UPSC & STATE PCS CURRENT AFFAIRS · UJIYARI.COM

EDITORIAL ANALYSIS

Rented Credibility: Bilateral Investment Treaties and Durable FDI

BUSINESS STANDARD

6 July 2026 · ECONOMY · GS2 GS3

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

Rented Credibility: Bilateral Investment Treaties and Durable FDI

Business Standard 6 July 2026 **GS2** **GS3**

Source: ujiyari.com — researched, fact-checked & UPSC-mapped

Every fact web-verified against primary sources (https://ujiyari.com/how-we-verify/)

THE LIFT LINE

A bilateral (https://ujiyari.com/vocab/bilateral/) investment treaty is rented credibility. A country that cannot yet promise stability through its own institutions alone borrows the assurance of an external tribunal to tell investors: your capital is safe here. The rent falls, and durable capital arrives, only when the promise is actually kept.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Bilateral investment treaties (BITs) sit exactly at the junction of **international economic law, sovereignty (https://ujiyari.com/vocab/sovereignty/) and the domestic investment climate**, making them a rich cross-cutting GS2 and GS3 topic. India's model BIT, its arbitration history and its 2026 push to sign fresh treaties with major economies make this a live, examinable debate on how a nation attracts and retains foreign direct investment (FDI).

GS Paper 2: Bilateral and regional groupings and agreements involving India, and effect of policies of developed and developing countries on India's interests.

GS Paper 3: Mobilisation of resources, effects of liberalisation, foreign investment, and the investment climate.

BACKGROUND AND CONTEXT

A BIT is an agreement between two states that guarantees minimum protections to each other's investors, typically fair and equitable (https://ujiyari.com/vocab/equitable/) treatment, protection against uncompensated expropriation, and, crucially, the right to take a dispute to a neutral international tribunal (investor-state dispute settlement, or ISDS).

India learned the sharp edge of ISDS when Vodafone and Cairn Energy won international arbitration awards against it in retrospective-tax disputes, exposing the exchequer to large liabilities. In response India adopted a **2016 Model BIT** that tilted toward sovereignty: it excludes taxation from the treaty's scope, and requires investors to exhaust local remedies in Indian courts for at least five years before going to international arbitration. India then terminated 76 older BITs to renegotiate them on the new template.

The pendulum is now swinging back. With FDI equity inflows rising about 18 percent to roughly USD 58.84 billion in FY26, India is weighing easier BIT terms and is pursuing treaties with the EU, the US, Russia, Saudi Arabia, Qatar and Oman.

THE CORE ARGUMENT / ISSUE

Protection versus policy space

The core tension is genuine. Strong investor protections and easy access to arbitration reassure capital, but they can constrain a government's right to regulate in the public interest, on health, environment or taxation. The 2016 model swung hard toward preserving policy space; the risk was that thin protections made the treaty less credible as a signal.

Credibility is built by honouring awards

Rented credibility only works if the rent is paid. A treaty means little if a state litigates, loses, and then resists honouring the award. India's eventual settlement of the Cairn dispute and repeal of the retrospective-tax provision were credibility-restoring acts precisely because they signalled that the rules, once broken, would be set right.

ELEMENT	2016 MODEL BIT (SOVEREIGNTY-TILTED)	WHAT DURABLE FDI ALSO WANTS
Taxation	Excluded from treaty scope	Predictable, non-retrospective tax
Access to arbitration	Local remedies for 5 years first	Reasonable, timely dispute resolution
Definition of investment	Narrow, enterprise-based	Clear, workable protections
Honouring awards	Case-by-case	Reliable enforcement builds trust

The regulatory environment is the real magnet

BITs signal intent, but sticky FDI ultimately follows a stable regulatory environment: predictable policy, no retrospective surprises, contract enforcement, and speedy dispute resolution. The treaty is the advertisement; the domestic institutions are the product.

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Treat a BIT as a **credibility instrument, not a giveaway**. The question is never simply "more protection or less," but "does this treaty make our promise of stability believable at an acceptable cost to policy space." Rented credibility is a transitional tool: as domestic courts, contract enforcement and tax certainty strengthen, a country needs to rent less. The strategic goal is to earn credibility through institutions so that treaties reinforce, rather than substitute for, trust.

THE DIAGRAM IN WORDS

```
Weak perceived stability -> investors demand external assurance -> India signs BIT (rented credibility) -> dispute arises (e.g. Cairn, Vodafone) -> India honours/settles award + fixes law -> credibility rises -> combined with stable domestic regulation -> durable FDI arrives -> over time strong institutions reduce the credibility "rent" needed.
```

WAY FORWARD

1. **Balance the model BIT.** Retain reasonable policy space but restore credible protections and a workable path to arbitration, so the treaty is a believable signal.
2. **Honour and enforce awards reliably.** Nothing builds durable investor trust faster than a state that keeps its word even when it loses.
3. **Fix the fundamentals.** Non-retrospective tax, fast contract enforcement and predictable regulation are what convert treaty text into actual inflows.
4. **Sequence the treaty push.** Prioritise BITs with capital-exporting partners (EU, US, Gulf states) whose durable, long-horizon capital India most wants.

PYQ LINKAGE AND PRACTICE

UPSC has asked on India's investment climate, FDI policy and the interface between international agreements and domestic sovereignty, and on liberalisation and foreign investment (GS3, various years). This editorial connects that theme to the specific instrument of BITs and India's 2026 negotiating agenda.

Practice question: "Bilateral investment treaties function as rented credibility for a developing economy." In this light, examine the evolution of India's model BIT and the reforms needed to attract durable FDI while preserving regulatory sovereignty. (250 words, 15 marks)

Sources: Business Standard (https://www.business-standard.com/opinion)

~~Source: Rented Credibility: Bilateral Investment Treaties and Durable FDI — Ujiyari.com | Free UPSC & State PCS~~
Ujiyari Current Affairs · ujiyari.com · Free Daily Current Affairs for UPSC & State PCS
Editorial Analysis

RELATED DAILY ARTICLES

- 6 Jul India Launches Its First Drone Cooperative
- 5 Jul Current Affairs Today, July 5, 2026
- 5 Jul ACME's Green Ammonia and Methanol Deals with Japan
- 4 Jul Current Affairs Today, July 4, 2026

Ujiyari Current Affairs · ujiyari.com · ~~Free Daily~~ Current Affairs for UPSC & State PCS

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

📖 Read Full Article on Ujiyari →

https://ujiyari.com/editorials/2026/07/bs-bilateral-investment-treaties-fdi-2026/