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# DAILY CURRENT AFFAIRS DATED 03.04.2026

## GS Paper II: Current Affairs

### 1. Smartphone Model of Industrial Policy – Lessons for India

#### a. Introduction: Industrial Transformation in the Digital Era

India's emergence as a major smartphone manufacturing hub represents a turning point in its industrial strategy. Unlike earlier inward-looking and protectionist approaches, this success is based on a pragmatic mix of global integration, export orientation, and employment generation.

The smartphone sector thus becomes a real-world example of modern industrial policy, offering lessons for sectors like textiles, footwear, electronics, and toys. It shows that industrialisation today must be gradual, globally connected, and scale-driven, rather than immediately self-reliant.

#### b. Understanding the Smartphone Model

India's smartphone success gained momentum with the Production Linked Incentive (PLI) Scheme, 2020, which linked incentives to output, encouraging firms to scale manufacturing.

Instead of building a full ecosystem initially, India adopted a phased strategy:

##### Phased Approach to Industrialisation

- Began with large-scale assembly of smartphones
- Attracted global firms like Foxconn and Pegatron
- Expanded exports significantly
- Gradually moved towards component manufacturing

This reflects a key principle: Industrial depth must follow industrial scale, not precede it.

#### c. Core Lessons for Industrial Policy

##### Export Orientation as the Foundation of Growth

- Domestic demand alone is insufficient for large-scale manufacturing
- Entry into global markets enables scaling and efficiency
- Integration into Global Value Chains (GVCs) boosts competitiveness
- Leads to employment, foreign exchange earnings, and technology transfer

##### Sequencing Matters: From Assembly to Ecosystem

- Rejects immediate full self-reliance
- Follows a step-by-step progression:
  - Assembly → Scale → Component manufacturing
- Reflects global examples like China and Vietnam
- Recognises that capabilities evolve over time

##### Leveraging Labour-Intensive Manufacturing

- Smartphone assembly is labour-intensive, generating large employment
- Provides opportunities especially for women workers
- Aligns with India's demographic advantage
- Suggests focus on sectors like:
  - Garments
  - Footwear
  - Electronics assembly

### **Rational Tariff Policy: Enabling Competitiveness**

- Ensures low-cost access to imported inputs
- Avoids inefficiencies caused by excessive protectionism
- Prevents rise in production costs
- Strengthens export competitiveness

### **Governance and Implementation as Key Drivers**

- Success driven by efficient execution, not just policy design
- Quick resolution of operational issues
- Expansion of logistics infrastructure e.g., airport cargo
- Active government–industry coordination

### **Consultative and Adaptive Policymaking**

- Continuous dialogue with industry stakeholders
- Policies refined based on real-time feedback
- Shift from rigid to flexible policymaking
- Helps respond to changing global conditions

### **Ecosystem-Based Development**

- Growth of supplier networks and MSMEs
- Development of logistics and support industries
- Creation of interconnected production systems
- Generates multiplier effects across the economy

These lessons collectively highlight how industrial success is multi-dimensional, not limited to incentives alone.

### **d. Significance of the Model**

- Promotes employment generation
- Boosts exports and foreign exchange earnings
- Enables technological integration
- Gradually reduces import dependence
- Enhances India's position as a global manufacturing destination

### **e. Limitations and Emerging Challenges**

#### **Structural Constraints**

- Continued dependence on imported components
- Limited domestic value addition



### **Replicability Issues**

- Model not yet successfully replicated across sectors
- Sector-specific constraints may hinder adoption

### **Policy and Global Risks**

- Risk of over-reliance on fiscal incentives
- Vulnerability to global trade uncertainties

These challenges indicate the need for refinement rather than rejection of the model.

## **f. Way Forward: Deepening the Model**

### **Strategic Policy Directions**

- Shift from import substitution to export competitiveness
- Strengthen supply chains and logistics
- Improve ease of doing business and policy stability

### **Building Domestic Capabilities**

- Promote component manufacturing
- Enhance skill development
- Integrate MSMEs into global value chains

These steps will ensure that the model evolves into a sustainable long-term strategy.

### **Conclusion**

The smartphone manufacturing experience offers a clear lesson: successful industrialisation today depends on building scale first, integrating globally, and then gradually developing domestic capabilities.

Thus, the smartphone model is not just a sectoral success story but a strategic blueprint for inclusive, employment-oriented, and globally competitive economic transformation in India.

## **GS Paper III: Economics**

### **2. Ban on Non-Deliverable Derivatives in Rupee – Implications for India's Forex Management**

#### **a. Introduction: Managing Exchange Rates in a Globalised Economy**

Exchange rate management in today's global economy requires balancing market forces with regulatory control. In this context, Non-Deliverable Derivatives (NDDs) in the Indian rupee have emerged as an important but controversial feature of India's forex ecosystem.

The Reserve Bank of India's (RBI) move to restrict participation in offshore NDD markets reflects an effort to ensure currency stability, transparency, and monetary sovereignty. This must be seen within India's broader framework of a managed exchange rate system and partial capital account convertibility.

#### **b. Conceptual Understanding: What are Non-Deliverable Derivatives?**

##### **Meaning and Basic Mechanism**

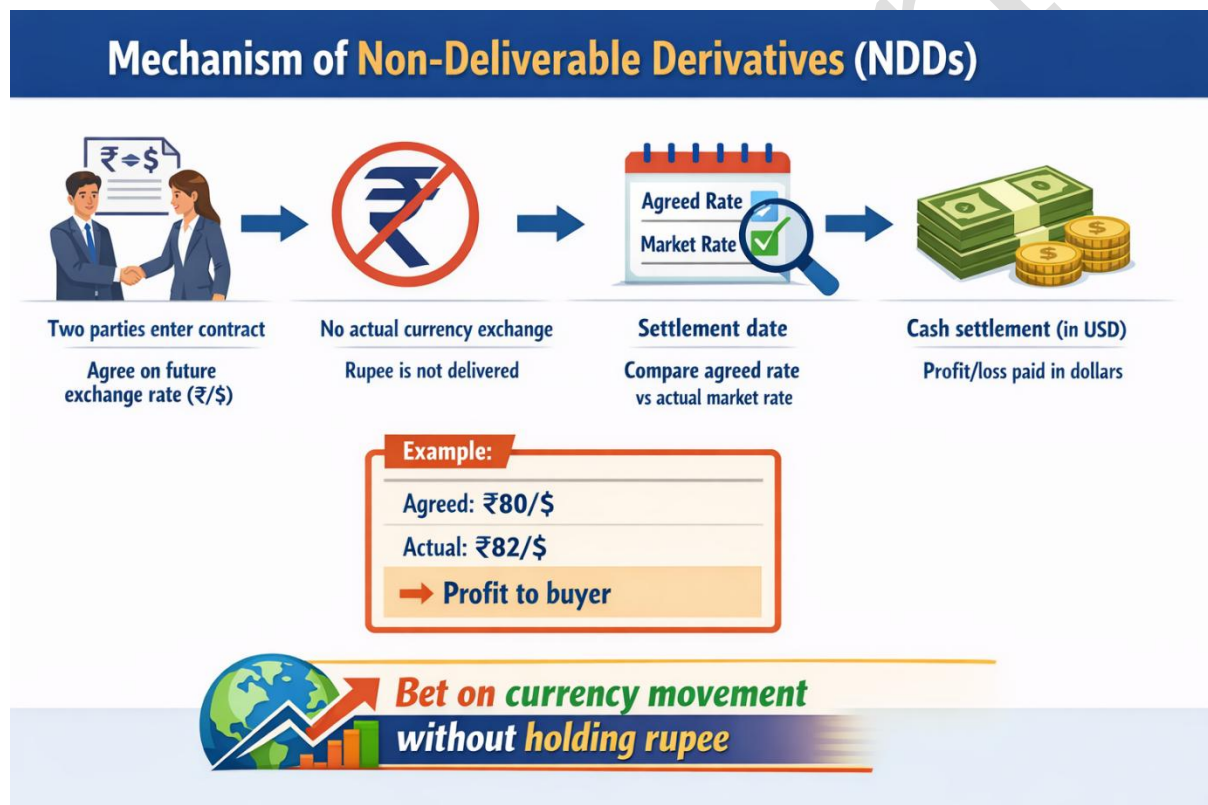
- Financial contracts where parties agree on a future exchange rate
- No actual currency exchange takes place
- Settlement happens through cash, usually in US dollars
- Profit/loss depends on the difference between agreed and actual exchange rate

In simple terms, NDDs allow traders to bet on currency movements without holding the currency.

### Why They Exist in the Indian Context

- India follows partial capital account convertibility – limited cross-border flows
- Investors cannot freely trade rupees globally
- NDDs provide an alternative way to hedge or speculate
- Mostly traded in offshore centres:
  - Singapore
  - London
  - Hong Kong

This offshore nature shapes the structure and risks of the NDD market.



### c. Structural Features of the NDD Market

#### Key Characteristics

- Dominated by global banks, hedge funds, and foreign investors
- Operates outside RBI's direct regulatory control
- High flexibility but limited oversight
- Encourages speculation and regulatory arbitrage

#### Link with Capital Controls

- Capital restrictions create demand for offshore hedging tools
- NDD market acts as a parallel forex market
- Reflects the tension between global integration and domestic control

These features explain why the NDD market gradually became problematic for India's forex management.

#### **d. Why the NDD Market Became Problematic**

##### **Speculative Pressures on the Rupee**

- No need for underlying exposure to the rupee
- Enables large speculative positions
- Converts hedging into speculation
- Increases volatility in currency markets

##### **Distortion of Price Discovery**

- Exchange rate should reflect domestic demand-supply
- Offshore markets influence expectations before Indian markets open
- Weakens domestic price discovery mechanism

##### **Increased Volatility and Instability**

- Sudden large trades lead to sharp rupee movements
- Effects amplified during:
  - Global crises
  - Oil price shocks
  - Geopolitical tensions

##### **Regulatory Arbitrage**

- Differences between onshore and offshore rules
- Participants shift transactions to avoid regulation
- Weakens oversight by Indian authorities

##### **Short-Term Speculative Trading**

- Frequent entry–exit to exploit price movements
- Disconnect from real economic needs
- Turns market into a trading platform rather than hedging tool

These concerns necessitated policy intervention by the RBI.

#### **e. RBI's Policy Intervention**

##### **Key Measures**

- Restrictions on Indian banks' participation in offshore NDD markets
- Stricter norms on related-party transactions
- Increased monitoring of derivative exposures

##### **Core Objective**

- Strengthen onshore forex market dominance
- Improve regulatory oversight
- Enhance transparency and risk control

The intervention is guided by specific policy objectives aligned with macroeconomic stability.

#### **f. Objectives of the Policy Move**

- Reduce speculative trading
- Stabilise the exchange rate
- Improve transparency and accountability
- Strengthen investor confidence
- Reinforce RBI's control over forex markets

## **g. Economic Significance of the Policy**

### **Strengthening Monetary Sovereignty**

- Reduces offshore influence on the rupee
- Restores control to domestic regulators
- Supports managed exchange rate system

### **Reduction in Exchange Rate Volatility**

- Limits speculative shocks
- Creates predictable currency environment
- Benefits trade and investment planning

### **Improved Transparency and Risk Management**

- Moves activity to regulated domestic markets
- Reduces hidden financial risks
- Enhances financial stability

### **Alignment with Development Strategy**

- Supports gradual capital account liberalisation
- Ensures controlled financial integration
- Balances openness with stability

## **h. Concerns and Limitations**

### **Impact on Genuine Hedging**

- Firms may face higher hedging costs
- Reduced flexibility for risk management

### **Market Substitution Risk**

- Speculation may shift to other instruments
- Regulation may not eliminate volatility entirely

### **Reduced Market Liquidity**

- Offshore markets add global liquidity
- Restrictions may reduce market depth

### **Concerns for Financial Integration**

- May signal tighter capital controls
- Could affect investor perception

## **i. Comparative Perspective**

**China:**

- Strict control over offshore currency markets
- Limited convertibility

**Advanced economies:**

- Fully convertible currencies
- Free derivative trading

**India:**

- Intermediate approach
- Managed exchange rate and partial convertibility

This comparison highlights India's cautious and calibrated strategy.

## **j. Way Forward: Balancing Control and Efficiency**

### **Strengthening Domestic Markets**

- Develop deep onshore derivative markets
- Improve liquidity and accessibility

### **Enhancing Risk Management**

- Better regulatory frameworks
- Stronger monitoring of exposures

### **Coordinated Global Engagement**

- Engage with offshore financial centres
- Improve cross-border regulatory cooperation

### **Gradual Liberalisation**

- Move towards greater capital account openness
- Ensure strong institutional safeguards

These steps will help balance stability with market efficiency.

### **Conclusion**

The restriction on non-deliverable derivatives marks an important step in strengthening India's control over its currency and reducing speculative pressures.

However, its long-term success depends on maintaining a careful balance between stability, efficiency, and global integration. This balance will remain central to India's evolving strategy in managing its external sector in an increasingly interconnected world.

## Reader's Note — About This Current Affairs Compilation

Dear Aspirant,

This document is part of the PrepAlpine Current Affairs Series — designed to bring clarity, structure, and precision to your daily UPSC learning.

While every effort has been made to balance depth with brevity, please keep the following in mind:

### 1. Orientation & Purpose

This compilation is curated primarily from the UPSC Mains perspective — with emphasis on conceptual clarity, analytical depth, and interlinkages across GS papers.

However, the PrepAlpine team is simultaneously developing a dedicated Prelims-focused Current Affairs Series, designed for:

- factual coverage
- data recall
- Prelims-style MCQs
- objective pattern analysis

This Prelims Edition will be released separately as a standalone publication.

### 2. Content Length

Some sections may feel shorter or longer depending on topic relevance and news density. To fit your personal preference, you may freely resize or summarize sections using any LLM tool (ChatGPT, Gemini, Claude, etc.) at your convenience.

### 3. Format Flexibility

The formatting combines:

- paragraphs
- lists
- tables
- visual cues

—all optimised for retention.

If you prefer a specific style (lists → paras, paras → tables, etc.), feel free to convert using any free LLM.

### 4. Monthly Current Affairs Release

The complete Monthly Current Affairs Module will be released soon, optimized to a compact 100–150 pages — comprehensive yet concise, exam-ready, and revision-efficient.

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