

PSIR & GS-2 Daily Brief

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Article - 1 : The US ends Russia oil waiver, implications for India

The U.S. ends Russia oil waiver, implications for India

The United States' decision to tighten restrictions again on Russian seaborne oil may seem like another chapter in the sanctions battle over the Ukraine war. But beneath the headlines lies a much larger story — one that directly affects India and much of the developing world.

The issue is no longer just Russia. It is whether the global energy system can withstand simultaneous geopolitical shocks without causing prolonged inflation, supply insecurity and economic instability across Asia. For over three years, the world has attempted an unprecedented balancing act: keeping one of the largest oil exporters under heavy sanctions while trying to maintain stable energy prices. That balancing act is becoming increasingly fragile. The latest restrictions come at a sensitive moment. Oil markets are already unsettled by conflict in West Asia, persistent disruptions in maritime trade routes and growing concerns over the Strait of Hormuz, the world's most critical oil transit chokepoint. In such conditions, even policy signals from Washington can alter freight rates, insurance premiums and crude price expectations almost overnight.

Why India cannot ignore this development

India imports nearly 90% of its crude oil and is the world's third-largest importer as well as one of the fastest-growing energy consumers. Unlike many developed economies, where energy demand has plateaued, India's energy needs will keep rising with industrialisation, urbanisation and expanding mobility. It is this reality that shapes India's energy choices.

When Russian crude began flowing into India in large volumes after 2022, many in the West viewed it through a geopolitical lens. India saw it



Shrikant Madhav Yaldya

Former Chairman of IndianOil Corporation Ltd. and an energy strategist

The world's emerging economies are increasingly being caught between geopolitics and energy survival

as an economic stabiliser during a period of extreme volatility. Russian oil helped moderate inflationary pressures, improved refinery economics and reduced dependence on any single region. It provided supply flexibility at a time of great turbulence in global energy markets. Critics often frame the debate as morality versus commerce. But energy-importing countries rarely have that luxury.

For countries such as India, energy affordability directly affects transport costs, food inflation, fertilizer subsidies, manufacturing competitiveness and household spending. A sustained rise in crude prices quickly spreads through the wider economy.

When sanctions meet market reality

Global oil markets are operating with little room for psychological comfort. The world has already seen disruptions in the Red Sea, attacks on shipping infrastructure, growing military tensions involving Iran, tighter tanker availability and sharply higher war-risk insurance premiums. In such conditions, constraining one of the world's largest oil suppliers inevitably unsettles markets, even if physical supply losses remain limited at first.

Oil markets react not only to shortages but also to the fear of shortages. That fear alone can drive prices sharply higher. Ironically, this exposes a contradiction at the heart of the western sanctions policy.

The U.S. and Europe want to reduce Russia's oil revenues. But they also want lower inflation, stable fuel prices and uninterrupted global energy flows. Increasingly, these objectives are colliding with each other. The harder sanctions become, the greater the risk of tightening global supply balances. Once oil prices rise sufficiently, Russia can continue earning substantial revenues despite lower export volumes. In some cases, higher global prices can partially offset the impact of sanctions themselves. This explains why the sanctions policy has repeatedly oscillated between aggressive rhetoric and tactical flexibility. Markets eventually force pragmatism.

The temporary waivers and carve-outs of recent years were not merely signs of policy inconsistency; they reflected energy-market realities. The uncomfortable truth is that the modern global economy still runs overwhelmingly on hydrocarbons. Despite the rapid growth of renewables, oil remains central to transport, aviation, petrochemicals, agriculture and global trade logistics. The world may speak of transition, but it still functions on molecules.

For India, the challenge is even more complex. The Strait of Hormuz remains a major strategic vulnerability, carrying nearly one-fifth of global

oil trade. A large share of India's crude oil and LPG imports transit through these waters. Any escalation in the region could disrupt supplies, raise shipping costs and delay deliveries. This is why Russian crude evolved into something larger than a discounted barrel for Asia. It emerged as a diversification mechanism during a period of growing uncertainty in West Asia.

The larger lesson from these developments is that energy security itself is changing shape. In earlier decades, countries were concerned mainly with access to physical supply. Today, vulnerabilities are far more complex. Energy flows can now be disrupted by shipping restrictions, insurance controls, financial sanctions, tanker blacklisting, payment barriers and maritime security risks. In effect, global energy has become deeply entangled with financial and geopolitical architecture.

India's long-term energy strategy

This changing landscape has major implications for India's long-term strategy. India cannot rely indefinitely on opportunistic crude sourcing during crises. The country needs a broader and more resilient energy framework. That means expanding strategic petroleum reserves, diversifying crude sourcing regions, strengthening domestic exploration, improving refining flexibility, accelerating gas infrastructure, expanding alternative energy pathways and reducing dependence on vulnerable maritime chokepoints. At the same time, India will need to preserve strategic autonomy in energy decision-making.

The emerging global order is becoming increasingly fragmented. Energy trade is no longer governed purely by economics; it is increasingly shaped by sanctions regimes, strategic rivalries and competing geopolitical blocs. For major importing countries, excessive dependence on any single geopolitical camp carries long-term risks. India's approach therefore reflects not neutrality, but realism.

The years ahead are likely to witness repeated tensions between geopolitical objectives and energy-market stability. The world is entering an era in which sanctions, wars, maritime insecurity and supply-chain disruptions may become recurring features rather than temporary exceptions. That makes resilience more important than ideology. In the end, energy systems obey physical realities, not political slogans. Tankers must still move. Refineries must still operate. Economies must still function. Nations that fail to build diversified and resilient energy systems may discover that, in the 21st century, economic sovereignty increasingly depends on the ability to navigate a fragmented and unstable energy world.

How energy shocks travel into India's economy

The implications for India extend far beyond crude prices alone. Modern energy disruptions now transmit through multiple interconnected channels

Energy shock	Immediate impact	Secondary impact on India
Higher crude oil prices	Costlier imports	Inflation and rupee pressure
Strait of Hormuz disruption	Supply uncertainty	LPG and fuel logistics stress
Shipping insurance surge	Higher landed crude cost	Refining margin pressure
Russian crude restrictions	Reduced supply flexibility	Higher sourcing costs
Freight disruptions	Delayed cargoes	Inventory and stock management strain

Sources: IEA, Energy Institute Statistical Review, industry and shipping estimates

Context

U.S. restrictions on Russian seaborne oil can affect India's energy security, inflation, rupee stability and strategic autonomy in a disturbed global energy market.

Facts

India imports 90% of its crude oil.

India is the 3rd largest oil importer in the world.

Energy security is linked to sanctions, finance, shipping, insurance and geopolitics.

India treated Russian oil as an economic stabiliser, not as a geopolitical choice.

Analytical Crux

India's oil policy cannot be understood only through morality or geopolitics; it must be seen through the compulsions of an import-dependent economy. Western sanctions shows the limits of coercive economic statecraft when the sanctioned country is a major energy supplier. For India, strategic autonomy means keeping energy options open across regions, suppliers, payment systems and maritime routes. The energy security has become economic security, maritime security and foreign policy security at the same time. In an unstable world, resilience matters more than ideological alignment.

Verbatim Quotes

"India's long-term energy strategy must include strategic petroleum reserves, diversified crude sourcing, domestic exploration, refining flexibility, gas infrastructure and alternative energy pathways."

- Shrikant Madhav Vaidya

Article - 2: The rupee problem this time is different. The solution must be too

The rupee problem this time is different. The solution must be, too

THREE MONTHS into the West Asia conflict, India has done well to avoid widespread energy shortages. Further, the burden-sharing of higher energy prices between the public and private sectors has begun. Retail prices are being raised, but will need to be increased further to elicit the necessary behavioural response from households and firms.

Instead, the key pressure point remains the balance of payments (BoP) and the rupee. But there are two unique elements this time.

First, pressures have long pre-dated the West Asia conflict. For the first time in decades, the BoP has been in deficit for two consecutive years, and we are on course for a third successive deficit. This suggests a more chronic underlying phenomenon that needs to be addressed.

Second, pressures are emanating from the capital account, not the current account. In past episodes, there was a prototypical evolution: The current account deficit (CAD) widened and became more dependent on fickle capital inflows to finance it, which ultimately dried up. This put pressure on the rupee and necessitated compressing the CAD. This episode is very different. The current account deficit has remained very benign — averaging less than 1 per cent of GDP over the last three years. Instead, pressures have been driven squarely by the capital account. Capital inflows — which used to average 2.5 per cent of GDP pre-pandemic — have consistently slowed since 2023, completely dried up in 2025 and have exerted pressure on the rupee.

Making the analytical distinction between the capital and current account as the source of pressures is crucial to formulating the right response.

In turn, a collapse in FDI is at the heart of the capital flow story, with net FDI, which used to average 1.5 per cent, completely drying up since 2024. What's driving this? Between 2010 and 2025, India's net FDI has been strongly correlated with US 10-year treasuries — a proxy for global financial conditions. When yields are low, India tends to get a gush of FDI; when yields have hardened — as in the last two years — net FDI has completely dried up. Recall, FDI is typically governed by both (global) "push" and (country-specific) "pull-factors." India's FDI has largely been governed by push factors since 2010. The last time it was driven by India-specific pull-factors was in 2005-10 when a strong corporate capex cycle catalysed FDI. In contrast, Vietnam has consistently been able to attract above 4 per cent of GDP in FDI irrespective of global financial conditions.

Why does this matter? Because global financial conditions are likely to remain tight. Sticky inflation and a precarious fiscal situation are likely to keep US yields elevated. Meanwhile, India's CAD is on course to more than double because of the West Asia conflict. Even if the Strait of Hormuz opens immediately, it is estimated crude prices will remain in triple digits all year as supply takes a while to normalise while demand remains strong to replenish inventories. If so, this would translate into India's CAD widening close to \$100 billion this fiscal. The combination of higher bond yields and higher crude prices risks a pincer-like effect on the BoP.

The genesis of the problem, however, is a sustained slowing of capital flows, amplified only recently by the terms-of-trade shock from higher energy prices. This must inform the policy response. The first line of defence is to let



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the rupee depreciate — as policymakers have correctly done — to act as a shock absorber. A weaker rupee will disincentivise imports, improve export competitiveness and thereby simultaneously narrow the CAD and boost domestic activity ("expenditure switching"). Theoretically, too, a sharp slowdown in FDI compounded by a large negative terms-of-trade shock from crude prices would argue for a much more depreciated equilibrium exchange rate.

But while rupee depreciation is a necessary condition, will it be sufficient? In theory, a weaker rupee acts as an automatic stabiliser on the capital account, too, because if it is perceived to have overshot, foreign capital should be attracted back. But what does overshooting mean in the current environment? To what extent will the rupee need to depreciate — if it is the only instrument deployed — to close a large BoP gap? That is the question foreign investors are grappling with, and it's not clear that any value of the rupee will be seen as being oversold, given the perceived size of the BoP gap.

In fact, if the rupee depreciates too rapidly, it increases the incentives for foreigners to hedge their existing stock of assets in India (FPI, ECBs, FDI), compounding BoP pressures. That hedging puts more pressure on the rupee, further increasing the desire to hedge, thereby creating a self-fulfilling spiral — signs of which have emerged. This risks pushing the rupee far away from its fundamentals and warrants a circuit breaker to restore order.

That circuit breaker should be foreign capital augmentation measures. The objective must be to attract a large enough quantum of near-term capital inflows across multiple avenues — even if it in-

volves a subsidised swap — to change exporter, importer and investor behaviour, and prevent a destabilising overshooting of the rupee.

A weaker rupee and an influx of capital should hopefully stem the tide. If not, "expenditure compression" — tighter fiscal and monetary policy — may be needed, but only as a last resort. Back in 2013, when the rupee was under pressure, it was clear the economy was overheating, and the obvious response was to tighten fiscal and monetary policy to narrow the CAD. The current context is very different: Core inflation has averaged just 2-3 per cent in recent years, suggesting the existence of slack, and we are still awaiting a private capex cycle that is likely to be further delayed amidst heightened geopolitical uncertainty. In this environment, fiscal compression that accommodates higher fuel and fertiliser subsidies by cannibalising public capex risks making policy pro-cyclical.

It's important to realise that this BoP episode is different. The pressure point is the capital account, not the current account. This will require both a weaker rupee and foreign capital augmentation measures. Simply squeezing the current account through demand compression can, in fact, be counterproductive by slowing growth and turning off growth-sensitive capital inflows.

More generally, the biggest lesson India must draw from this episode is that attracting strong and stable FDI needs to be an urgent imperative — both for macro stability and growth. This will require sustained economic reform that improves India's structural competitiveness. There is no escaping that imperative.

The writer is head of Asia Economics at J.P. Morgan. Views are personal.

Context

The present pressure on rupee is different because it is coming mainly from weak capital inflows and FDI slowdown, not from a large current account deficit.

Facts

Current Account Deficit - less than 1% of GDP in the last three years

India's BoP deficit for two consecutive years for the first time in decades.

Capital inflows, earlier 2.5% of GDP, dried up in 2025.

Analytical Crux

The crisis is not like earlier rupee crisis where the current account deficit was the main reason. The weakness lies in the capital account, especially the fall in stable FDI. A weaker rupee can help, but only if depreciation remains orderly; a disorderly fall can trigger hedging and worsen the crisis. India cannot depend forever on global liquidity cycles. To protect growth & macro stability, India must attract stable FDI through real competitiveness, not temporary financial measures.

Verbatim Quotes

"Making the analytical distinction between the capital and current account as the source of pressures is crucial to formulating the right response. Simply squeezing the current account through demand compression can be counterproductive."

- Sajjid Z. Chinoy

Article - 3: Balancing Act : Statesman News Service



Opinion

Balancing Act

The most revealing aspect of President Vladimir Putin's latest visit to Beijing was not the choreography of friendship, but the limits of it.

Statesman News Service | New Delhi | May 24, 2026 8:01 am



Context

China is using its relations with both Russia & the U.S. to remain flexible, powerful and central in a fragmented global order.

Facts

Russia failed to finalise the Power of Siberia 2 pipeline agreement.

China is slowly becoming the balancing power between rival blocs.

Analytical Crux

China-Russia ties should not be seen as an anti-western friendship. It is an unequal strategic relationship where China gives Russia symbolism, but keeps hard bargaining power for itself. Russia's shrinking options after the Ukraine war have increased China's leverage. China is not choosing one camp permanently; it is preserving room for manoeuvre between Washington and Moscow.

Verbatim Quotes

"The China-Russia relationship is real, durable and strategically significant. But it is not an alliance of equals. Beijing sits at the centre of the geopolitical board."

"For Beijing, Russia remains strategically useful but economically secondary. Symbolism was offered freely; strategic concessions were not."

- 1. CSE Main 2025, PSIR Paper-II:** “India continues to invoke its time-tested policy of strategic autonomy vis-à-vis both the United States of America and Russia by rejecting US’ offer of mediation on Kashmir issue and by refusing to criticize Russia in its ongoing war against Ukraine. Comment.”
- 2. CSE Main 2025, GS-II:** “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.” Examine and critically evaluate the East-West policy confrontations in this regard.
- 3. CSE Main 2024, PSIR Paper-II:** “India has of late, chosen to debunk non-alignment in its pursuit of multi-alignment.” Comment.
- 4. CSE Main 2023, PSIR Paper-II:** “Arms trade, economic ties and congruent geo-political interests are no longer the three pillars of India–Russia relationship in the emerging strategic context. Comment.”
- 5. CSE Main 2023, PSIR Paper-II:** “Quadrilateral Security Dialogue (QUAD) performs an important role in India’s strategic balancing act to withstand the dominance of China in Asia. Discuss.”

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