THEIR VIEW

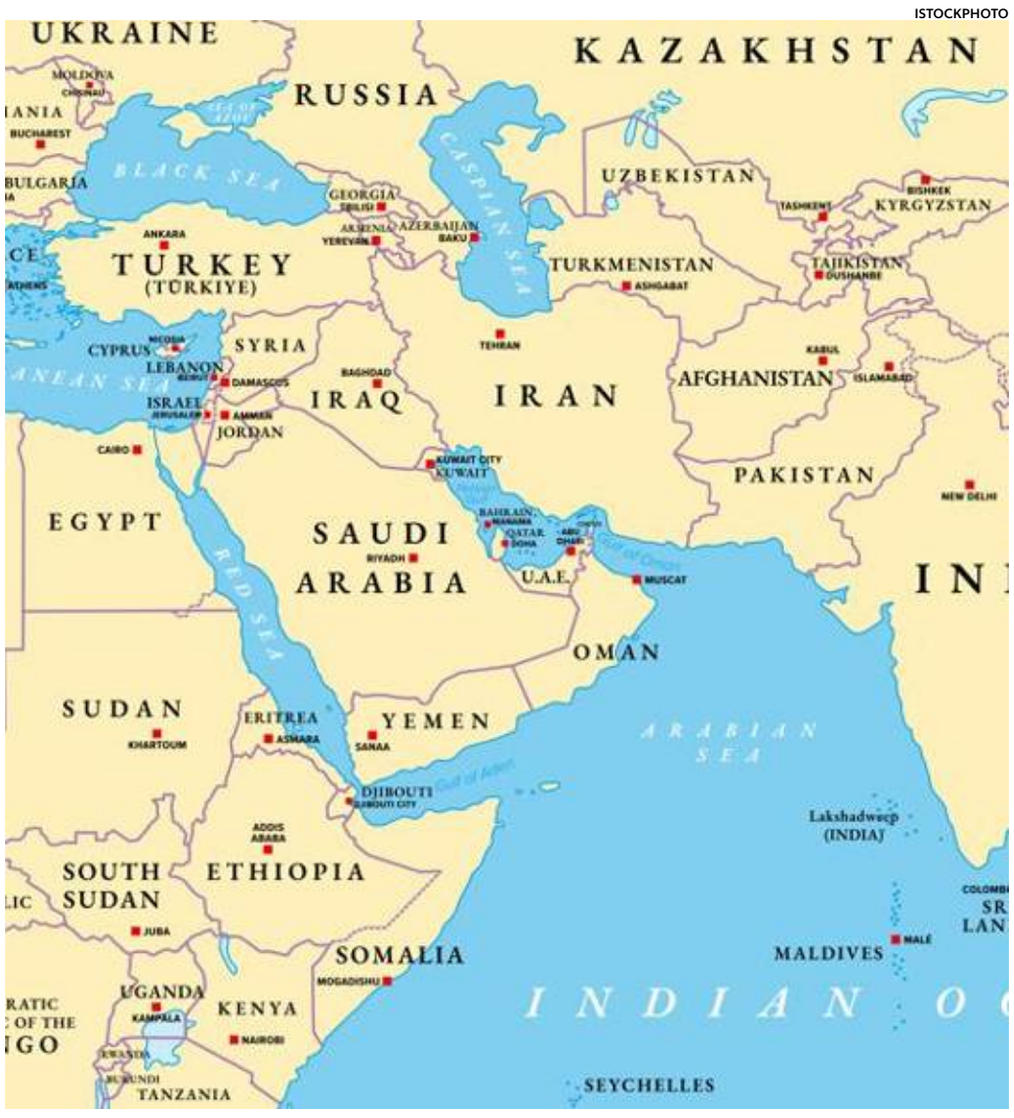
An uncertain new world order is emerging that India must watch

As the old order begins to crumble and alliances are reshaped, we must closely track the geopolitical dynamics of West Asia



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This column usually addresses economic issues. However, in the present context, economic outcomes will be largely determined by the current political conjuncture. Domestically, India is on the cusp of a new political phase following the mobilization of a young generation at Jantar Mantar recently, triggered by repeated and disruptive leaks of examination papers, which soon morphed into a broader demand for government accountability and reforms to fix a broken education system. Globally, we are at the threshold of an emerging new world order, the contours of which are still uncertain, the old order having been disrupted by the very powers that established it at the end of World War II. This column is the first part of a two-part series that looks at the possible main elements of this emerging new global order and how India could best position itself in it. This part mainly deals with the most complex of emerging regional structures, the scenario in West Asia. The second part will discuss similar structures which may—or may not—be emerging in other parts of the world and how India should position itself in the new global geopolitical architecture of the 21st century.

The central fault line of the emerging new order is the competition between the US, the receding hegemon, and China, the rising one. In my previous *Mint* column, I had discussed how the US had itself, ironically, helped China challenge its hegemony. It is tempting to extend this binary competition to a global fault line between a Western alliance led by the US but including countries like Japan, Australia and South Korea on one side, and an Eastern alliance led by China but including countries like Russia on the other. However, such a frame of reference would be quite misleading because instead of any such neat and binary global fault line, what we are witnessing is the emergence of varying and sometimes overlapping alliances around different conflicts—or rivalries—in different geographies of the world. The most complex of these emerging regional structures is in West Asia.

The Israeli attack on Gaza was initially seen as a response to the shocking Hamas terror strike on 7 October 2023, which left over 1,200 persons dead, mostly civilians, over 5,000 injured and some 250 taken hostage. However, it soon became clear that Israel's war was actually a genocidal assault on Palestinians in Gaza. Till date, over 74,000 Palestinians have been killed, mostly women and children. Many more have died through starvation and disease, lacking proper food, sanitation or shelter due to an Israeli blockade of aid. Taken along with continuing attacks on Palestinians and their properties in the West Bank by Israeli settlers, implicitly encouraged by the Israeli government, what we are seeing is a rollout of the extreme right-wing agenda of 'Greater Israel' that would occupy Palestinian land 'from the river to the sea' (and perhaps beyond the Jordan River too). A ceasefire brokered by Qatar, Türkiye and Egypt, backed by the US, in October 2025 stopped large-scale killing, though the bombing, drone attacks and sniping have not completely stopped. A 15-point peace plan brokered by US President Donald Trump's Board of Peace, and supported by the United Nations, was accepted by Hamas on 30 July 2026. It envisages administration of Gaza by Palestinian technocrats and a phased disarming of Hamas calibrated with the withdrawal of Israeli Defence Forces . But Israel rejected the proposal.

Meanwhile, Israel launched a direct attack on Iran in June 2025, with the US joining Israel in bombing Iranian nuclear facilities in Fordow, Isfahan and Natanz. This was a prelude to the launch of a full-scale war on Iran by the US- Israel alliance on 28 February 2026. Iran responded by broadening the conflict to a regional war, striking US bases and vital infrastructure in all countries across West Asia allied with the US. Iran's ally Hezbollah attacked Israel from Southern Lebanon. The regime in Iran has not only survived the war but maintained a blockade of Hormuz. This has severely affected Gulf exporters and other countries.

Iran's successful resistance is attributable to the tenacity of its people and the survival of a harsh regime. But it has also been quietly helped by China and Russia. The audacious aggression of Israel on the other side has been enabled by massive US support: financial, military and diplomatic. Israel has also cleverly leveraged Shia-Sunni rivalries in West Asia to initiate US-supported alliances with Sunni countries against a Shia Iran—the Abraham Accords.

That situation is now changing. US allies in the region have realized that the US cannot offer them much protection, while Iran's stature has grown following its successful resistance. Leading Sunni powers in the region, Saudi Arabia, Türkiye and Egypt, may join other Sunni countries to seek accommodation with Iran, building on the China-brokered restoration of diplomatic ties between Riyadh and Tehran in 2023. Meanwhile, rising US public resentment against the Iran war has led to some rethinking in America about unconditional support for Israel. Pushing Netanyahu aside, the US accepted a temporary peace deal with Iran brokered by Pakistan. Occasional violations notwithstanding, a tense peace prevails.

Meanwhile Saudi Arabia, Pakistan and Türkiye have announced the Makkah Agreement. A joint statement indicates agreement that an attack on any one country will be considered an attack against all three. The three partners also aim to jointly develop defence capability and collective security. This marks a major shift in West Asian geopolitics. Henceforth, US allies in the region are likely to be guided more by their own security concerns than US interests. Washington's influence in the region is likely to moderate, while that of China may rise, Pakistan being its closest ally in this part of the world. Israel's aggressive ambitions will be curbed and, hopefully, so will Shia- Sunni rivalries, giving peace and prosperity a chance.

This is the first of a two-part series.

MINT CURATOR

Bitcoin still hasn't fulfilled the promise of whoever crafted it

It has a truly compelling role neither as a currency nor as an asset



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A decentralized currency has not been the liberator it was hyped as. REUTERS

Bitcoin just notched its biggest weekly gain in more than three years, putting an end to a summer of stagnation. Crypto traders can thank US Treasury Secretary Scott Bessent, whose plan to boost bond buybacks spurred the move. But it will take more than that to return this market to genuinely bullish territory.

The 23% jump was largely down to Bitcoin's part in the 'dollar debasement' trade, an occasional flight to alternative assets prompted by worries about America's heavy borrowing and the White House's eccentric policymaking. Bessent's intervention deepened such fears, although the world's largest cryptocurrency has already started to plateau again after topping $80,000 last week. Investors are right to be cautious. The experience of October's brutal Bitcoin sell-off, after it hit a peak of more than $126,000, showed why narratives about what powers its value often fail to stick.

Some traders have persistently touted crypto as an effective dollar hedge alongside the markets' perennial haven, gold. But October's big crash—when Bitcoin slumped more than 12% after US President Donald Trump renewed tariff threats against China—put paid to that idea. Gold, meanwhile, rose to a record high.

Bitcoin has long been in search of an established story to show that it has fundamental worth, and is not just a pure speculative asset—a hunt that has become more necessary since it entered its teenage years and piqued the interest of heavyweight institutional money managers. It is telling that it still hasn't settled on a consistent or persuasive narrative.

A digital version of gold is the typical rationale for Bitcoin fanatics, who also position it as a hedge against rising inflation. As in October, that idea hasn't borne much fruit this year. The price of gold is up more than 7% so far in 2026. Bitcoin is down nearly 10% even after the recent bounce.

And last week's jump, where both gold and Bitcoin rose handsomely, hardly provides an apple-to-apple comparison. Much of the crypto surge was down to traders who had been betting on the price falling and hadn't anticipated a turnaround. They were then forced to buy crypto to cover their short positions. Gold just performed as you would expect. A leading Bitcoin bull, Strategy Inc chairman Michael Saylor urged traders to buy more of the digital currency during the spike, while refraining from adding to his company's own stash.

The prospect of favourable regulation is another popular tale that's used to console Bitcoin fans. Trump loves digital assets; he has launched several crypto ventures in his second term and pressured Congress to pass legislation last year on stablecoins, which are often backed by the dollar. All of that has helped benefit the president. He reported at least $1.4 billion in crypto-related earnings in 2025, by far his largest source of income. It included more than $594 million in sales by World Liberty Financial, a company he co-founded with his sons that has its own dollar-pegged coin.

His meeting with crypto executives shortly after Bessent's bombshell on bond buying last week looked like happy timing. It bolstered the price of Bitcoin at an opportune moment.

Trump's attention has now turned to the US Clarity Act, a market-structure bill that promises to provide the guardrails needed to encourage greater crypto adoption on Wall Street. But the actions of lawmakers and regulators can be unpredictable at the best of times. The bill's progress has stalled, not least because of infighting over ethics provisions that would limit Trump's own involvement in the sector. The US Senate is not expected to revisit the legislation until mid-September, leaving little time for full approval before November's mid-term elections.

And absent from any of the above is a real knockout story that sets crypto apart from other assets in a way that matches the claims of its pioneers. Bitcoin began as a way to liberate money from the grasp of traditional financial systems, a decentralized form of digital cash that would prioritize privacy and equal access above everything else. That promise continues to go unfulfilled. People still prefer to use stablecoins or real-world cash and equivalents to actually buy things. Attempts to kickstart a Bitcoin-only economy have been largely abandoned.

And yet, there is no shame in taking Bitcoin at face value. Every asset starts somewhere, and even gold had to start its journey as a medium of exchange a couple of millennia or more ago.

Maybe the cryptocurrency will achieve all the dreams its pseudonymous creator Satoshi Nakamoto hoped for. Or it could remain just as it is today: a tool for speculation that provides a chance to make some money—as long as your stomach for risk is strong enough to bear it. ©BLOOMBERG

THEIR VIEW

The rupee has stabilized but key vulnerabilities remain

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The rupee's recent stability has brought relief, having earlier hit a record low. The Reserve Bank of India (RBI) deserves credit for taking decisive action. It reportedly sold about $7 billion in one of its largest foreign-exchange interventions in recent months to prevent disorderly depreciation. It supplemented this intervention with a special foreign currency non-resident (FCNR-B) deposit scheme that included a concessional dollar-rupee swap facility announced on 8 June.

As of 21 August, banks had mobilized more than $65 billion through this window. Total foreign-currency inflows via the new facility, including external commercial borrowings and the overseas foreign-currency class of loans, reached nearly $73 billion. At a time when the rupee was under pressure, this has been read as a vote of confidence. Meanwhile, India's foreign exchange reserves have risen sharply to $717 billion, providing RBI with a substantially larger buffer to intervene in the currency market and contain excessive volatility. Nonetheless, exchange rate stability should not be mistaken for exchange rate strength.

The FCNR-B scheme is an effective crisis-management tool, but it is not a permanent solution. Its large inflows led RBI to announce the scheme's premature closure by end-August, even as competition among banks to attract these deposits intensified, pushing up the scheme's funding costs. Letting the scheme continue would have become progressively more expensive and may have distorted bank funding structures.

The underlying vulnerabilities remain. The *first* is geopolitical. Any prolonged disruption around the Strait of Hormuz would push up crude oil prices, widening India's import bill and sharply increasing demand for dollars. Given India's dependence on imported energy, the rupee continues to carry a significant oil risk.

The *second* vulnerability is the nature of capital inflows. Foreign portfolio investment has recovered in recent weeks, but such capital is inherently volatile. Unlike foreign direct investment (FDI), it responds quickly to changes in global risk appetite rather than domestic fundamentals. Foreign portfolio investors had pulled roughly $28 billion out of Indian equities despite bringing in a net $2.1 billion in July. But that still represents a modest reversal relative to the vast exodus seen through March-June. So, it is too early to view this as a return of foreign investors.

Ironically, the improvement in portfolio flows may owe less to developments in India than to those abroad. For almost two years, global investors poured enormous sums into artificial intelligence (AI)-related stocks, particularly in the US. Investors are now assessing whether that extraordinary AI investment will generate equally extraordinary earnings. As enthusiasm moderates, global capital is searching for markets where valuations are more closely aligned with economic fundamentals. India, with one of the fastest-growing large economies and relatively resilient corporate earnings, has therefore become attractive again.

The Reserve Bank of India's special steps offer relief but don't address risks at the structural level

But this window may prove temporary. A much larger force is quietly emerging in Washington. Federal Reserve chair Kevin Warsh has constituted a Balance Sheet Policy Task Force co-led by former RBI governor Raghuram Rajan to re-assess the future of quantitative easing (QE) as a policy. The implications extend beyond the US. For nearly 15 years, QE flooded global markets with dollar liquidity, much of which flowed into emerging market debt and equity. India was among the beneficiaries of this exceptionally cheap capital.

If the Fed goes for an aggressive balance sheet reduction, global liquidity will tighten. Higher US Treasury yields would raise the opportunity cost of investing in emerging markets while increasing the cost of external borrowing for Indian firms. The US Treasury's decision to double its buybacks of longer-dated securities could ease global credit costs to an extent. However, if the bond market resists yield-curve management and US yields stay elevated, dollar assets could stay attractive enough to keep pressure on capital flows to emerging markets like India while keeping their external debt costs high as well.

A recent International Monetary Fund (IMF) Working Paper, 'The Changing Landscape of Financial Integration in Asia-Pacific,' offers an insight: despite accounting for roughly one-third of global trade and output, Asia holds only about one-fifth of global external financial assets, with an even smaller share of global portfolio investment. Emerging Asia is under-integrated financially. The IMF also draws a crucial distinction between trade and financial integration. Greater trade supports FDI, but has little effect on portfolio flows or cross-border bank lending. That matters because portfolio flows are volatile, driven by interest rates, liquidity and investor sentiment. FDI is more stable as it reflects the confidence in an economy's productive capacity.

For India, deeper financial integration should mean more than luring short-term capital. We need more FDI, deeper domestic financial markets, stronger institutions and greater resilience to external shocks. Done well, integration can lower the cost of capital, bring technology and improve risk sharing. But openness also exposes India to global financial cycles, making sound macro management essential. A currency is ultimately sustained not by the central bank's dollar sales but by confidence in the economy.