Editorial of the Day – 07.01.2026

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1. At a crossroads- On Iran's unrest, its re-engagement with the world

General Studies 2- International Relation

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

Crisis in Iran- At A Crossroads

1. Introduction

Iran is currently navigating a critical period defined by a convergence of economic distress, political rigidity, and external geopolitical pressure. What began as a localized strike has rapidly metamorphosed into nationwide unrest, arguably the most significant since the 2022–23 protests. The situation highlights the urgent need for the Islamic Republic to undertake structural reforms and renew engagement with the international community to prevent a total collapse of state legitimacy.

2. The Trigger and Spread of Unrest

The current wave of instability was not spontaneous but the result of accumulating grievances.

The Spark (Dec 28)- The unrest began with a strike by shopkeepers in Tehran, specifically protesting the catastrophic devaluation of the Iranian rial.

Rapid Escalation- The initial economic strike quickly snowballed into broad, nationwide protests. The scale is now comparable to the unrest following the custodial death of Mahsa Amini in 2022.

State Response

Carrot- The government offered assurances to address the specific economic grievances of traders.

Stick- Simultaneously, security forces issued warnings of harsh crackdowns against "rioters."

Human Toll- Reports indicate at least 12 deaths occurred within the first week as the protests spread beyond Tehran.

3. The Geopolitical Backdrop

The timing and external perceptions of the protests have heightened the regime's anxiety.

Post-War Vulnerability- The unrest erupted just six months after a 12-day conflict with Israel, leaving the state apparatus fatigued and sensitive.

Foreign Involvement Narratives

Mossad Claims- On December 29, Israel's Mossad claimed its operatives were "in the field" alongside protesters, fueling regime paranoia.

US Rhetoric- On January 2, Donald Trump warned that the U.S. was "locked and loaded" if protesters were killed, adding external pressure.

Regime Perception- The Iranian leadership views the protests not merely as economic dissent but as a hybrid threat—economic grievances weaponized by external enemies to foster instability.

4. Economic Crisis at the Core

The primary driver of public anger is a debilitating economic collapse, evidenced by alarming macroeconomic indicators.

Inflation Shock- Food inflation hit 64% in October, ranking as the second-highest globally. This has caused severe cost-of-living stress for the average citizen.

Currency Collapse- The Rial has lost approximately 60% of its value since the war in June, obliterating savings and making imports prohibitively expensive.

Energy Insecurity- The country faces daily electricity outages, disrupting both industrial output and household life.

Declining Revenue- Oil exports are projected to decline by ~7% in 2025 compared to the 2024 average, further shrinking state coffers.

Official Helplessness- Highlighting the severity, President Masoud Pezeshkian publicly admitted the government was "stuck" and could not perform "miracles."

Key Economic Indicator	Status	Implication
Food Inflation	64%	Severe cost-of-living stress
Rial Value	-60% (since June)	Loss of savings, import shock
Oil Exports	-7% (2025)	Reduced state revenues
Electricity	Daily Outages	Industrial & household disruption

5. Governance Constraints and the "Repression Loop"

The state finds itself in a cycle of diminishing returns regarding its governance strategy.

Contradictory Policies- While there has been some "social easing" regarding the enforcement of morality police mandates, the "hard limits" on economic policy and national security remain rigid.

The Repression Loop

1. Economic Decline triggers public anger.
2. External Threats (real or perceived) cause the regime to increase repression.
3. Increased Repression fails to solve the root cause, leading to a deeper crisis and further alienation.

6. The Role of External Pressure

Western policies play a significant role in exacerbating the internal situation.

Washington's Strategy- The current U.S. approach relies on an "economic squeeze" combined with military threats.

Domestic Impact- This strategy primarily hurts ordinary Iranians while making the regime more paranoid and insular.

Proposed Alternative- Analysts suggest a policy of engagement that empowers President Pezeshkian to pursue reforms, rather than escalating threats on Israel's behalf, which only bolsters hardliners.

7. The Old Narrative is Failing

The regime's traditional tools for maintaining control are losing efficacy.

Blame Game vs. Reality- The default state narrative attributes all crises to "foreign conspiracies." However, the public increasingly sees the crisis as a structural reality of shrinking opportunities and eroded freedoms.

Societal Shift- The traditional pillars of state legitimacy—Religion and Nationalism—are no longer sufficient to offset the despair caused by economic ruin.

8. The Way Forward (Reforms Needed)

To ensure stability, Iran must pivot from its current trajectory.

Structural Reforms- Initiate genuine economic and political reforms rather than cosmetic changes.

Tackle Corruption- Address systemic corruption that drains state resources.

Restore Opportunity- Create pathways for economic recovery to appease the disillusioned youth and trading class.

Re-engagement- Move away from isolation and re-engage with the international community to lift the burden of sanctions.

Acknowledgment- The state must acknowledge public anger as a result of internal mismanagement, not just external interference.

9. Conclusion

The protests in Iran are a symptom of a deep-seated structural crisis rooted in economic mismanagement, shrinking freedoms, and public disenchantment. While external actors may exploit the situation, the root causes are domestic. Without meaningful reforms and a shift away from reliance on repression, the Islamic Republic risks recurring instability and a potentially irreversible erosion of state legitimacy.

Source- https://www.thehindu.com/opinion/editorial/at-a-crossroads-on-irans-unrest-its-re-engagement-with-the-world/article70478475.ece

2. CBAM is a trade barrier. Government must lend exporters a hand

General Studies 2- Environment

Topic- Effect of policies and politics of developed and developing countries on India's interests, Indian diaspora.

Carbon-Linked Trade- Challenges & Opportunities (CBAM)

1. Introduction

Global trade dynamics are undergoing a structural shift where climate policy is increasingly determining market access. The European Union's Carbon Border Adjustment Mechanism (CBAM) represents a watershed moment where "carbon intensity" becomes a key metric of trade competitiveness. Scheduled for full implementation in 2026, this policy forces Indian exporters—particularly in steel and aluminium—to grapple with carbon-linked levies that could raise costs by **16–**22%. While framed as a climate mitigation tool, CBAM poses significant risks to developing economies like India that rely on cost-efficient, albeit carbon-intensive, production methods.

2. Understanding the Carbon Border Adjustment Mechanism (CBAM)

The Mechanism- CBAM imposes a carbon price on imports entering the EU, equivalent to the carbon price paid by domestic EU producers under the EU Emissions Trading System (ETS).

Sectoral Coverage- Initially targets high-carbon sectors- Steel, Aluminium, Cement, Fertilisers, Electricity, and Hydrogen.

Future Scope- There is a high probability of expanding to other sectors, fundamentally altering global trade norms and compliance requirements.

3. Impact on Indian Export Competitiveness

High Exposure- The EU is a critical market, absorbing nearly 22% of India's steel and aluminium exports.

Erosion of Edge- The imposition of carbon levies will significantly increase compliance costs, eroding profit margins.

Market Displacement- Indian exporters risk losing market share to competitors from economies with cleaner production baselines or those with pre-existing trade preferences with the EU.

4. Equity Concerns and Climate Justice

Violation of CBDR- CBAM effectively applies developed-world carbon standards to developing economies. This conflicts with the foundational UNFCCC principle of Common but Differentiated Responsibilities (CBDR), which argues that developed nations should shoulder a larger burden of climate action.

Disproportionate Impact- Data from UNCTAD suggests that while CBAM may reduce global emissions by a negligible 0.1%, it will disproportionately penalize exports from the developing world, raising questions about its true efficacy versus its economic harm.

5. Trade Protectionism vs. Climate Action

Green Protectionism- Steel and aluminium are already among the most heavily protected sectors globally via tariffs and non-tariff barriers.

Cost Shifting- Critics argue CBAM functions as a "green trade barrier," effectively shielding EU industries from external competition while shifting the cost of climate adjustment onto the Global South.

6. Expanding Global Precedent

The Domino Effect- The UK has proposed a similar mechanism, indicating that carbon-linked trade measures are becoming a global norm rather than an EU-specific policy.

Uncertainty- This creates long-term unpredictability for Indian exporters, who must now prepare for a global trade environment where carbon metrics are as important as price and quality.

7. Domestic Industrial and Technological Constraints

Energy Mix- Indian manufacturing relies heavily on coal-based energy, making the carbon footprint of exports naturally higher than European counterparts.

Capital Intensity- Rapid decarbonization requires massive capital investment and technology upgrades.

Barriers- A lack of access to affordable green finance and restricted technology transfer from developed nations constrains the ability of Indian industries to comply swiftly.

8. The Way Forward (Strategic Response)

Strategic Trade Negotiations

FTA Leverage- Use ongoing India-EU Free Trade Agreement (FTA) negotiations to seek sector-specific carve-outs, extended transition periods, or mutual recognition of carbon certificates.

Diplomatic Pressure- Emphasize climate equity and the developmental impact of such unilateral measures in diplomatic dialogues.

Accelerating Green Industrial Transition

Incentivization- Provide targeted incentives for adopting energy-efficient furnaces, green hydrogen in steelmaking, and low-carbon aluminium smelting.

Policy Alignment- Align domestic industrial policies (like PLI schemes) with India's Nationally Determined Contributions (NDCs) to bolster credibility.

Carbon Accounting and Standards

Robust MRV- Develop a rigorous domestic system for Measurement, Reporting, and Verification (MRV) of carbon emissions.

Harmonization- Ensure domestic carbon standards are harmonized with global norms to reduce "information asymmetries" and compliance friction for exporters.

Financial and Policy Support

Green Finance- Operationalize "Viability Gap Funding" and concessional green credits to help industries upgrade technology.

MSME Support- Create special support structures for MSMEs within export supply chains, as they are most vulnerable to compliance costs.

Multilateral Engagement

Global Forums- Challenge CBAM at the WTO and UN Climate Change Conferences, arguing for rules that balance trade facilitation with sustainability.

Coalition Building- Form negotiating blocs with other affected developing nations (e.g., BRICS, Global South) to strengthen leverage against unilateral green trade barriers.

9. Conclusion

CBAM signals an irreversible structural shift where international trade and climate policy are becoming inextricably linked. While global decarbonization is imperative, the economic burden must not be unfairly transferred to developing nations. For India, the path ahead requires a calibrated strategy- protecting current export competitiveness through diplomacy and negotiation, while simultaneously accelerating a credible domestic green transition to future-proof its economy.

Source- **https-//indianexpress.com/article/opinion/editorials/cbam-is-a-trade-barrier-government-must-lend-exporters-a-hand-10459121/**