DATE : 15 May 2026

Brief Issue : 53

PSIR & GS-2 Daily Brief

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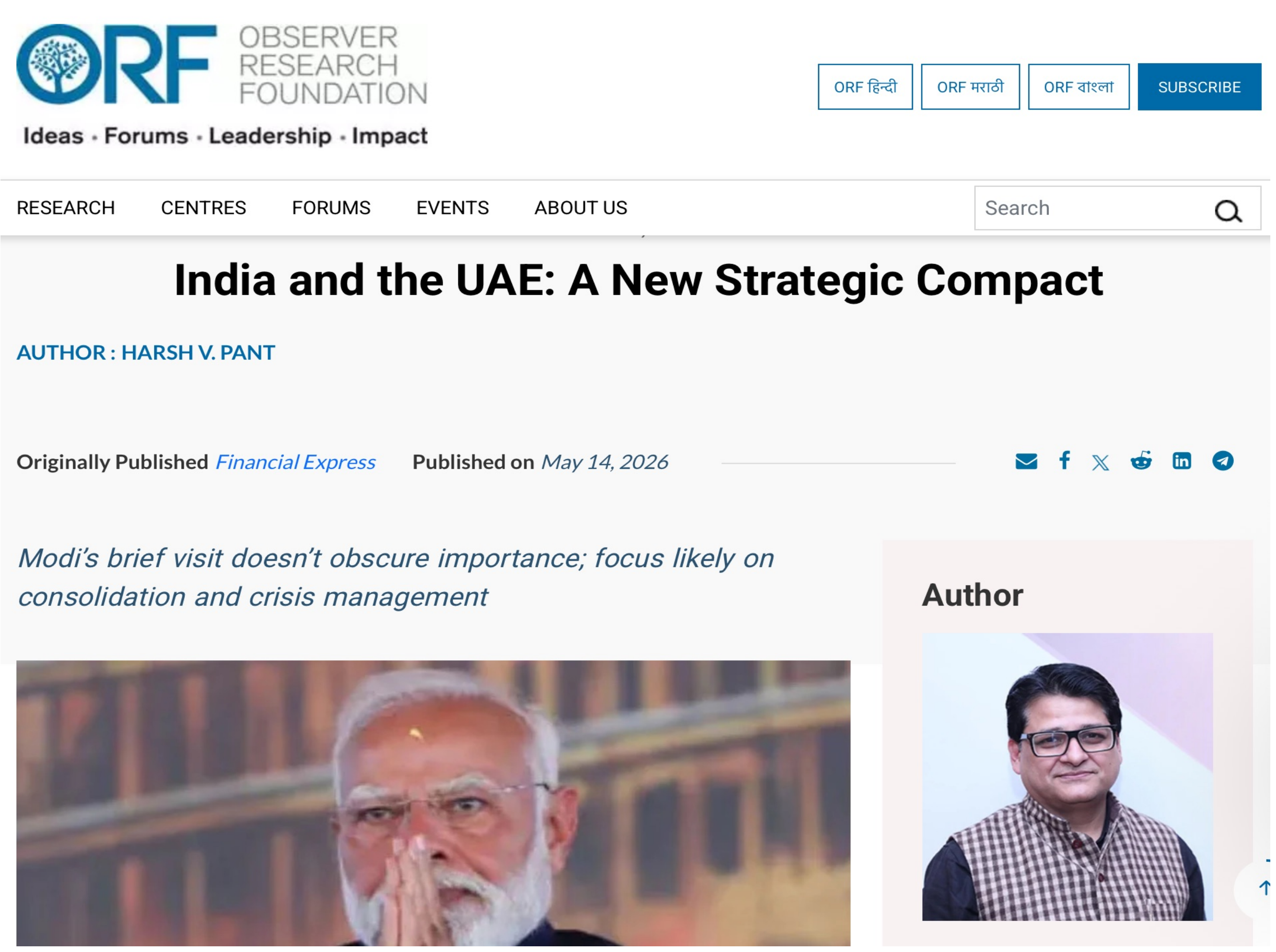
Article - 1 : India and the UAE - A new strategic compact



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India and the UAE: A New Strategic Compact

AUTHOR : HARSH V. PANT

Originally Published *Financial Express* Published on *May 14, 2026*

Modi's brief visit doesn't obscure importance; focus likely on consolidation and crisis management

Author

Context India - UAE relations moved from oil and labour ties to strategic partnership covering energy, defence, trade, technology, diaspora security and West Asian geopolitics.

Facts

- Soft power - four million Indians work in UAE.
- CEPA 2022 - turning point in India UAE economic integration.
- I2U2 and India - Middle East Europe Economic corridor shift towards economic, technological and connectivity led regional architecture.

Analytical Crux

India-UAE ties are not about oil & Indian workers; they represent India's larger West Asia strategy. The UAE gives India energy security, diaspora safety, maritime depth and diplomatic flexibility in a troubled region. India gives the UAE scale, market depth, technology capacity and a non-interventionist image. India's West Asia policy is an example of India's strategic autonomy in a multipolar world: multi-aligned, security-conscious & connectivity-driven.

Verbatim Quotes

"India is seeking to position itself not merely as an economic stakeholder but as a credible security partner with long-term interests in regional stability."

"Cooperation is driven less by ideology and more by functional convergence - economic diversification, technological modernisation, energy transition & regional stability.

— Harsh V. Pant

Article - 2: India needs to win back foreign investors. Three things to do

India needs to win back foreign investors. Three things to do

SACHCHIDANAND SHUKLA

THE OPTIMISM that has long surrounded India's economic story is now being clouded by conflicts — whether in the form of tariff wars or tensions spilling over from West Asia. For decades, India enjoyed balance-of-payments surpluses, buoyed by strong remittances, steady foreign capital inflows, and exports. But the tide seems to have turned. Foreign equity portfolio investors have pulled out over Rs 2 lakh crore so far in 2026, even as oil prices threaten to double the current account deficit to 2 per cent of GDP, and the comfort of BoP surplus has given way to the rare discomfort of the third consecutive year of deficit.

This may become more than a statistical blip as the US-Iran war continues to defy expectations of an early resolution, warranting a closer look at the changing global environment and the policy roadmap ahead.

Global capital is no longer the neutral tide it once was, nor it is just about efficiency or returns. It is increasingly a tool of strategic competition, more fragmented and increasingly politicised. We are in a two-speed world: Developed economies are getting bigger dollops of flows, while developing countries are struggling. According to UNCTAD, in 2025, global FDI rose 14 per cent to $1.6 trillion. Flows to developed economies jumped 43 per cent to $728 billion, driven by Europe and financial hubs shaped by industrial policy and geopolitics. In contrast, FDI to developing economies fell 2 per cent to $877 billion.

With the global environment steadily deteriorating and capital becoming more discerning, the way forward for policymakers would be a sequenced, time-bound set of tiered actions.

First, ensuring stabilisation through bold moves over the next six months. Tax reform could be the big-bang stabiliser as opposed to yet another FCNR bond issuance. Capital market signals are worth paying heed to. India could evaluate a shift to a residence-based capital gains tax system, exempting foreign investors from long-term capital gains tax. This would remove a major irritant that currently deters foreign portfolio investors. Long-term capital gains are taxed at 12.5 per cent plus surcharge, short-term at 20 per cent, and indexation has been removed for property and gold. Every rupee taxed while being taken out is a disincentive to re-enter. Exempting non-residents from Indian capital gains tax could provide immediate relief, would have universal impact and requires no bilateral negotiations. Another measure would be to allow European UCITS funds to access India directly, giving them a passport into the market, though this could take longer to work. Also, cutting withholding tax rates and indexing tax thresholds to inflation would further ease the burden.

What about FCNR bonds? Under the circumstances, FCNR bonds should remain in the toolkit, but as a fire extinguisher, not the first line of defence. Offering a concessional window to NRIs at a time when US yields are 4-4.5 per cent would mean a much higher cost and would subsidise foreign/NRI capital at the expense of domestic savers. It will also distort capital allocation, favouring banks and NRIs over corporates. Moreover, external buffers remain strong with reserves of $650 billion-plus, and manageable debt ratios and healthier balance sheets.

Efforts must be made to curb imports of oil and gold in line with the Prime Minister's appeal. Domestic fuel prices must be raised to allow demand-side adjustments, followed by the intent to reform subsidies, especially those of fertilisers.

> India could evaluate a shift to a residence-based capital gains tax system, exempting foreign investors from long-term capital gains tax. This would remove a major irritant that currently deters foreign portfolio investors

FDI ownership caps could be revisited, including allowing 100 per cent automatic foreign investment into remaining sectors. Note, for India, the FDI story is not one of despair and gross FDI remains resilient. Today, 90 per cent of sectors are on the automatic route. Even Press Note 3, which governs investments from land-border countries, has been eased: Ownership below 10 per cent is automatic, and proposals in electronics and polysilicon are fast-tracked within 60 days. Even these (PN3) rules could be refined by lowering the threshold for scrutiny and adopting a screening system similar to America's Committee on Foreign Investment in the United States (CFIUS). Risks of geopolitical exposure should be managed through careful monitoring. Together, the above changes would make India far more attractive to global capital in the world of 2026.

Second, boosting competitiveness. This should focus on measures at the grassroots, alongside which India must front-load infrastructure delivery. Closing infrastructure gaps and delivering on budgeted capex will keep India in good standing and underwrite growth. Labour reform would be a critical measure, with the Centre having notified rules for all four labour codes. States are expected to finalise rules by the second half of 2026, and compliance could be encouraged through incentives. Raising labour force participation to 65 per cent, via a push to labour-intensive sectors as well as agro-processing, would create jobs and strengthen India's position in global value chains.

Judicial reform is yet another grassroots pillar. By introducing AI-enabled case management and fast-track commercial courts, India could aim to resolve disputes within months rather than years. A new version of the national single-window system would simplify approvals further. Importantly, judicial improvements would amplify the impact of all other reforms. They are politically less contentious but carry high leverage, much like Poland's judicial efficiency reforms that unlocked economic dynamism.

Third, for the transformation of the economy over the long-term, India must push decisively for trade liberalisation and integration into global value chains. This may also entail tariff cuts with ASEAN and the EU, alongside extending PLI incentives to labour-intensive sectors. This would make exports more sustainable, but only if the institutional foundations of tier two are in place. Broader policy reforms that target energy security, distribution reforms, and the inclusion of the energy sector, specifically electricity and petroleum products, under GST will also have to be acted upon. Financial deepening would provide resilience against volatile foreign portfolio flows. Working to deepen and energise the corporate bond market could also help build domestic pools of capital.

India stands at a cusp, and the policy imperative is clear. Big-bang reforms can draw capital, but structural reforms will ensure it stays and even grows the pie. The world is watching whether India can match ambition with execution.

The writer is group chief economist, L&T. Views personal

Context India must restore foreign investor confidence through tax stability, stronger competitiveness and long-term integration with global value chains.

Facts

- CAD may rise to 2% of GDP due to oil prices.
- FDI to developing economies fell 2% to $ 877 billion.
- FDI to developed economies increased 43% to $728 billion.

Analytical Crux

Foreign investment is not a market issue but a geopolitical confidence issue. Capital goes where rules are predictable, taxes are stable & execution is credible. Reforms like capital gains tax relief may bring investors back, but investor confidence depends on infrastructure, labour reforms, judicial efficiency and trade openness. India should move from "attracting capital" to "retaining capital through institutional strength."

Verbatim Quotes

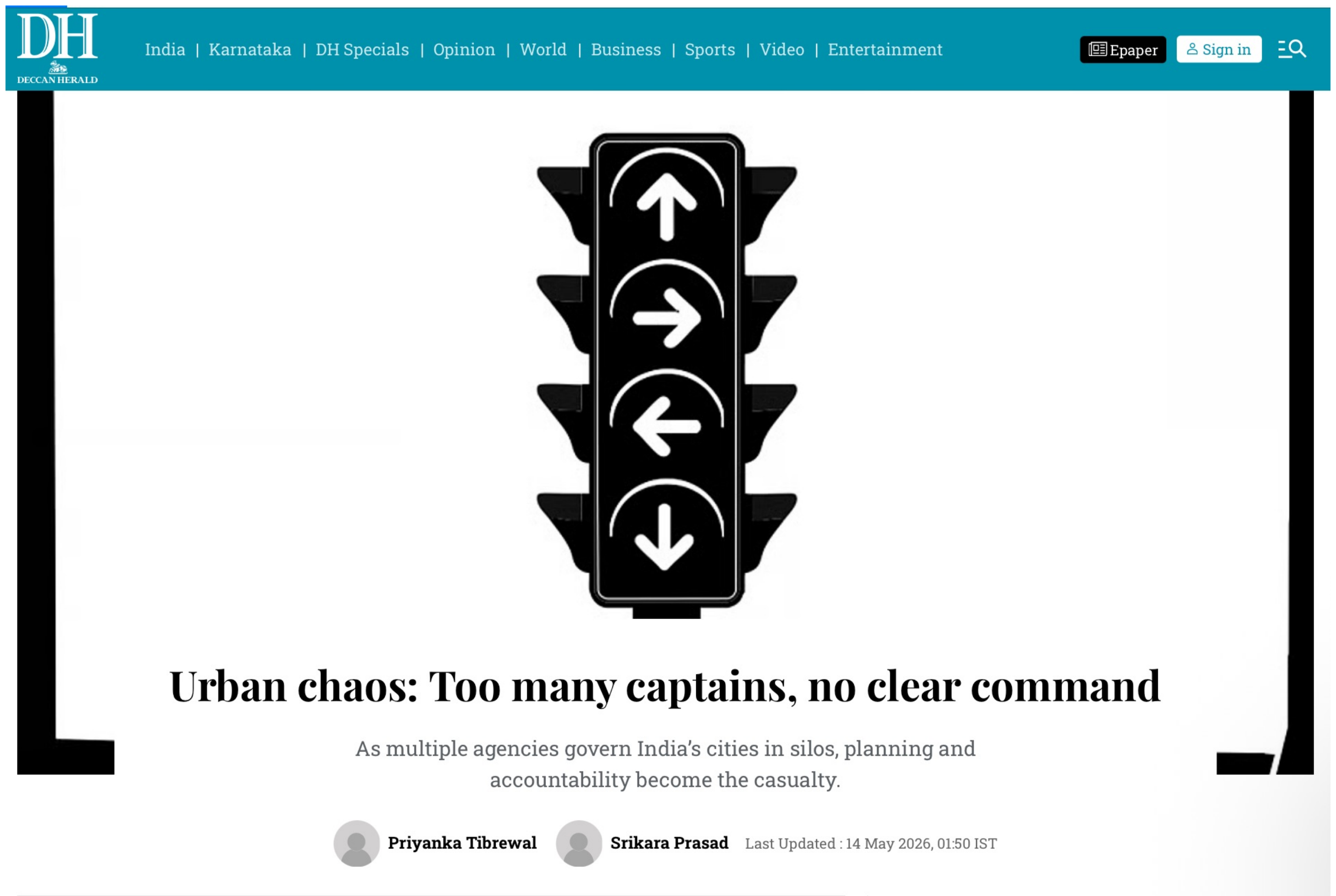
"We are in a two-speed world: Developed economies are getting bigger dollops of flows, while developing nations are struggling."

– Sachchidanand Shukla

"Big-bang reforms can draw capital, but structural reforms will ensure it stays and even grows the pie."

– Sachchidanand Shukla

Article - 3 : Urban chaos - Too many captains, no clear command



Urban chaos: Too many captains, no clear command

As multiple agencies govern India's cities in silos, planning and accountability become the casualty.

Priyanka Tibrewal Srikara Prasad Last Updated : 14 May 2026, 01:50 IST

Context India's cities suffer because too many agencies control urban functions, while elected Urban Local Governments remain weak and underpowered.

Facts

- 74th CAA, 1992 – city governments to have power over 18 functions like urban planning, social development & ecological protection.

- In reality power split across 20–39 agencies – ULGs parastatal authorities, state departments, SEZ authorities, cantt. boards & others.

Analytical Crux

Indian cities do not lack institutions; they suffer from too many institutions working without clear command. ULGs are blamed for poor services, but they do not control key functions, agencies or finances. This creates a responsibility-authority mismatch, where elected city governments are visible but parastatals hold real power. Fragmented ownership weakens urban accountability and thus ULGs should be the main coordinating authority and all urban agencies answerable to them.

Verbatim Quotes

"As multiple agencies govern India's cities in silos, systemic disconnect between responsibility, planning & accountability become the casualty." – Priyanka Tibrewal & Srikara Prasad

"If our cities are to win against mounting challenges, they need a capable captain, clearly defined roles for their players, and frictionless coordination between them."

UPSC LINK

1. GS-II 2025: "Energy security constitutes the dominant kingpin of India's foreign policy, and is linked with India's overarching influence in Middle Eastern countries."

2. GS-II 2025: "The reform process in the United Nations remains unresolved, because of the delicate imbalance of East and West and entanglement of the USA vs. Russo-Chinese alliance."

3. GS-III 2025: "What is Carbon Capture, Utilization and Storage (CCUS)? What is the potential role of CCUS in tackling climate change?"

4. PSIR-I 2025: "There is a debate on the procedure for appointment of the Chief Election Commissioner and Election Commissioners to the Election Commission of India. Analyse its various aspects."

5. GS-II 2024: "Examine the need for electoral reforms as suggested by various committees with particular reference to 'one nation – one election' principle."

6. PSIR-II 2023: "What are the challenges and limitations in India–Iran relations?"

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