds are no exception.

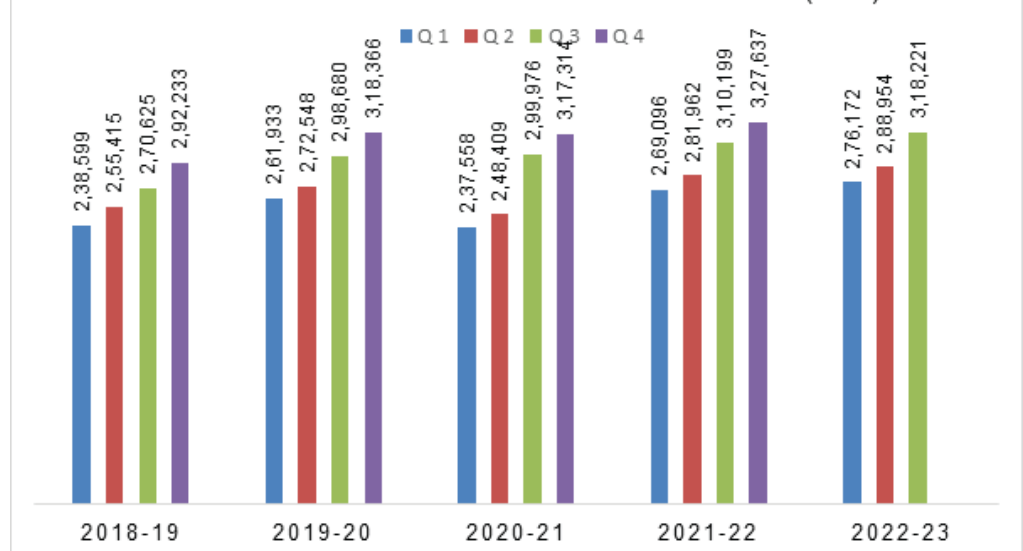
NET DIRECT TAX MOP-UP FOR FY 24 UP 16 % TO ₹ 4.75 LAKH CR. TILL JULY 09

The net direct tax collection in India has increased by 16% to ₹4.75 lakh crore till July 9, 2023, as compared to the corresponding period of the previous year. The gross direct tax collection during the period under review stood at ₹5.17 lakh crore, up 14.65% from last year. Refunds amounting to ₹42,000 crore were issued during the period, which is 2.55% higher than the refunds issued during the same period in the previous year.

This is a positive sign for the economy, as it indicates that tax compliance is improving and that the government is on track to meet its revenue targets for the current fiscal year. The increase in net direct tax collection is being attributed to a number of factors, including the growth in the economy, the implementation of the Goods and Services Tax (GST), and the government's focus on improving tax compliance.



GROSS DIRECT TAX COLLECTIONS (CR.)



GO FIRST INSOLVENCY: RESOLUTION PROFESSIONAL SEEKS EOI TILL AUG 09

Go First, the erstwhile GoAir, has invited expressions of interest (Eols) from potential investors till August 9. The deadline for submitting the Eols is August 9. The resolution professional, Ashish Chhawchharia, has said that the Eols should be submitted in a prescribed format along with a non-refundable deposit of ₹25 lakh.

The interested parties should have a net worth of at least ₹3,000 crore and a track record of operating an airline. The resolution professional will shortlist the Eols and invite the shortlisted parties to submit detailed proposals. The final decision on the resolution plan will be taken by the National Company

Law Tribunal (NCLT).

TIMELINE

1. May 2, 2023: Go First files for voluntary insolvency resolution proceedings under the Insolvency and Bankruptcy Code (IBC).
2. May 3, 2023: Go First suspends all flights.
3. May 10, 2023: The National Company Law Tribunal (NCLT) admits Go First's insolvency petition.
4. May 12, 2023: The NCLT appoints Ashish Chhabra as the interim resolution professional (IRP) for Go First.

5. June 1, 2023: The IRP invites expressions of interest (Eols) from potential investors.
6. June 15, 2023: The IRP shortlists three Eols.
7. July 10, 2023: The NCLAT upholds the NCLT's order admitting Go First's insolvency petition.
8. July 11, 2023: The IRP invites final bids from potential investors.
9. August 15, 2023: The IRP is expected to submit a report to the NCLT on the status of the insolvency proceedings

STEPS INVOLVED IN THE INSOLVENCY RESOLUTION PROCESS UNDER

FOXCONN PULLS OUT OF \$19.5-BN CHIP JOINT PACT WITH VEDANTA

Foxconn, the world's largest contract electronics maker, has pulled out of a \$19.5 billion semiconductor joint venture with Vedanta Ltd, in a setback to India's chipmaking plans. The two companies had announced the joint venture in 2022 to build a semiconductor and display production plant in Gujarat, India. However, Foxconn decided to withdraw from the project, citing "uncertainties" in

THE IBC:

1. Filing of an insolvency petition by a creditor or the corporate debtor itself.
2. Admission of the petition by the NCLT.
3. Appointment of an interim resolution professional (IRP).
4. Preparation of a resolution plan by the IRP.
5. Approval of the resolution plan by a majority of the creditors and the NCLT.
6. Implementation of the resolution plan.
7. Liquidation of the corporate debtor if the resolution plan is not approved.

the deal. The decision is a blow to India's efforts to become a major player in the global semiconductor market. The country currently imports most of its chips, and the government has been trying to attract foreign investment to build a domestic chipmaking industry.

FPIS NOT HAVING TO DISCLOSE FINAL OWNER IS CHALLENGE IN ADANI-HINDENBURG CASE: SEBI

The Securities and Exchange Board of India (SEBI) has said that the lack of requirement for foreign portfolio investors (FPIs) to disclose the final owner is a challenge in the Adani-Hindenburg case. The case relates to allegations made by the US-based short-seller research firm Hindenburg Research that some of the Adani Group companies had engaged in fraudulent

transactions. SEBI said that it is difficult to identify the ultimate beneficial owners of FPIs, as they are often structured through complex corporate structures. This makes it difficult to track the flow of funds and identify potential conflicts of interest. SEBI has said that it is working with the government to address this issue and to strengthen the regulations governing FPIs.

GEOGRAPHY

RECORD RAINFALL: CHANDIGARH, KULLU SEE WETTEST DAYS IN HISTORY

Context: Over the last few days, torrential rainfall has wreaked havoc in north India, particularly in parts of Himachal Pradesh, Uttarakhand, Punjab, Haryana, Delhi, and Chandigarh. It has triggered landslides and flash floods.

More Details

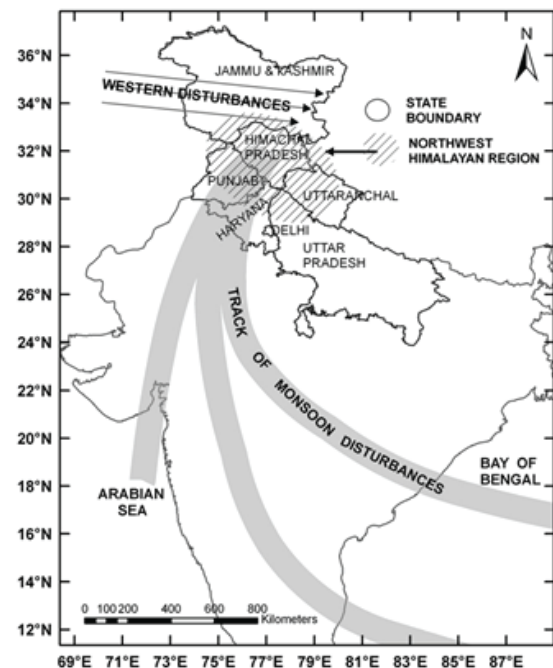
- After a long spell of heatwave conditions, North India received the monsoon at the end of June and beginning July. Many states have received more than the normal rainfall in July so far.
- Punjab led the list with an increase of over 200% from normal rainfall on all the days of July this year.
- In Himachal Pradesh, the increase from normal ranged from 85% to 110% on all the days of July.
- The increase from normal rainfall in Uttarakhand and Haryana surpassed even Himachal Pradesh's deviation in the past four days, peaking at 115% and 113%, respectively, on July 10.
- Western Uttar Pradesh has also recorded a sudden increase in rainfall in the past few days — an 84% increase from normal on July 10.
- On July 9, Chandigarh recorded a 24-hour rainfall of 283 mm. It is the highest-ever 24-hour rainfall for the city for any day since 1952.
- Kullu in Himachal Pradesh also recorded its wettest July day, and second-wettest day ever.
- Delhi recorded 153 mm of rain in 24 hours ending 8:30 AM on July 9, the highest in a single day in July since 1982.

Why North India is receiving extreme rainfalls?

- The Indian Meteorological Department (IMD) confirmed that the heavy rain in parts of Himachal Pradesh and Uttarakhand is due to the interaction of the monsoonal winds with the western disturbance that has created a trough above Himachal Pradesh.
- IMD's latest assessment states that a low-pressure area lies over northeast Rajasthan and neighbouring regions.
- This interaction between the western disturbance and monsoonal winds is expected to persist for the next 24-36 hours, leading to heavy rainfall in most parts of northwest India, according to an IMD update.
- While such situations are part of the Indian monsoon, the interaction remains rare.

What are the Western Disturbances and the Monsoonal winds?

- A Western Disturbance refers to an extratropical storm or a low-pressure system that originates in the Mediterranean region, and as they travel eastward across the Middle East and Iran, they bring changes in weather conditions to the Indian subcontinent.
- Western Disturbance has a substantial influence on the weather in northern India. As these disturbances approach, they cause the northwestern regions of the country to experience cloud cover, rainfall, and sometimes snowfall in the higher altitudes of the Himalayan region.
- Meanwhile, Monsoonal winds refer to the seasonal wind patterns that prevail in the Indian subcontinent, bringing about the Indian Monsoon. The Southwest Monsoon and the Northeast Monsoon make up these winds that bring essential rainfall during the summer and winter in India.



POLITY AND GOVERNANCE

INDIA WORKS TO FIRM UP DEALS TO PROCURE RAFALE JETS, THREE SCORPENE SUBS FROM FRANCE

India is working to firm up deals to procure 26 Rafale fighter jets and three Scorpene submarines from France. The deals, worth an estimated INR 90,000 crore (\$13.3 billion), are expected to be announced during Prime Minister Narendra Modi's visit to France later this week.

RAFALE JETS:

The Dassault Rafale is a French twin-engine, canard delta wing, multirole fighter aircraft designed and built by Dassault Aviation. Equipped with a wide range of weapons, the Rafale is intended to perform air supremacy, interdiction, aerial reconnaissance, ground support, in-depth strike, anti-ship strike and nuclear deterrence missions. The Rafale is powered by two Snecma M88-2 turbofan engines, which give it a top speed of Mach 1.8 (1,190 mph). It has a range of 3,700 km (2,300 mi) and can carry a payload of up to 9 tons. The Rafale is equipped with a variety of weapons, including the MBDA Meteor air-to-air missile, the MBDA Scalp EG cruise missile, and the AASM Hammer air-to-ground missile. It also has a 30mm cannon. The Rafale is a highly maneuverable aircraft and is equipped with a number of avionics systems,

including a radar, a targeting pod, and an electronic warfare suite. The Rafale is in service with the French Air Force, the French Navy, and the Indian Air Force. It has also been exported to Qatar.

SCORPENE SUBMARINES:

The Scorpene-class submarines are a class of diesel-electric attack submarines jointly developed by the French Naval Group (formerly the DCNS) and the Spanish company Navantia. It features diesel propulsion and an additional air-independent propulsion (AIP). It is now marketed as the Scorpène 2000. The Scorpène-class submarines are designed to be highly stealthy and maneuverable. They are equipped with a variety of weapons, including torpedoes, missiles, and mines. They are also equipped with a state-of-the-art sonar system that allows them to detect and track enemy vessels. The Scorpène-class submarines have been sold to a number of countries, including India, Chile, Malaysia, and Brazil. They are considered to be one of the most advanced diesel-electric submarines in the world.

L & T SIGNS PACT WITH SPAIN FIRM NAVANTIA TO BUILD NAVY SUBMARINES

On July 10, 2023, Larsen & Toubro (L&T) and Spanish shipbuilder Navantia signed a teaming agreement to bid for the Indian Navy's Project 75 (India) submarine programme. The programme is to build six conventional submarines equipped with air-independent propulsion (AIP). Under the agreement, L&T will build the submarines, while Navantia will provide the design and the air-independent propulsion system. The submarines will be based on Navantia's S80 class of submarines.

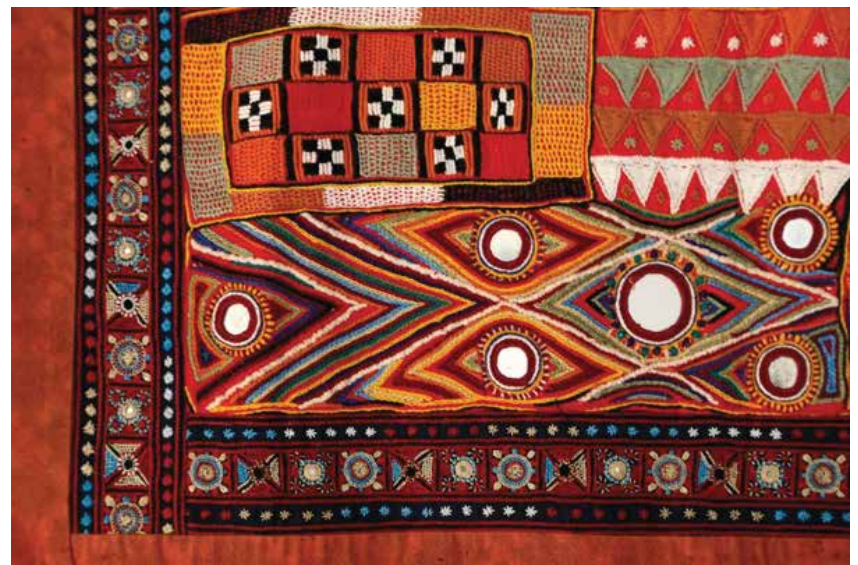
ART AND CULTURE

AT G 20 MEET, A GUINNESS EFFORT TO SHINE LIGHT ON KARNATAKA'S LAMBANI CRAFT

Lambani embroidery is a traditional embroidery technique practiced by the Lambani tribe of Karnataka. The Lambanis are a nomadic tribe who are originally from Rajasthan, but they have been living in Karnataka for centuries. Lambani embroidery is characterized by its use of bright colors, mirror work, and intricate patterns. The embroidery is typically done on cotton fabric, and it is used to decorate clothing, bags, and other textiles. Lambani embroidery is a dying art form, but there are a few organizations working to preserve it.

UNIQUE FEATURES OF LAMBANI EMBROIDERY:

1. **BRIGHT COLOURS:** Lambani embroidery is known for its use of bright colours, such as red, yellow, blue, and green. These colours are often used to symbolize different aspects of the Lambani culture, such as the sun, the moon, and the earth.
2. **MIRROR WORK:** Mirror work is a technique in which small mirrors are sewn onto fabric to create a decorative effect. Mirror work is often used in Lambani embroidery to add a touch of glamour and sophistication.
3. **INTRICATE PATTERNS:** Lambani embroidery is known for its intricate patterns, which are often inspired by nature. These patterns can be simple or complex, and they can be used to create a variety of effects.



INTERNATIONAL RELATIONS

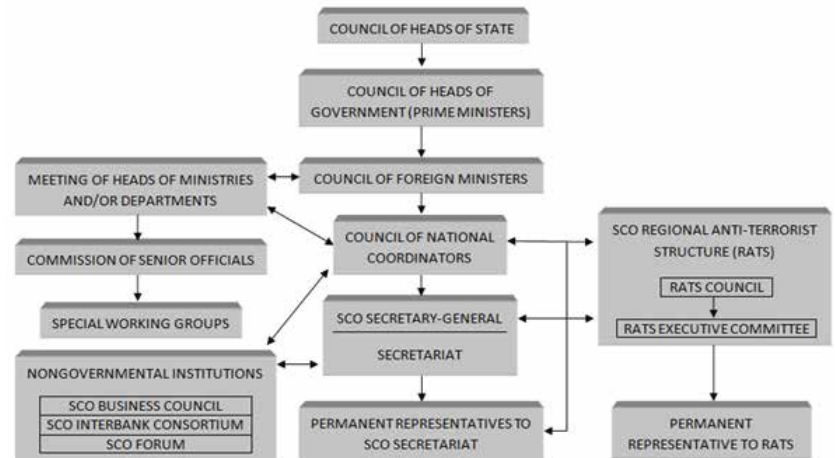
CHINA VIEW ON SCO SUMMIT: IRAN WELCOME, NEED TO SAVE THE GROUP FROM INDIA

- China observes the Shanghai Cooperation Organization (SCO) as an important platform for security cooperation and economic integration in the Eurasian region. China believes that the SCO should be a platform for cooperation between countries that share common interests, rather than a forum for promoting the interests of any one country.
- Chinese analyst accuses India, a vocal critic of China's Belt and Road Initiative (BRI), and its refusal to endorse statements promoting the BRI at SCO summits of spreading disharmony within the SCO
- Iran's entry could help China "balance" India's influence in the region and a way to strengthen the group's focus on security cooperation.
- **SHANGHAI COOPERATION ORGANIZATION (SCO)**
- CATEGORY: Eurasian political, economic and military organisation



- **FOUNDED:** 2001
- **CONSTITUTING STATUTE:** Declaration of Shanghai Co-operation Organization.
- **MEMBER STATES:** Russia, China, Kyrgyzstan, Kazakhstan, Tajikistan, India, Pakistan, Iran and Belarus.

THE STRUCTURE OF THE SHANGHAI COOPERATION ORGANISATION



- **OBSERVER STATES:** Afghanistan and Mongolia.
- **DIALOGUE STATES:** Sri Lanka, Turkey and Nepal#.

The Shanghai Co-operation Organization holds observer status in the General Assembly, the European Union, Association of Southeast Asian Nations (ASEAN), the Commonwealth of Independent States and the Organisation of Islamic Cooperation.

THE GLOBAL SOUTH: ORIGINS AND SIGNIFICANCE

Gist :

- The term "Global South" is not geographical. Rather, its usage denotes a mix of political, geopolitical and economic commonalities between nations
- The Global South refers to various countries around the world that are sometimes described as 'developing', 'less developed' or 'underdeveloped'.
- Countries in the Global South were mostly at the receiving end of imperialism and colonial rule.
- By 2030 it is projected that three of the four largest economies will be from the Global South — with the order being China, India, the U.S. and Indonesia
- The unwillingness of many leading countries in Africa, Asia and Latin America to stand with NATO over the war in Ukraine has brought to the fore once again the term "Global South."

What is NATO?

NATO is an alliance of countries from Europe and North America. It provides a unique link between these two continents, enabling them to consult and cooperate in the field of defence and security, and conduct multinational crisis-management operations together.

What is Global South ?

The Global South refers to various countries around the world that are sometimes described as 'developing', 'less developed' or 'underdeveloped'. Many of these countries — although by no means all — are in the Southern Hemisphere, largely in Africa, Asia and Latin America.

In general, they are poorer, have higher levels of income inequality and suffer lower life expectancy and harsher living conditions than countries in the "Global North" — that is, richer nations that are located mostly in North America and Europe, with some additions in Oceania and elsewhere.

Going beyond the 'Third World'

The term Global South appears to have been first used in 1969 by political activist Carl Oglesby. Writing in the liberal Catholic magazine Commonweal, Oglesby argued that the war in Vietnam was the culmination of a history of northern "dominance over the global south."

But it was only after the 1991 breakup of the Soviet Union — which marked the end of the so-called "Second World" — that the term gained momentum. Until then, the more common term for developing nations — countries that had yet to industrialise fully — was 'Third World'. That term was coined by Alfred Sauvy in 1952, in an analogy with France's historical three estates: the nobility, the clergy and the bourgeoisie. The term 'First World' referred to the advanced capitalist nations; the 'Second World', to the socialist nations led by the Soviet Union; and the 'Third World', to developing nations, many at the time still under

the colonial yoke.

Sociologist Peter Worsley's 1964 book, *The Third World: A Vital New Force in International Affairs*, further popularised the term. The book also made note of the 'Third World' forming the backbone of the non-aligned movement, which had been founded just three years earlier as a riposte to bipolar Cold War alignment.

The fall of the Soviet Union — and with it the end of the so-called Second World — gave a convenient pretext for the term 'Third World' to disappear, too. Usage of the term fell rapidly in the 1990s. Meanwhile 'developed', 'developing' and 'underdeveloped' also faced criticism for holding up Western countries as the ideal, while portraying those outside that club as backwards. Increasingly the term that was being used to replace them was the more neutral-sounding "Global South."

Geopolitical, not geographical

The term 'Global South' is not geographical. In fact, the Global South's two largest countries — China and India — lie entirely in the Northern Hemisphere.

Rather, its usage denotes a mix of political, geopolitical and economic commonalities between nations.

Countries in the Global South were mostly at the receiving end of imperialism and colonial rule, with African countries as perhaps the most visible example of this. It gives them a very different outlook on what dependency theorists have described as the relationship between the centre and periphery in the world political economy — or, to put it in simple terms, the relationship between "the West and the rest."

Given the imbalanced past relationship between many of the countries of the Global South and the Global North — both during the age of empire and the Cold War — it is little wonder that today many opt not to be aligned with any one great power. And whereas the terms 'Third World' and 'underdeveloped' convey images of economic powerlessness, that isn't true of the "Global South." Since the turn of the 21st century, a "shift in wealth," as the World Bank has referred to it, from the North Atlantic to Asia Pacific has upended much of the conventional wisdom on where the world's riches are being generated.

By 2030 it is projected that three of the four largest economies will be from the Global South — with the order being China, India, the U.S. and Indonesia. Already the GDP in terms of purchasing power of the the Global South-dominated BRICS nations — Brazil, Russia, India, China and South Africa — surpasses that of the Global North's G-7 club. And there are now more billionaires in Beijing than in New York City.

Global South on the march

This economic shift has gone hand in hand with enhanced political visibility. Countries in the Global South are increasingly asserting themselves on the global scene — be it China's brokering of Iran and Saudi Arabia's rapprochement or Brazil's attempt to push a peace plan to end the war in Ukraine.

This shift in economic and political power has led experts in geopolitics

like Parag Khanna and Kishore Mahbubani to write about the coming of an "Asian Century." Others, like political scientist Oliver Stuenkel, have begun talking about a "post-Western world." One thing is for sure: the Global South is flexing political and economic muscles that the 'developing countries' and the 'Third World' never had.

SCIENCE AND TECHNOLOGY

SECOND MOONSHOT

Chandrayaan-3 is the third lunar exploration mission by the Indian Space Research Organisation (ISRO). It is a follow-on mission to Chandrayaan-1 and Chandrayaan-2, and it is scheduled to launch in July 2023. The Chandrayaan-3 mission will consist of a lander and a rover. The lander will be equipped with a suite of instruments to study the lunar surface, including a ground-penetrating radar, a laser altimeter, and a spectrometer. The rover will be equipped with a drill to collect samples from the lunar surface. The Chandrayaan-3 mission is designed to address a number of scientific questions about the Moon, including the origin of the Moon, the composition of the lunar surface, and the presence of

water on the Moon. The mission is also expected to provide valuable data for future lunar exploration missions.

KEY OBJECTIVES OF THE CHANDRAYAAN-3 MISSION:

1. To soft-land the lander on the lunar surface.
2. To deploy the rover on the lunar surface.
3. To collect samples from the lunar surface.
4. To study the composition of the lunar surface.
5. To search for water on the Moon.
6. To generate scientific knowledge about the Moon.

AI'S DISRUPTIVE ECONOMIC IMPACT, AN INDIA CHECK

NEWS IN GIST: AI's impact goes beyond automation and is now seen in creative tasks like poetry and exam-taking. The rise of Large Language Models and Generative AI has sparked interest globally. Ethical concerns have diminished as users gain a productivity advantage, but debates on job displacement and economic growth persist.

HIGHLIGHTS:

AI adoption has shown positive effects on productivity, employee satisfaction, and economic growth. Studies have demonstrated that AI tools can increase worker productivity by 14% and improve consumer satisfaction. Employees in top US companies have reported AI helping them be faster, smarter, and more productive. Research predicts significant increases in global GDP, with estimates ranging from 14% to 7%, due to AI advancements. Economic experts generally expect AI to have a substantial positive impact on per capita income, although some uncertainty remains.

IMPACT ON EMPLOYMENT:

AI technologies have the potential to replace jobs, particularly affecting blue-collar workers and those with lower levels of education. Studies show that robot adoption reduces labour share, employment, and wages. Automation contributes to wage inequality by impacting worker groups specialized in routine tasks. Early adopters of AI may gain significant advantages, leading to a winner-takes-all scenario and deepening the technological divide among firms. While AI could create new jobs, the overall impact on the labour market remains uncertain.

OPPORTUNITIES FOR INDIA:

India needs to be cautious about the potential negative impact of AI on employment, as increased efficiency in call centers and software industries could adversely affect millions of workers. Regulation may not be the best solution, as it could drive away investments and opportunities. The country should focus on education and training in AI to take advantage of the demographic dividend and the opportunities that AI brings. While optimistic about productivity and growth, experts warn of challenges in various areas, and governments should strengthen cyber regulations and consider tax policies to address displacement and

distributional effects.

DEVELOPMENT OF AI IN INDIA

2015: National AI Program

The Indian government launched the National AI Program, aimed at fostering research, development, and adoption of AI technologies in the country, with a particular focus on sectors like healthcare, agriculture, and education.

2018: AI Task Force

The Indian government formed an AI Task Force to provide recommendations and policy guidance for the adoption and regulation of AI technologies, emphasizing ethics, privacy, and security.

2020s: AI Policy Initiatives

India continued to prioritize AI development through various policy initiatives, including the National AI Strategy and the establishment of AI research centers and innovation hubs across the country.

CAN AI MAKE A TECHNOLOGY REVOLUTION?

AI has the potential to spark a technology revolution by transforming industries, enhancing efficiency, and driving innovation. The capabilities of AI, such as machine learning, natural language processing, and computer vision, enable it to analyse vast amounts of data, automate tasks, and make accurate predictions. This revolution is evident in various sectors, including healthcare, finance, manufacturing, and transportation.

AI's potential to revolutionize technology lies in its ability to address complex challenges and augment human capabilities. With advancements in AI algorithms and computing power, machines can now perform tasks that were once exclusive to human intelligence. This has the potential to disrupt traditional industries, create new business models, and generate economic growth.

AI's potential to revolutionize technology lies in its ability to drive efficiency, innovation, and automation across various industries. Its impact can be seen in the optimization of processes, the creation of personalized services, and the augmentation of human capabilities. As AI continues to advance, it has the potential to reshape industries, disrupt traditional practices, and unlock new opportunities for growth and development.

POLITY

ALARM BELLS

GRASSROOTS POLITICS IS NOW A HIGH-STAKES GAME OF VIOLENCE IN WEST BENGAL

- The extent of violence in the West Bengal panchayat elections, though numbing, was not totally unexpected. In all, 36 people lost their lives in the violence that spread across several districts of the State for almost a month in the run-up to the elections; 18 people died on the day of elections, on July 8.
- Opposition parties had expressed their apprehension that the elections would be marred by violence if proper steps were not taken. Despite several interventions by the Calcutta High Court, which directed the deployment of

central forces at all polling booths, the West Bengal State Election Commission failed on several counts.

Originally we did not have State Election Commission in our constitution, Later it was created by an 73rd amendment.

State Election Commissions were formed as per Article 243K of the Constitution, similar to setting up of Election commission of India as per Article 324

- State Election Commission is concerned only with the election Local Government such as panchayat and municipalities. The Election Commission of India conducts election to State Assembly.
- The Trinamool Congress's dominance on the ground, which remained unquestioned for a decade, is now facing resistance in several places. More than half of those killed in the violence during the elections were supporters of the ruling party. In the panchayat polls in 2018, the Trinamool Congress had won about 34% seats without any contest; this time round, it was about 12%.

In a federation the powers and functions of the government are divided among two governments. In India it is the Union Government and the various State Governments. However, with the passage of 73rd and 74th amendment act of the Constitution of India, in 1993 the division of powers and functions have been further trickled down to Local Self Governments (Panchayat at Village levels and Municipalities and Municipal Corporations in towns and large cities). As such India now has not two but three tier of Governments in its federal setup.

- The control of panchayats helps in political dominance at the local level, and controlling the rural economy. Also, the cadres, who provide the muscle, have a direct stake in the outcome. Elections in West Bengal are rarely peaceful and with two lakh candidates in the fray, the local functionaries did not want to concede any ground.
- While the State Election Commission was found wanting, the political leadership will also have to take a lot of the blame for allowing the elections to local bodies turn into a matter of life and death. There are also some structural reasons that make grassroots politics so competitive and violent in West Bengal. With high unemployment and scarce activity in the formal sector resulting in extreme competition for political posts, in turn leading to extraction and corruption, the State is caught in a debilitating cycle. The violence and the chaos on Saturday should act as a wake-up call for the State's political class.

DILUTION OF ARTICLE 370 LED TO UNPRECEDENTED ERA OF PEACE IN J&K, CENTRE INFORMS SC

- Life has returned to normalcy in the region after over three decades of turmoil
- The Centre on Monday filed a fresh affidavit in the Supreme Court claiming that Jammu and Kashmir is witnessing an "unprecedented era of peace, progress and prosperity" after the dilution of Article 370 in 2019.
- The affidavit has been filed a day before a Constitution Bench is scheduled to hear a series of petitions challenging the dilution of Article 370, which deprived Jammu and Kashmir of its special privileges and led to the bifurcation of the State in 2019.
- "Life has returned to normalcy in the region after over three decades of turmoil," the Home Ministry announced in the 20-page affidavit.
- The Ministry said the "street violence", which was engineered by terrorists and secessionist networks, had become a "thing of the past".
- Organised stone-throwing incidents, linked to the terrorism-separatist agenda, had come down from 1,767 in 2018 to zero in 2023, the Centre said.
- Bandhs and hartals had also become a distant memory. "Resolute anti-terror actions" had dismantled the "terror ecosystem" which led to a significant drop in terror recruitment from 199 in 2018 to 12 in 2023 till date, the Home

- Ministry said.
- The government said it had "encouraged policies to mainstream youth" to "wean them away from militancy".
- Moreover, the Centre said work on transit accommodation for the safe return of Kashmiri Pandits to the Valley was in an "advanced stage and is expected to be majorly completed in the next one year".

All-round development

- The affidavit said a duly-elected three-tier panchayati raj system could be established for the first time in the history of Jammu and Kashmir after 2019.
- Crucial Central laws, including the right to free education for children and land acquisition compensation statutes, were now applicable.
- The annual budget of Jammu and Kashmir had grown from ₹80,423 crore in 2019-20 to ₹1,18,500 crore in 2023-24.
- Infrastructure developments included the completion of 32 out of a total 53 projects worth ₹58,477 crore under the Prime Minister's Development Package.

CHALLENGES TO THE CHANGES IN J & K INCORPORATED BY CENTRE IN 2019

CONTEXT: The legal challenge to the changes in Article 370 and the removal of Jammu and Kashmir's special status raises questions. One of the issues is whether the President can substitute for an elected state government. Another question is whether Parliament can represent the "political aspiration" of the people of a state.

Back Ground:

Government had bifurcated the erstwhile state of J & K in 2019 and made it into union territories of J & K and Ladakh by making changes in the Indian Constitution. This has been challenged in the supreme court. The Supreme court has now decided to hear the matter on daily basis from July 11.

Central government has contented that it has "brought unprecedented development, progress, security and stability to the region which had been missing in the erstwhile old article 370 regime" and that this is a "testament to the fact that Parliament wisdom ..." was "exercised prudently". Chief Justice of India DY Chandrachud said that the affidavit on the present status of Jammu and Kashmir would not have any bearing on the constitutional issues raised in the petitions "and shall not be relied upon for that purpose".

The petitions, involving important legal and constitutional questions, will be taken up by a Bench led by CJI Chandrachud, also comprising Justices Sanjay Kishan Kaul, Sanjiv Khanna, B R Gavai, and Surya Kant.

The petitioners: there are over 20 petitioners including national conference Lok Sabha MPs, Jammu and Kashmir Peoples conference, Home ministry's interlocutors for J&K, retired air vice Marshall, retired Major General, former Home Secretary Gopal Pillai etc.

The Bench:

The Constitution bench, led by Chief Justice of India, D Y Chandrachud, Justices Sanjay Kishan Kaul, Sanjiv Kumar, B R Gavai and Surya Kant.

ROAD TO THE CHANGES:

On June 19, 2018, Governor's Rule was enforced in Jammu and Kashmir following the withdrawal of support by the Bharatiya Janata Party (BJP) from the coalition government led by Chief Minister Mehbooba Mufti. According to Article 92 of the J&K Constitution, a mandatory period of six months of Governor's Rule had to be observed before the state could transition to President's Rule.

The dissolution of the Legislative Assembly took place on November 21, and before the completion of the six-month period, on December 12, President's Rule was implemented in Jammu and Kashmir. This imposition of President's Rule received subsequent approval from both Houses of Parliament.

Furthermore, on June 12, 2019, the tenure of President's Rule was extended for an additional six months, commencing from July 3 of that year.

CONSTITUTIONAL CHANGES

On August 5, a significant development occurred when the central government issued an order that amended The Constitution (Application to Jammu and Kashmir) Order of 1954. This amendment superseded the previous order and introduced The Constitution (Application to Jammu and Kashmir) Order of 2019. The new order declared the applicability of "all the provisions of the Constitution" to the state of Jammu and Kashmir. Additionally, the government made an amendment to Article 367, introducing a new Clause (4) that enabled the direct application of the Constitution of India to Jammu and Kashmir.

Subsequently, on August 6, the President issued a declaration under Article 370(3) that rendered all clauses of Article 370 inoperative, except for the provision stating that all articles of the Constitution shall apply to Jammu and

Kashmir. This action had the effect of removing the special status conferred by Article 370 while retaining the application of the Constitution to the region.

CHANGE TO ARTICLE 370

Article 370 provided for application of only Article 1 and Article 370 to Jammu & Kashmir. Other provisions of the Constitution did not automatically extend to J&K, but clause (1)(d) of Article 370 empowered the President of India to extend them through an executive order with the concurrence of the government of J&K.

Clause 3 of Article 370 empowered the President to "declare that this article shall cease to be operative" completely or partially but only if the Constituent Assembly of J&K recommended such an action. Since the Constituent Assembly of J&K no longer existed, having dispersed in 1957, this power of the President had ceased, unless a new Constituent Assembly came into being.

Article 370 explained that "for the purpose of this article", the state government meant the Maharaja (later changed to Sadr-e-Riyasat) of J&K, acting on the advice of the council of ministers. But there was no state government either in J&K, so the President had no way to acquire the concurrence of the state government. This meant there was no constitutional and legal mechanism available for the Centre to abrogate or amend Article 370.

The Centre, however, used the President's powers under Article 370(1)(d) to amend Article 367, which provides guidelines to interpret the Constitution. A new clause was added to Article 367, replacing "Constituent Assembly of the State" referred to in Article 370(3) by "Legislative Assembly of the State".

Thus, the presidential order route under Article 370(1)(d) was used to amend Article 370 itself, whereas Article 370 could have been amended only upon the recommendation of the Constituent Assembly under Article 370(3), not through Article 370(1)(d).

CAN THE PARLIAMENT BE EQUAL TO STATE GOVERNMENT?

During the imposition of direct rule in Jammu and Kashmir, the President assumed all the functions of the J&K government, including taking over the powers of the Governor under both the Indian Constitution and the J&K Constitution. Furthermore, the powers of the state legislature were extended to Parliament.

As a result, the President of India effectively became the J&K state government, and Parliament effectively became the state legislature. The powers previously held by the J&K Constituent Assembly were transferred to the state legislature. In this arrangement, when the "state government" provided its consent to these significant changes, it was essentially the President giving consent to his own decision.

It has been contended that since President's Rule in a state is an interim

arrangement until an elected government is established, the administration under President's Rule should not make decisions that fundamentally alter the constitutional structure of the state.

ERSTWHILE J&K CONSTITUTION

The decision to abolish the Jammu and Kashmir Constitution has faced legal challenges due to the fact that the Legislative Assembly of Jammu and Kashmir was not authorized under the state's constitution to propose amendments to any provisions of the Indian Constitution.

According to Article 147 of the Jammu and Kashmir Constitution, the Legislative Assembly of Jammu and Kashmir was prohibited from attempting to modify any provisions of the Indian Constitution as applicable to the state. This argument suggests that even the Jammu and Kashmir Legislative Assembly did not possess the legal competence to provide consent to the President's order.

DOWNGRADING TO UT

The Jammu and Kashmir (Reorganisation) Act, 2019 resulted in the division of Jammu and Kashmir into two Union Territories. Jammu and Kashmir became a Union Territory with a Legislative Assembly, while Ladakh became a Union Territory without an Assembly.

This action stands as a unique occurrence in India's constitutional history since no other instance exists where a state has been downgraded to a Union Territory. However, Parliament holds the authority under Article 3 to create a new state by carving out territory from an existing state, merging two or more states, or altering the boundaries of a state.

The decision of the central government has faced legal challenges on the basis that it violates Article 3. Additionally, the proviso to this article necessitates that the President refers any Bill proposing the reorganization of a state to its legislature if the Bill impacts the area, boundaries, or name of any state.

It is contended that the perspective of Parliament on such a Bill cannot override the perspective of the state legislature. During President's Rule, only the essential powers required for the day-to-day administration of the state can be exercised by the state legislature. Parliament cannot substitute the viewpoint of a specific state legislature, which essentially represents the opinion of the people of that state.

COLOURABLE LEGISLATION

The challenge is also based on the argument that the constitutional changes are "colourable legislation" and thus legally untenable. The doctrine of colourable legislation is the legal principle that says what cannot be done directly cannot be done indirectly.

This doctrine has been reiterated by the Supreme Court, as well as constitutional courts in other countries.

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