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Door No 18, New Plot No 259 /109,

AL Block, 4th Avenue, Shanthi Colony,

Annanagar, Chennai - 600040.

I N D E X

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1. KEY TAKEAWAYS FROM G-20 SUMMIT

Why in news?

2019 G-20 summit has been recently held in Osaka, Japan.

What is g20 grouping about?

- The Group of 20 (G-20), is a group of finance ministers and central bank governors from 19 of the world's largest economies, including those of many developing nations, along with the European Union.
- It is formed in 1999, following the Asian and Russian financial crises, G-20 has a mandate to promote global economic growth, international trade, and regulation of financial markets.
- G-20 is a forum is not a legislative body and its agreements and decisions have no legal impact, but they do influence countries' policies and global cooperation.
- Together, the economies of the G-20 countries represent about 90% of the gross world product (GWP), 80% of world trade, and two-thirds of the world population.
- After its inaugural leaders' summit in 2008, the leaders of the G-20 announced that the group would replace the G-8 as the main economic council of nations.
- The Financial Action Task Force, the mechanism the G20 promoted to monitor and control terror financing, has been one of its more lasting contributions.
- The G20 covers all manner of issues from women's rights to climate change.

What are the highlight decisions of the recent summit?

- The summit delivered expected consensus support for "strong, sustainable, balanced and inclusive economic growth", alongside renewed commitments to reform the World Trade Organization.
- Agreement on key initiatives on digital innovation and e-commerce, financial inclusion for ageing populations and marine plastics was also made.
- More importantly, it provided a much-needed platform for US-China dialogue, bringing the escalating trade war to a halt.

- US has also announced to drop its ban Chinese telecom manufacturer Huawei.
- G20 leaders were unanimous in their backing for the proposal that would increase pressure on tech giants like Facebook to block or remove the spread of violent extremism online.
- India, South Africa, and Indonesia have boycotted the "Osaka Track" on the "digital economy" at the G20 leaders' summit in Osaka on
- "Osaka Track" on the "digital economy" was initiated and seeked the participation of G-20 countries.
- It aims to legitimize the informal plurilateral (two or more countries) negotiations on digital trade that were never approved at the World Trade Organization.
- The Osaka Track, according to the 50 signatories, is a process for promoting "international policy discussions, inter alia, international rule-making on trade-related aspects of electronic commerce at the WTO."

What are the major takeaways for India?

- India emerged from Osaka with two takeaways, One is the collateral benefit of the resumption of US-China trade talks that offers some breathing space.
- The second is joining countries such as South Africa and Indonesia in boycotting the "Osaka Track" on the digital economy (which has implications for India's controversial data localization rules).
- India, South Africa, and Indonesia among others chose not to sign the declaration on Osaka Track because it would fundamentally undermine the core WTO principles for arriving at consensus-based decisions.
- India is in pole position to shape the global agenda at a time when multilateralism, which has benefited the country enormously in the past two decades, is increasingly under threat.
- Apart from this on WTO reforms, India and South Africa demanded that "reforms" must be in accordance with the core WTO principles of consensus-based decision-making, multilateral agreed rules, and an impartial and independent functioning of the dispute settlement body.

2. HITS AND MISSES OF G20 SUMMIT

Why in news?

Osaka summit was a lost opportunity for Japan, Even though Japan outlined ambitious agendas.

What was Japan's agenda for the G20 summit?

- The G20 presidency offered Japan its first leadership moment at a time when the rules-based global economic governance is becoming more fragmented under pressure from growing American unilateralism and Chinese state capitalism.

- Japan had a difficult choice: whether to let politicization of trade harm the global economy by allowing managed trade and weakening enforcement mechanism of the World Trade Organization (WTO) to appease its most important security ally - the US, or be an anchor of free trade and open markets.
- Japan's objective was to reinstate global confidence in the multilateral trading system at a time when backlash against globalization is unleashing economic nationalism in order to undo 'unfair trade practices'.
- At the global level, Japan as the third largest economy was keen on projecting its readiness to step up as the leader of multilateral trading system, particularly after successfully rescuing the TPP-11 (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) following the US exit and concluding the Economic Partnership Agreement with the European Union (EU) following Brexit.
- The G20 had presented Japan administration an opportunity to demonstrate Japan's geopolitical standing through summit diplomacy on the side-lines.

What are significant proposals of the summit?

- **Track for data governance** -Japan argued the case for building rules for data governance and constructing a new regime underpinned by Data Free Flow with Trust (DFFT).
- This is aligned with Japan's push for data-driven Society 5.0 which the fourth industrial revolution will generate.
- **Reinforcing a free and fair trading system** - At the G20, Japan's attention regarding WTO reforms was steered towards digital trade and industrial subsidies, subjects that would not offend Trump.
- For the US, EU and Japan, the larger debate on WTO reforms evolved around three axes - alleged overstretch by the appellate body, low compliance regarding notification of government subsidies in accordance with specific agreement rules, and the practice of allowing members to self-designate as developing countries with the aim of obtaining special and differential treatment, as in the case of China.
- A view is fast emerging that to preserve the free trade system, economies like Japan, the EU and China should join forces towards liberal regional integration on trade and investment without the US, consequently driving the US into an unfavorable position which may lead the business elites to create pressure on Trump to ease protectionist measures.

- Tackling global environmental challenges - the Osaka Blue Ocean Vision, addressing the problem of marine plastic waste, received unanimous support that encouraged the adoption of a comprehensive life-cycle approach.
- What were constrains faced by Japan achieving its agenda?
- Power politics constrained Japan's G20 agenda as building consensus on issues of global economic governance exposed deepening fault lines not just between the developed and developing economies but amongst the developed economies as well.
- **Global data governance** -Even though cross-border flow of data and information creates increased productivity and innovation, there are more than a few challenges related to privacy, data protection, intellectual property rights and security.
- The Osaka Declaration on Digital Economy was not signed by emerging markets and developing economies like India, Indonesia, South Africa and Egypt.
- **Issues in WTO reforms** -The G20 struggled to make considerable progress in providing strategic direction on reforming the WTO which serves as the foundation of global trading system.
- The Osaka Declaration made little progress on critical issues such as President Donald Trump's stance on blocking new appointments to the appellate body, consequently weakening the key dispute mechanism.
- Osaka Declaration had no reference to protectionism and multilateralism, Instead, it outlined the objective of keeping the trade and investment 'free, fair, non-discriminatory'.
- Incidentally, Japan has prioritized concluding the Regional Comprehensive Economic Partnership (RCEP), representing 33 per cent of the global GDP.
- However, the RCEP negotiation is navigating the fragmentation within, leading to an evolving discourse among stakeholders to conclude RCEP minus India or pursue RCEP within an Association of Southeast Asian Nations Plus Three (ASEAN+3) framework for now.
- **Traversing the climate politics** -As the US attempted to mitigate references to the Paris Agreement, which reflects "common but differentiated responsibilities", several signatories including France ensured that the G20 upholds the essence of the Agreement.
- Fault lines of the climate politics reflected in the Osaka Declaration which carried a separate paragraph on the US reservations vis-à-vis the Paris Agreement.

What areas the summit missed to achieve?

- The G20 is considered as the premier forum for nuanced debate on how best to manage the impending risks in global economic system.
- Hence, as a leader and advocate of globalization and multilateralism, Japan was expected to restore international confidence in the multilateral trading system and present solutions to reduce risks and economic instabilities.
- The debate on global economic governance in Osaka was dominated by competing interests and narrow national agendas which made this important platform rather ineffective in resolving major problems facing the global economy.
- At a time when the world economy is dealing with the ramifications of US-China trade rivalry and also Brexit, Japan as a flag bearer of multilateralism and open markets, with strong national interests to protect both, could have been more assertive in setting the strategic direction for upholding the rules-based multilateral trading system.
- However, the Osaka summit was a lost opportunity for Japan, Even though Japan outlined an ambitious agenda, the cause of multilateralism got compromised by politicization of issues pertaining to global economic governance.

3. ISSUES IN DEFENSE BUDGET ALLOCATIONS

Why in news?

Union finance ministry kept unchanged the allocation provided to the Ministry of Defence (MoD) in the interim budget.

What is the state of Indian economy?

- Despite a slight moderation of gross domestic product (GDP) growth from 7.2 per cent in 2017-18 to 6.8 per cent in 2018-19, India remains the fastest growing major economy in the world.
- The higher growth trajectory of the Indian economy is particularly impressive especially when the world economic growth is on a constant fall.
- Further, the impressive forecast of the Indian economy comes with macro-economic stability with the headline inflation, as well as fiscal and current account deficits, remaining within manageable levels.
- With an average growth of 7.5 per cent in the last five years, the Indian economy is also set to 'shift gear' for a sustained growth of eight per cent per year for the country to become a five trillion dollar economy by 2024-25.

What is the existing budget demand of defense sector?

- Tthe three major constituents of the Defense budget are the Defence Services, which conventionally constitute India's defence budget, amounts to 71 per cent, with Defence

Pensions (26 per cent) and MoD (Civil) (three per cent) comprising the rest.

- Out of MoD's total budget, close to 60 per cent is spent on salary and pensions of nearly 4.9 million personnel, of which 3.1 million are defence pensioners, 1.4 million uniformed and 0.4 million defence civilians.
- Owing to the periodic revision of salary and pension and the implementation of the One Rank One Pension (OROP), this segment has witnessed the highest growth.
- The Medium Term Fiscal Policy cum Fiscal Policy Strategy Statement, presented along with the Union budget, forecasts the revenue expenditure of the defense services to grow by 10 per cent per year for the next two years.
- Though there is no specific forecast for the capital expenditure of the defense services, it is unlikely to see a major jump, considering the limited space available in view of the government's focus on massive spending on infrastructure development.

What are the plans on defence budget allocations?

- In February 2019 Rs 4,31,011 crore ($ 61.96 billion) was allocated to defense sector, during the interim budget.
- Finance Ministry modified composition of the MoD's budget by shifting few of the elements from one head of expenditure to another.
- With the overall budget of the MoD remaining the same, the Finance ministry also changed the basic customs duties for certain defense imports, in an attempt to lessen the resource crunch facing modernization of the armed forces.
- With the inclusion of Military Farms and ECHS in the Army's budget, the latter's allocation has increased by Rs 3,430 crore from the interim allocation.

What are the issues in defence allocations?

- The twin effects of greater flow of resources to socio-economic sectors to spur economic activity and further squeezing of the fiscal deficit has constrained the Finance Ministry from enhancing the overall allocations for the MoD.
- Though some leeway is provided by way of exempting certain defense imports from customs duty, it may not be enough, given the vast deficiencies existing across the defense services.
- Suffice to say that in 2018-19, the three armed forces together had projected a shortfall of Rs 1,12,137 crore, or 30 per cent of their total requirement.
- If the MoD's total capital expenditure is taken into accounts, the share increases to 33 per cent and 32 per

cent in 2018-19 and 2019-20, respectively.

- As against a huge shortage on modernization budget in the previous year, the latest budget has allocated an additional amount of Rs 6,893 crore, the same amount provided in the interim allocation.
- The additional amount is grossly inadequate, to say the least.

What measures are needed?

- The wide disparity in the shares is largely due to the small percentage of the GDP forming part of the government's revenue, as much of the economic activity in the country does not translate into tax collection, the major source of government's revenue.
- In fact, India's tax-GDP ratio is one of the lowest among the comparable countries.
- Unless the tax base of the country increases substantially in the coming years, defense's share in the CGE will remain high.

4. MEASURES TO ADDRESS ISSUES IN DEFENSE SECTOR

Why in news?

Union budget has proposed various measures to address the issues in Defense manufacturing.

What are challenges faced by Defence manufacturing sector?

- The Indian armed forces are currently in the midst of a huge modernization process.
- However, owing to the resource crunch, their ability to pay for it has come under a great deal of stress.
- The resource crunch has been so intense that they are finding it difficult to even pay for the past contracts.
- There are several challenges on the fronts of job creation, availability of liquidity, infrastructure spending, and also in view of the rural and agrarian distress and continuing crisis in both the banking and non-banking financial sectors.

What are the measures proposed in Union budget?

- **Lower Corporate Taxes -** Lower corporate tax of 25 per cent for companies with an annual turnover of up to Rs 400 crore (earlier threshold was Rs 250 crore).
- The reduction of corporate tax from earlier 30 per cent to 25 per cent will improve the profit margin and act as a key incentive, particularly for private companies in the defence sector.
- **Increase in minimum pubic shareholding-** In listed company shareholdings will be increased from 25 per cent to 35 per cent.
- This would pave the way for the government to raise additional

resources by offering the shares of the listed Defence Public Sector Undertakings (DPSUs) which don't meet the new listing norm.

- The additional resources would augment the government's revenue which could be channeled for defence infrastructure development.
- **Strategic Disinvestment**- It is planned on Central Public Sector Undertakings (CPSEs).
- Some of the DPSUs, particularly the BEML, which was earlier identified for strategic disinvestment but held back for unspecified reasons, could now be taken to the logical conclusion.
- The MoD could also identity few other non-strategic DPSUs which could be offered for privatization.
- **Withdrawal of customs duty** - Union budget has announced custom duties will be abolished on imported equipment that is not manufactured in India.
- This will marginally reduce the burden on the defence budget without upsetting the level playing field between the public and the private sectors.
- **Ease of access to credit for MSMEs** - This will greatly facilitate ease of doing business in defence for 8000-odd MSMEs who are involved in defence in some form or the other.
- **Abolition of 'Angel-Tax' for Start-Ups** - This would eliminate the threat from tax authorities in respect of valuation of share premiums. The start-ups and their investors would have greater freedom to focus on innovation and in operating their own business.
- **Defence Corridor** - Union government has announced Defense Industrial corridor in T.N and U.P.
- Development of these corridors will help in accelerated growth and regional industry agglomeration, which will lead to increased defense production in the country and the region.

What further actions are required by defense sector?

- Given the gloomy forecast of resource availability, the MoD has to find a way to fund its modernization programmes.
- It is high time the MoD raised some resources by making best use of the vast assets it owns, rather than completely relying on the government funding.
- The Finance Monastery's disinvestment commitment, including privatization of CPSE, could be used by the MoD to raise some of the much needed resources by exposing all the DPSUs under its administrative control to the new listing norms.
- Apart from the disinvestment, the MoD could also identify its vast unused or underused land parcel from its existing 1.73 million acres of land, which could be put to

commercial use without compromising the security requirement.

- The resources generated could be used for the modernization requirements.
- Thus MoD also needs to rebalance its defence expenditure so as to contain the manpower cost and devote more resources for modernization.

5. 15TH FINANCE COMMISSION AND DEFENSE BUDGET

What is the issue?

Amendments to 15thFinance Commission will make the needs of defence and internal security be set aside from regular expenditure.

What is Union government's plan on Finance commission?

- Article 280 of the Constitution requires the Finance Commission to make recommendations regarding

  (a) Distribution of the net proceeds of taxes between the Centre and the States,

  (b) The principles to be followed for providing grants-in-aid to the States,

  (c) The measures to be taken to augment the Consolidated Fund of the States to supplement the resources of the Panchayats and the Municipalities,

  (d) Any other matter referred to it by the President in the interests of sound finance.

- Recently union government extended the term of the Fifteenth Finance Commission till November 30, 2019,and has also amended its Terms of Reference.
- The amendments were made to "address serious concerns regarding allocation of adequate, secure and non-lapsable funds for defence and internal security of India.
- To that end, the Commission has been tasked to examine whether a separate mechanism could be created for such funding.

What does separate allocation for defence imply?

- Inadequate allocation for defence has been a matter of serious concern for several years.
- What lies at the root of the problem is the difficulty in raising sufficient resources through taxation, borrowing and other means to meet the requirement of defence (and internal security) without compromising on the socio-economic agenda of the government.
- This constitutional provision sets the limit within which the Finance Commission can examine appropriateness of the requirement of funds projected by the armed forces, take a normative view about what would constitute 'adequate' budget outlay for them, and suggest how to ensure the recommended level of

funding, especially if it entails a substantial increase.

What are fundamental issues with the idea?

- Setting aside a fund purely for defence, which is a natural end point of the Cabinet's demand from the Commission, would act against thebasic constitutional principle in **Article 266**.
- Article 266implies that the Consolidated Fund of India is a shared pool for all national priorities.
- It would sequester defence spending and give the Centre more space to spend on its own political priorities at the states' expense.
- A large part of the expenditure goes to fund the wages and pensions bills, along with other current expenditure.
- The capital budget for defence is too smallin any case, and much of it is taken up with tied expenditure.
- The amount left for modernization initiatives is also too small.
- The MoF has consistently questioned the feasibility and utility of creating a non-lapsable funding mechanism and even the MoD has not always been keen on the idea, though lately it has warmed up to it.
- Be that as it may, the fundamental issue is that the resources will have to be raised in the normal course through taxation and other means, whenever required by the armed forces.
- Seen in this perspective, it makes no difference whether the money is made available through the annual budget or the mechanism of a non-lapsable fund.

What is the way forward?

- Given the limitation of the constitutional mandate and the history of recommendations made by the previous two Finance Commissions, it will take some doing on the part of the Fifteenth Finance Commission to make specific and actionable recommendations as regards what would constitute 'adequate' funding for defence and internal security.
- In the context of defence, the Fifteenth Finance Commission will also have to find some way of dealing with the issue of inadequacy of the capital outlay which the Fourteenth Finance Commission considered to be beyond its scope.
- This is crucial as modernization of the armed forces is largely funded from the capital outlay, which is largely seen as grossly inadequate.
- This is because the actual resource allocation will always be influenced by the competing demands from various sectors, unforeseen crises and the overall resources that the government is able to generate in a particular year.
- The ability of the government to raise substantially higher resources,

primarily through taxation, to provide adequate funds for defence and internal security, as indeed for other sectors like health, education, and agriculture and infrastructure development must not be under estimated.

- It is more a matter of political consideration than a problem to be resolved by the Finance Commission.

6. REEMERGENCE OF WEST ASIAN OIL CRISIS

What is the issue?

The area of conflicts prevailing in the US-Iran politics have raised questions on oil trade.

What actions of Iran threatens global community?

- Tensions began to rise in May 2018 after President Donald Trump unilaterally withdrew the United States from the 2015 Joint Comprehensive Plan of Action (JCPOA) agreement, commonly referred to as the Iran nuclear deal, and reimposed US sanctions on Tehran.
- On July 01, 2019, Iran's enriched uranium stockpile has passed the 300-kilogram limit set under the July 2015 nuclear deal1 – formally, the Joint Comprehensive Plan of Action (JCPOA).
- On July 03, President Hassan Rouhani even declared that Iran will begin, as early as July 07, enriching uranium "in any amount that we want" and would exceed the levels specified under the 2015 nuclear deal.
- Iran has also periodically been threatening to disrupt shipping through the vital Strait of Hormuz through which a majority of the region's oil transits for (mainly) Asian consumers.
- Therefore, the uncertainty around re-imposition of the earlier United Nations (UN) sanctions on Iran still remains and will only add to the volatility of oil prices in the near future.

What are expected consequences of the existing conflict?

- As concerns over a potential conflict in the region grow, the pressing issue of what a conflict would mean for the price of international crude oil also needs to be addressed urgently.
- In the aftermath of the recent US-Iran stand-off, both spot and future prices of crude oil witnessed a five per cent hike.
- Although there is no supply shortage as such, the price at which it is bought will impact on consumers.
- Organizations like the International Energy Agency (IEA) have been cutting their estimates for oil demand growth through 2019, citing the impact of trade issues between the US and China on the global economy.

- As well as growing concerns over the impact of hydrocarbons, particularly oil and coal, on climate change, which it says have led to a fall in the demand for oil.
- Several reasons have been cited for this phenomenon, the most prominent being the surge in the US shale oil production by 1.6 million barrels a day (mbd), compared to a year earlier, as well as an increase in the US inventories.
- Also, due to the ongoing US-China 'trade war', concerns regarding a slowing global economy have impacted on growth and therefore on the demand for oil, preventing a rise in prices.
- As per the latest estimates of the Organization of the Petroleum Exporting Countries (OPEC), the world oil demand will rise by 1.14 mbd in 2019, which is 70,000 barrels per day less than previously expected.

What are the likely impacts for India?

- As the third largest consumer of oil, with its current import dependency at more than 83 per cent, India's economy is bound to feel the pinch of higher oil prices.
- With domestic production continuing to stagnate and the transport sector expected to register a compound annual growth rate (CAGR) of 9.5 per cent during the 2019-2024 period, India's thirst for oil is unlikely to abate in the near future.
- In fact, India is seen as potentially the largest market for oil over the next decade.
- This has huge impact not only on India's overall import bill, of which oil and gas imports make up the bulk, but also on the economy as a whole.
- With every US$ 10 per barrel hike in crude oil prices, India's current account deficit (CAD) goes up by 0.4 per cent of GDP; every 10 per cent increase in prices can push up the inflation rate by 20 basis points.
- According to Petroleum Planning and Analysis Cell (PPAC) of the Ministry of Petroleum and Natural Gas, India spent $111.9 billion on oil imports in 2018-19, up from $87.8 billion in the previous fiscal year.

What will be the future of oil trade?

- By the late 2020s demand for liquid transport fuels will stop growing, the demand for oil for petrochemicals, particularly olefins and aromatics, will continue.
- With global upstream capital expenditure having fallen by almost 45 per cent between 2014 and 2016, due to the price collapse, it will have an impact on the new production.
- According to the IEA World Energy Outlook-2017, an additional 2.5 mbd of new production will be required for conventional oil production to remain flat, given that it takes about three to six years from project sanctioning to coming on stream.

- Despite data from the US Energy Information Administration's (EIA) June 2019 drilling productivity report suggesting that the oil output from major shale formations is rising, it has also lowered its total oil production growth forecast.
- This is based on the rig count, an early indicator of future output, which has been declining over the past six months, due mainly to independent exploration and production (E&P) companies cutting their spending.
- Also, although advanced technology has arrested declines, the lateral lengths of the wells have increased substantially, as have the volume of water used in drilling.
- Russia and the OPEC have agreed to roll over the production cuts for another few months, possibly till the end of the year, which saw prices go up slightly.
- As the US shale output starts declining, further cutbacks from the group will see excess supply disappearing.
- Without timely supplies entering into the market, prices will start ascending eventually.

What can India do to reduce the impact on its economy?

- Apart from strategic oil reserves, which can be accessed in the event of a supply disruption, there are financial instruments that can hedge price increases.
- These include hedging and options contracts that allow oil companies to lock in the price of the oil they contract to import in the future, which can soften the risk of sudden spikes in oil prices.
- While private oil companies, including Indian, as well as several small countries systematically hedge against price increases, the Indian state-owned companies – a far larger importer of crude oil - continue to hesitate in employing such mechanisms, despite the Reserve Bank of India (RBI) recommendations that they should go for hedging, particularly for long futures contracts, fearing a backlash if prices drop.
- However, if prices do drop, a mechanism can be adopted whereby the loss is spread over time, similar to the mechanism that is in place for spreading the impact of higher oil prices over time.
- The market should put existing mechanisms that could hedge against price spikes, which India is likely to see soon.
- Given that India will remain dependent on the international market for the foreseeable future, it is time that strategies and mechanisms are employed to minimize such risks.

7. OIC MEETING

Why in news?

India became the “Guest of Honour” at the 46th session of the Council of Foreign Ministers of the Organisation of Islamic Cooperation (OIC).

What is OIC’s view on India?

- With 57 member states and a collective population of over 1.8 billion, the OIC is the world’s second-largest intergovernmental organization after the United Nations (UN).
- Its mission statement is to protect the interests of the Muslim world.
- It routinely expresses solidarity with Palestine, Iraq, Afghanistan, Syria and Bosnia as well as with the people of the Turkish Cypriot state, Kosovo and J&K.
- Under Pakistan’s malevolent influence, the OIC has traditionally disregarded the fact that India is a democratic and secular country, where every citizen is protected by the Constitution and is free to practice one’s religion.
- It also conveniently disregards the fact that India regularly holds state and general elections including in J&K, in stark contrast to the trammeling of human rights in the Pakistan-occupied Kashmir (PoK) and Balochistan and gross ill-treatment of the Ahmadiyas in Pakistan.

What are the issues with OIC’s action?

- An OIC resolution (10/46-Pol) did refer to J&K and expressed concern at the situation of Muslims in India.
- This customary reference can be attributed to spread of canards by Pakistan which has fanned cross-border terrorism in J&K
- The OIC turns a blind eye to Pakistan’s dreadful record on this score.
- The case of China’s Xinjiang Province, which is much in the news recently on account of alleged violations of human rights and curbs on religious freedom of Uyghurs and other Muslim ethnic groups, is far more curious.
- The recent Abu Dhabi Declaration, like the Dhaka Declaration (2018), made no reference to China or its Muslim minorities.

What are the highlights of the recent meeting?

- The final declaration eschewed the customary reference to Jammu & Kashmir (J&K).
- This can be considered unique since the previous Dhaka Declaration in May 2018 had contained this reference.
- It is intriguing that the Abu Dhabi resolution (No. 1/46-MM) should “commend the efforts of the People’s Republic of China in providing care to its Muslim citizens”.
- This would have come as a huge relief to China, especially since the review

held by the UN Committee on the Elimination of Racial Discrimination in 2018 claimed, citing credible reports, that Beijing had "turned the Uyghur autonomous region into something that resembles a massive internment camp".

- There are extensive media reports that China's "Strike Hard Campaign against Violent Extremism" has been used to carry out a major crackdown on the practice of Islam in Xinjiang.
- Hypocrisy and double standards characterize the OIC's "deep concern" over the Babri Mosque demolition in its 2019 resolution, which maintained a stony silence on reports of demolition of mosques in Xinjiang

What are the instances of privileges offered to China in OIC?

- Islamabad OIC Meeting in May 2007 made an anodyne request to its Secretary General "to make contact with the Government of China" on the matter "and to subsequently report on these consultations".
- The Baku OIC resolution of June 2006 made an appeal "to give special attention to the conditions of Muslims in East Turkistan (Xinjiang) and to examine the possibility of working out a formula for cooperation with the Chinese Government to evolve appropriate solutions for their difficulties and causes, and most particularly their civil and religious freedoms".
- China, no doubt, has resented the use of the term "East Turkestan" in OIC documents, reminiscent of the banned East Turkestan Islamic Movement (ETIM) of separatist Uyghurs from Xinjiang.
- Just before the Abu Dhabi meeting, China welcomed an OIC delegation to Xinjiang, a development which perhaps played a role in the OIC commending China.
- The OIC remains mindful of how far it can go with its criticism of China considering that China is a major power, a permanent member of the UN Security Council, a large market for hydrocarbons, and, a source of arms and investment.
- Moreover, China refrains from preaching to others about human rights or systems of governance.
- Thus the OIC countries fall prey to Pakistani propaganda and support resolutions against India despite having excellent bilateral ties with India.

8. INDO-RUSSIA NAVAL NUCLEAR TIES

What is the issue?

India's Intergovernmental Agreement (IGA) has invited serious concern from US over India's defense relationship with Moscow.

What is the brief history of India's naval nuclear program?

- In early 1966, India's Atomic Energy Establishment started a feasibility programme on naval nuclear propulsion.
- HomiBhabha initiated the programme on the expectation that the US Atomic Energy Commission (USAEC) would assist in India's quest to develop marine propulsion.
- Bhabha's request was however denied by US mainly on account of Admiral Rickover's unhappiness in sharing naval reactor technology with other states.
- Washington's non-proliferation policy was an additional factor.
- Thereupon, the programme languished for almost 15 years as India's nuclear scientists and the Indian Naval engineers struggled to design and develop a viable reactor system for naval propulsion.
- Notwithstanding the severe shortcomings of India's atomic energy establishment, the sanctions regime imposed after the 1974 Peaceful Nuclear Explosion made the job equally tricky.
- As the indigenous effort hit a technological bump by late 1970s, the Indian government turned to Moscow for assistance.
- In the early 1980s, Moscow agreed to help India's indigenous nuclear submarine programme.
- It also acquiesced to leasing India its first nuclear submarine, it led to the beginning of Indo-Russian cooperation in naval nuclear submarines.

What is the IGA about?

- In March 2019, India signed an Intergovernmental Agreement (IGA) with Russia to lease another of its Akula-Class attack nuclear submarines (SSN).
- The nuclear submarine will join the Indian Navy in 2025, after a major refit of the hull in Russia's Arctic port of Severodvinsk.
- India had earlier leased an Akula-class SSBN from Moscow in 2012.
- Rechristened as Chakra in the Indian fleet, it will continue to serve the Indian Navy until the commissioning of the new Akula submarine, most likely by 2025.

Why the agreement concerns US?

- Washington was never happy with the collaboration between Moscow and New Delhi on nuclear submarines.
- As the Indian Navy prepared to take over its first nuclear submarine from the Soviet Union in 1987, the US put immense pressure upon Moscow to defer the lease.
- Estranged democracies during the Cold War, Indo-US relations have strengthened significantly in the last quarter of a century.
- Washington has also made significant inroads into India's defense market

which was once an exclusive preserve of the Russian defense industry.

- Market competition notwithstanding, the rising tensions between Washington and Moscow have pushed New Delhi into a corner.
- As US attempts to punish Russia through sanctions, it has increasingly become intolerant of India's arms deals with Moscow.

What will be the reaction of India in this regard?

- As Indo-US relations entered into a period of strategic embrace after the end of the Cold War, Washington DC largely ignored the technological partnership between New Delhi and Moscow.
- America's current concerns aremerely a spillover of its fractured domestic debate over Russia.
- India unlikely to give in to the US demands for revising its defense relationship with Moscow especially in the domain of naval nuclear propulsion.
- The US' disapproval, however, will only marginally affect India's decision-making.
- Indo-Russian defense cooperation, especially in the naval nuclear domain, will continue to prosper irrespective of US concerns.

What is the significance of Indo-Russian Naval ties?

- Continued Russian assistance is vital to India's indigenous nuclear submarine programme.
- Leasing Russian nuclear submarines not only ascertain continuous technological assistance from Moscow but also provides the Indian Navy necessary operational experience.
- India also has a more considerable geostrategic interest in the fray.
- American pressure has forced Russia to seek some alignment with China, If India gives in to American demand, it will further push the Russians into Beijing's lap.
- Thus an independent Moscow is essential to keep Asia's geopolitics in balance.

9. LIBRA - THE NEW CRYPTO-CURRENCY

Why in news?

Libra Coin, a Facebook-based cryptocurrency that is likely to be unveiled in 2020.

What is the idea of Libra coin?

- Libra is expected to be the new stable global currency which will allow the 2.38 billion Facebook users to shop and transfer money overseas while paying negligible transaction fees.
- The coin is expected to work in tandem with a new Facebook-centric block

chain system, i.eit is likely to have a centralized system, to begin with.

- Notably, Libra can set the standards of a stable coin by virtue of being pegged to a basket of sovereign currencies like the dollar, pound, euro, swiss franc and yen.
- This is likely to insulate it from high volatility in the exchange rates of the coin.
- In comparison, Bitcoin's extreme volatility can be attributed to it not being anchored to any sovereign currency.

How Libra will work?

- The Libra block chain will be pseudonymous and not an anonymous system.
- It allows users to interact and transact with each other, but not with their real-life accounts.
- However, the system will be public such that the transactions, when required, can be scrutinized by international regulators and law enforcement agencies.
- Facebook has established a subsidiary called Calibra - a digital wallet to manage the Libra coin - under the authority of Libra Association which is an independent consortium based in Switzerland.
- The Association will be the repository of all transactions within the network, separate from the individual's social data, and will oversee the currency's development and network maintenance.
- The Libra Association currently constitutes 28 members but anticipates around 100 members to be part of the association before the launch of the Libra coin in the second quarter of 2020.
- These members will hold Libra Investment Tokens that would give them voting rights on the network, where they can make decisions about managing the Libra coin and letting new validators join the Libra ecosystem.
- While others see block chain as a chain of blocks of transactions, the Libra block chain will be a single data structure documenting the history of transactions over time.
- It will make it simpler for applications accessing the block chain to examine and validate any data from any time using a unified framework.
- Being end-to-end encrypted, Libra can facilitate transactions anonymously to the outside world, but within the Facebook platform. Libra will be a closed-loop system where the consumer can only buy and sell products that are available on the Facebook marketplace (introduced in late 2016) and its associated apps.
- This would prevent dangerous transactions including illegal trade in drugs and weapons, thereby overcoming the tainted reputation of

other cryptocurrencies which have minimal checks and balances to prevent such transactions from being carried out.

What is India's move on private cryptocurrencies?

- According to recent reports, Libra will not be launched in India due to the current Indian regulation of not endorsing private cryptocurrencies.
- A draft bill, proposing a 10-year jail term for holding, selling or dealing in cryptocurrencies, has muddied the waters for crypto-traders in India.
- Termed as the "Banning of Cryptocurrency and Regulation of Official Digital Currency Bill 2019", the proposed draft bill could halt the future of cryptocurrencies in India.

What are the opportunities for Libra in India?

- Given the growing proliferation of digital technology in India, it is estimated that more than 61 million new internet users will come online by the end of 2019, which means 627 million active internet users by the end of this year.
- Today, an estimated 270 million active users of Facebook are from India, and this number is growing.
- The size of the Indian market, however, offers enormous business opportunities for Libra.
- The World Bank Brief of 2018 highlights India's position as the world's largest recipient of remittances, worth US$ 78.6 billion.
- However, the transaction charges of seven per cent and above through formal channels make these remittances expensive.
- The cheaper informal alternatives such as the hawala networks are illegal.
- Libra on its part can practically reduce the transaction charges to negligible or even zero.
- Libra to gain credence, it would need to address India's regulatory concerns by assuring the legitimacy of the project and working in tandem with the government to bring about changes in the cryptocurrency trading laws of the country.