

MAINS MATRIX

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"Limited room: India must reduce dependence on oil imports to stabilise the rupee"

1. Current Situation & Problem

- **Currency Depreciation:** The Indian rupee has depreciated about 7%, sliding from ~₹83.4/USD to ~₹89.2/USD.
- **Key Drivers:**
 - Widening Current Account Deficit.
 - Higher imports of bullion (as a hedge in uncertain times).
 - Exporters struggling for competitiveness amid high U.S. trade tariffs.
- **RBI's Mandate:** Under the "floating-but-managed" regime, the RBI can only 'smoothen volatility,' not fix the exchange rate.

2. Historical Context & RBI's Actions

- **Precedent:** A similar 10-12% slide occurred in 2018 due to global dollar strength, rising U.S.

interest rates, and trade tensions.

- **RBI's Tools:** Uses forex swaps as a standard tool to:
 - Supply systemic liquidity.
 - Shore up forex reserves.
 - Prevent disorderly currency depreciation.
- **Recent Intervention:** The RBI sold a net of ~\$50 billion in forex to stabilise the rupee, but the slide has continued, highlighting strong external pressures.

3. Reasons for Cautious Optimism

- **Strong Forex Reserves:** Reserves are at a comfortable ~\$693 billion.
- **Low Domestic Inflation:** Headline CPI inflation is very low at 0.25% (Oct 2025), well below the RBI's 2%-6% target band.
- **Policy Space:** Low inflation gives the RBI room to tolerate modest currency depreciation without being forced into aggressive rate hikes.

4. Risks & Underlying Vulnerability

- **Oil Dependency:** Crude oil accounts for over a fifth of India's total imports.
- **Inflation Risk:** The combination of a weaker rupee and a shift to costlier U.S. oil imports (from cheaper Russian crude) could exert upward pressure on inflation.

5. Recommended Solutions

- **Monetary policy alone is insufficient.**
- **Primary Solution:** The government must address the core vulnerability of heavy dependence on oil imports.
- **Recommended Actions:**
 - Treat faster transport electrification as a **strategic imperative** and pursue it with urgency.
 - Develop a **well thought-out trade policy** instead of focusing on a raft of bilateral trade deals.
 - **Critique of Current Approach:** Existing trade agreements with Japan, the UAE, and ASEAN have tilted the trade balance against India, failing to effectively diversify trade routes.

HOW TO USE IT

India's economic stability is critically vulnerable to external shocks due to its **high dependence on imported oil**, which fuels a **Current Account Deficit (CAD)** and puts downward pressure on the rupee. While the RBI can manage volatility in the short term, a lasting solution requires **structural reforms focused on energy security and a strategic trade policy** to reduce this fundamental vulnerability.

Primary Relevance: GS Paper III (Indian Economy)

1. Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

- **How to use:** This is the core economic dimension. The depreciating rupee is a macroeconomic challenge with wide-ranging implications.
- **Key Points:**
 - **Impact of CAD:** A widening **Current Account Deficit (CAD)**, driven heavily by oil imports, means the country is spending more foreign currency than it is earning. This creates excess demand for dollars, leading to the depreciation of the rupee.
 - **Inflationary Pressures:** A weaker rupee makes

imports, especially dollar-denominated crude oil, more expensive. This is a classic "**imported inflation**" risk, which can erode the benefits of currently low domestic inflation.

- **Export Competitiveness:** While a weaker rupee should theoretically make exports cheaper, the article notes that exporters are still struggling due to **high U.S. trade tariffs**. This shows that a cheap rupee alone is not a silver bullet for boosting exports in a complex global trade environment.

2. Government Budgeting.

- **How to use:** Link oil prices to the fiscal health of the government.
- **Key Points:**
 - Higher oil import bills can worsen the fiscal deficit if the government chooses to absorb the price shock through subsidies (e.g., on LPG, fertilizers) instead of passing it fully to consumers.

3. Effects of Liberalization on the Economy.

- **How to use:** Analyze the trade policy critique.
- **Key Points:**
 - The article's critique that trade agreements with Japan, UAE, and ASEAN have "tilted the trade balance against India" is a critical evaluation of India's post-liberalization trade strategy. It argues for a more strategic, "well thought-out trade policy" that prioritizes balancing imports and exports.

4. Infrastructure: Energy.

- **How to use:** This is where the long-term solution lies.
- **Key Points:**
 - The core recommendation to treat "**faster transport electrification as a strategic imperative**" directly addresses the need for **energy transition**. Reducing dependence on imported oil by shifting to domestically produced electricity (from solar, wind, nuclear) is a key infrastructure and energy security goal.

Linkages to GS Paper II (Governance)
& GS Paper I (Geography)

GS Paper II (Governance)

- **Government Policies & Interventions:** The need for a coherent national strategy on electric vehicle (EV) adoption and a strategic trade policy falls squarely under governance. It requires inter-ministerial coordination and long-term vision.

GS Paper I (Geography)

- **Distribution of Key Natural Resources:** India's lack of sufficient domestic oil reserves is a fundamental geographical constraint that shapes its economic and foreign policy.

How to navigate a complex global paradigm

In the tense U.S.–China relationship, Hong Kong emerges as a middle space — offering a vantage point to imagine new frameworks for navigating geopolitical rivalry.

Main Context

- Article based on discussions held at the **7th U.S.–China–Hong Kong Forum** (Nov 7–8, 2025).
- Theme: how to manage U.S.–China tensions and explore Hong Kong's role as a mediating, hybrid global space.

Core Argument

Hong Kong's unique cultural hybridity, international connectivity, and neutrality make it a potential **bridge** between the U.S. and China amid growing geopolitical rivalry.

Key Insights & Observations

A. Complex Great-Power Rivalries

- The U.S.–China relationship is marked by:
 - Strategic distrust
 - Competing worldviews
 - Economic decoupling
 - Influence politics
- Traditional approaches to diplomacy are no longer adequate for current complexities.

B. Need for New Frameworks

- Participants emphasized:
 - Boldness, candour, pragmatism
 - New models of engagement
 - Avoiding binary, zero-sum worldviews

Hong Kong's Strategic Role

A. Middle-Ground Advantage

Hong Kong is positioned as:

- A neutral, cosmopolitan space

- A **platform for dialogue**
- A **unique meeting point** for diverse actors
- Capable of crossing ideological and political divides

B. Cultural Hybridity

- Blends Chinese traditions and Western openness.
- Houses global business networks, international talent, and financial systems.

C. Future Potential

Hong Kong's future depends on:

- Preserving its **cosmopolitanism**
- Maintaining **connectivity** with global markets
- Protecting its **hybrid identity** that allows engagement when big-power politics fail

Themes Explored in the Forum

A. Technology & AI

- AI inadvertently exposes the gap between global needs and national controls.
- Danger of weaponizing technology.
- Need for global governance norms.

B. Fractured World & Strategic Autonomy

- Countries (esp. Global South) seek autonomy without being forced into choosing sides.
- New middle powers are emerging.

C. Youth & Social Contract

- Younger citizens are more connected globally.
- Traditional political frames no longer reflect socio-economic realities.

D. Security & Multilateralism

- Need for inclusive rule-making.
- Reinvent regional frameworks, not rely solely on U.S. or China.

Challenges Identified

- China's assertiveness and security anxieties.
- U.S. mistrust and ideological framing of China.
- Fragile global economy, supply chain insecurity.
- Decline in international cooperation.
- Rising nationalism and protectionism.

Positive Takeaways / Opportunities

- Hong Kong can serve as a **third space** to:

- Break U.S.–China political deadlock
- Facilitate people-to-people dialogue
- Support academic/scientific exchanges
- Innovate new norms for cooperation
- Forum highlighted:
 - Desire for stability
 - Economic pragmatism
 - Need for collaborative global governance

“THE GIST”

- U.S.–China tensions shape global geopolitics; Hong Kong acts as a rare middle ground for dialogue.
- The forum noted that U.S.–China relations may remain turbulent but structured engagement must continue.
- Hong Kong’s strength lies in its cultural hybridity and global connectivity.
- Its role as a “mediating space” is key for future international cooperation.

HOW TO USE IT

In an era of intense **U.S.-China great power rivalry**, traditional diplomatic channels are becoming less effective.

This creates a strategic space for unique, hybrid entities like **Hong Kong** to act as intermediary platforms. For India, which practices **strategic autonomy**, understanding and navigating such "middle spaces" is crucial to avoid being forced into a binary choice and to protect its own interests in a fractured global order.

Primary Relevance: GS Paper II (International Relations)

1. Bilateral, Regional and Global Groupings and Agreements involving India and/or affecting India’s interests.

- **How to use:** Analyze the U.S.-China rivalry as the defining bilateral relationship that impacts all other global groupings and India's interests.
- **Key Points:**
 - **The Core Geopolitical Contest:** The article identifies the key drivers of U.S.-China tensions: "strategic distrust," "economic decoupling," and "competing worldviews." This rivalry is the backdrop against which India must formulate its foreign policy, including its engagement in forums like QUAD, BRICS, and SCO.

- **India's Strategic Autonomy:** The forum's observation that countries, especially in the **Global South**, "**seek autonomy without being forced into choosing sides**" directly mirrors India's foreign policy doctrine. India must leverage this sentiment to build coalitions of middle powers.

2. Effect of Policies and Politics of Developed and Developing Countries on India's interests.

- **How to use:** Understand how the actions of the U.S. and China create both challenges and opportunities for India.
- **Key Points:**
 - **Technology and AI Governance:** The "weaponization of technology" and the lack of "global governance norms" for AI are critical for India. As a tech power, India has a stake in ensuring it is not sidelined in rule-making dominated by the U.S. and China. Hong Kong could potentially be a venue for Track-II dialogues on such issues.
 - **Economic Security:** "Fragile global

economy" and "supply chain insecurity" caused by the rivalry directly impact India's economic growth. Diversifying supply chains away from China (a key U.S. objective) presents an opportunity for India's manufacturing sector (**PLI schemes**).

3. Important International institutions, agencies and fora- their structure, mandate.

- **How to use:** Examine the failure of traditional multilateralism and the rise of alternative platforms.
- **Key Points:**
 - **Decline of Traditional Multilateralism:** The "decline in international cooperation" highlights the weakening of universal bodies like the UN. This creates a vacuum.
 - **Role of Informal "Third Spaces":** The article proposes that informal, non-governmental platforms like the **U.S.-China-Hong Kong Forum** can supplement formal diplomacy. This is a model India can emulate, using its own soft power hubs to

facilitate dialogue on contentious issues.

Linkages to GS Paper IV (Ethics) & GS Paper III (Security)

GS Paper IV (Ethics)

- **Human Interface:** The concept of Hong Kong's "cultural hybridity" fostering dialogue is an example of **cosmopolitanism** and **tolerance** as ethical principles in international relations.
- **Emotional Intelligence:** The call for "boldness, candour, and pragmatism" in dialogue requires high levels of emotional intelligence from diplomats to navigate sensitive issues.

GS Paper III (Security)

- **Challenges to Internal Security:** The "rising nationalism and protectionism" globally can have spillover effects, influencing domestic social cohesion in a diverse country like India.
- **Role of Media & Social Networking Sites:** The article's note on globally connected youth underscores how information warfare in the U.S.-China rivalry can impact public opinion in India, making it an internal security concern.

Trade and Defence Tensions Surge in Japan–China Clash over Taiwan

1. Introduction

Japan–China relations, long characterised by economic interdependence and strategic rivalry, have entered a renewed phase of tension. A political storm erupted after Japanese PM contender **Sanae Takaichi** stated that a Chinese attack on Taiwan would constitute a “survival-threatening situation” for Japan — potentially justifying military action under Japan’s Constitution. This flashpoint aligns with deepening defence anxieties and persistent economic vulnerabilities between Asia’s two largest economies.

2. Political Trigger and Strategic Context

2.1 Takaichi’s Remarks

- Takaichi asserted that Taiwan’s fall would endanger Japan’s security.
- Under the 2015 security legislation, such a situation could trigger **collective self-defence**, allowing Japan to assist the U.S. militarily.
- China rejected the statement, accusing Japan of interfering in internal affairs.

2.2 Japan’s Shifting Strategic Posture

- Japan’s conservative political forces increasingly view China as an existential threat.

- Strategic debates now centre on deterrence, alliance strengthening, and Taiwan's centrality to Japan's security.

3. Legal and Constitutional Background

- Japan's **post-war Constitution (Article 9)** limits offensive military capabilities.
- The **2015 security reinterpretation** allows limited collective self-defence during "survival-threatening situations."
- Takaichi's position broadens this clause to include a Taiwan contingency — a sensitive diplomatic shift.

4. Economic Interdependence and Vulnerabilities

4.1 Trade Dependence

China has been Japan's **largest trading partner since 2007**.

- **Imports from China:** 20.5%
- **Exports to China:** 23% (2018–2024 average)

4.2 Supply Chain Exposure

Japan's manufacturing depends heavily on China for:

- Rare earth elements (≈60% imports)
- Electronics and core components

- Chemicals and machinery inputs

4.3 Taiwan Strait as a Trade Lifeline

- Nearly **\$440 billion** worth of Japanese goods pass through the Taiwan Strait annually.
- Disruption or blockade → major economic shock, global supply-chain ripple effects.

5. Defence Escalation and Regional Militarisation

5.1 Taiwan Scenario

- A Chinese blockade or invasion would threaten Japan's sea lanes, trade, and proximity to Okinawa.
- U.S.–Japan security alliance becomes central to deterrence planning.

5.2 Japan's Military Build-up

- Defence expenditure hits a **70-year high by 2025** — largest since the 1950s.
- Expanded military exercises with the U.S. and Philippines.
- Upgrading missile capabilities and island defence systems.

5.3 China's Military Pressure

- PLA warships and aircraft conduct frequent operations around Taiwan and Japanese waters.

- Japan logs **record Air Force scrambles**, with China as the primary source of incursions.

6. Data Highlights (From Charts)

- **GDP Growth:** Japan slowed to **0.69% in 2024**.
- **Import–Export Markets:** China and the U.S. dominate Japanese trade patterns.
- **Taiwan’s Importance:**
 - Integrated circuits → 60% of Japan’s imports from Taiwan
 - Semiconductors → 18%
- **Trade via Taiwan Strait (2022):** Japan tops at **\$357.41 billion**.
- **Scramble Incidents:** Highest in 2024 against Chinese aircraft.
- **Military Spending (% of GDP):** Sharp upward curve since early 2020s.

7. Japan’s Domestic Context

Japan confronts significant structural challenges:

- Slowing growth and stagnation
- Rapid ageing and population decline
- Labour shortages and inflationary pressures
- Declining public confidence in PM Kishida’s government

These vulnerabilities heighten the political stakes of external security issues like Taiwan.

8. China’s Position

- Strong diplomatic protests against Takaichi’s remarks.
- Xi Jinping frames Taiwan reunification as “**inevitable**.”
- China accuses Japan of undermining the **One-China principle** and aligning too closely with U.S. containment strategies.

9. Conclusion

The Japan–China relationship is moving from uneasy economic interdependence to overt strategic rivalry. Taiwan has become the central flashpoint, linking defence anxieties, economic vulnerabilities, and constitutional debates within Japan. As trade and military tensions rise, East Asia faces an increasingly fragile security environment with global implications for supply chains, semiconductor security, and great-power politics.

HOW TO USE IT

The Japan-China clash over Taiwan represents the **localization of the US-China great power rivalry** in East Asia. It highlights the central paradox of modern geopolitics: **deep economic interdependence coexisting with intense strategic-military rivalry**. For

India, this has direct implications for its own strategic calculus, economic security, and the stability of its extended neighborhood, the Indo-Pacific.

Primary Relevance: GS Paper II (International Relations)

1. India and its neighborhood-relations.

- **How to use:** Analyze how a conflict in a distant region (East Asia) directly impacts India's extended neighborhood and strategic interests.
- **Key Points:**
 - **Indo-Pacific Linkages:** The stability of the Taiwan Strait and the South China Sea is directly linked to the security of the broader **Indo-Pacific**, a region central to India's security and economic interests (e.g., freedom of navigation, maritime trade).
 - **Quad Implications:** Japan is a key member of the **Quad (with India, US, Australia)**. A military crisis involving Japan would directly impact the cohesion and focus of the Quad, a grouping crucial

for India's Indo-Pacific strategy.

2. Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests.

- **How to use:** Examine the roles of key alliances and partnerships.
- **Key Points:**
 - **US-Japan Alliance:** The article highlights that a Taiwan contingency would make the "U.S.–Japan security alliance central." This demonstrates how bilateral alliances are the bedrock of deterrence and security architecture in Asia.
 - **China's Assertiveness:** China's rejection of Japan's statements and its military pressure are part of a broader pattern of challenging the status quo, which affects the rules-based order that India supports.

3. Effect of policies and politics of developed and developing countries on India's interests.

- **How to use:** Link the economic and security policies of Japan and China to India's national interests.
- **Key Points:**

- **Economic Vulnerabilities:** Japan's dependence on Chinese rare earths and the Taiwan Strait for trade (\$440 billion annually) mirrors vulnerabilities for India and the world. A conflict would **severely disrupt global supply chains**, impacting India's imports (electronics, components) and exports.
- **Semiconductor Security:** Taiwan is a global leader in semiconductors. The article notes 60% of Japan's imports from Taiwan are integrated circuits. A crisis would trigger a **global semiconductor shortage**, crippling India's growing electronics and digital economy.

Primary Relevance: GS Paper III (Security, Economy)

1. Security challenges and their management in border areas.

- **How to use:** Draw parallels and lessons for India's own border challenges.
- **Key Points:**
 - **Managing Escalation:** The situation

shows how political rhetoric (like Takaichi's) can rapidly escalate military tensions. This is a lesson for India in managing its own statements and actions along the LAC with China.

- **Military Modernization:** Japan's response—increasing defence spending to a 70-year high and upgrading missile systems—is a case study in how nations are adapting militarily to the China challenge, a relevant example for India's own modernization efforts.

2. Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

- **How to use:** Analyze the economic dimensions of the conflict.
- **Key Points:**
 - **Supply Chain Resilience:** The crisis underscores the urgent need for India to build resilient supply chains and reduce dependency on any single region, a goal of its **Atmanirbhar Bharat** and **Production**

Linked Incentive (PLI) schemes.

- **Trade Disruptions:** The potential blockage of the Taiwan Strait would disrupt a critical **Sea Lane of Communication (SLOC)**, impacting the cost and flow of India's international trade.

COP30: "Fighting the Fire: Implementation as the New Narrative"

1. Context & Significance

- **Venue:** Belém, Brazil – chosen for its proximity to the **Amazon rainforest**.
- **Symbolism:** Occurred **10 years after the Paris Agreement (2015)** signed by 195 countries.
- **Paris Agreement Goal:** Limit global warming to **well below 2°C**, ideally **1.5°C**.
- **Climate Reality Check: 2024** marked the **first year global temperatures crossed the 1.5°C threshold**.

2. Core Challenge Since Paris Agreement

Countries continue to struggle with:

1. **Transitioning economies away from fossil fuels.**

2. **Sharing responsibility, finance, and technology** for the transition.
3. Addressing **loss and damage** already caused by climate change.
4. Balancing **climate action with economic growth and competitiveness**.

3. Emergence of Two Major Blocs

Bloc 1: Developed Countries

- Push for **hard emission targets**.
- Demand **clear roadmaps** for fossil fuel phase-out.

Bloc 2: Developing Countries & Petro-States

- Reject externally imposed mandates.
- Demand **greater climate finance**, technology transfer, and **fulfillment of past commitments** by developed nations.

4. COP30's Major Shift: Focus on "Implementation"

Narrative Change

- Move from **negotiation** to **action**.
- Stress on the **necessity of multilateralism**.

Key Implementation Themes

- **Adaptation:** Recognizing the everyday, lived impacts of climate change.
- **Just Transition:** Support for practical preparations, including:
 - Climate-resilient development
 - Workforce transition
 - New **financial pledges**

Geopolitical Factor

- **Absence of the U.S.** weakened developed-country leverage.

5. India's Position at COP30

- Played an active role in representing **developing country interests**.
- Welcomed Brazil's efforts to consider Global South concerns.
- **Notably did NOT announce updated NDCs**, raising attention.

6. Overall Assessment & Way Forward

- COP processes seem **slow**, with limited net gains amid:
 - Rising pollution
 - Continued deforestation
 - Growing climate denialism
- Yet, the COP remains **the only functioning global platform**

capable of preventing catastrophic climate outcomes.

HOW TO USE IT

COP30 marks a critical juncture in the global climate fight, shifting the narrative from **pledge-making to implementation** in a world that has already breached the 1.5°C threshold. It underscores the deep **North-South divide** on climate justice and the immense challenge of achieving a **just transition** while holding the COP process as the indispensable, albeit imperfect, pillar of global climate cooperation.

Primary Relevance: GS Paper III (Environment, Economy, Security)

1. Conservation, Environmental Pollution and Degradation, Environmental Impact Assessment.

- **How to use:** This is the core environmental dimension. COP30 is the latest update in the global institutional response to environmental degradation.

• Key Points:

- **The 1.5°C Breach:** The fact that 2024 was the first year global temperatures crossed the 1.5°C threshold is a stark data point that frames the urgency of the crisis. It moves the discussion from prevention to **managed retreat**,

adaptation, and loss & damage.

- **Implementation**

Gap: The core challenge identified is the gap between the promises of the Paris Agreement and on-ground action. This "implementation" theme is central to understanding why climate goals remain elusive despite decades of negotiation.

2. Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

- **How to use:** Analyze the economic dimensions of the climate debate, particularly for India.
- **Key Points:**
 - **Just Transition:** The concept of a "Just Transition" is not just an environmental term but a massive **economic and social challenge**. It involves retraining workforces, transforming energy systems, and ensuring that the shift to a green economy does not create new inequalities.
 - **Climate Finance:** The demand by developing countries for greater

climate finance and technology transfer is directly linked to their **right to development**. Without adequate financial support, their economic growth could be hampered as they try to meet climate targets.

Primary Relevance: GS Paper II (Governance, International Relations)

1. Bilateral, Regional and Global Groupings and Agreements involving India and/or affecting India's interests.

- **How to use:** Analyze COP as the premier global grouping for climate action and India's role within it.
- **Key Points:**
 - **The North-South Divide:** The emergence of two clear blocs—Developed vs. Developing countries & Petro-states—is the central political dynamic. This reflects the ongoing conflict over **historical responsibility, common but differentiated responsibilities (CBDR)**, and equity.
 - **India's Strategic Position:** India played an

active role in representing developing country interests. Its decision to **not announce updated NDCs** is a significant diplomatic signal, likely pointing to its stance that enhanced action is contingent upon developed nations first fulfilling their existing finance and technology transfer commitments.

2. Important Aspects of Governance.

- **How to use:** Understand the challenges of global governance as exemplified by the COP process.
- **Key Points:**
 - **Multilateralism Under Stress:** Despite being "slow" with "limited net gains," the article concludes that the COP remains the "only functioning global platform." This highlights both the **criticism and indispensability of multilateralism** in solving transboundary problems.
 - **Geopolitics of Climate:** The absence of the U.S. weakening the developed world's leverage is a key point. It shows how the climate agenda is deeply

intertwined with broader geopolitics and the domestic politics of major powers.

Linkages to GS Paper IV (Ethics)

- **Environmental Ethics & Climate Justice:** The entire debate between the two blocs is rooted in ethics. The developed world's push for hard targets, without providing the means to achieve them, raises questions of **fairness and inter-generational equity**. The developing world's stance is a fight for **climate justice**.