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IDSA MARCH 2020

1. DEFENCE EXPENDITURE AS A PART OF GDP

government's focus on massive spending on infrastructure development.

Why in news?

The Minister of State for Defence gave information about the defence expenditure as a part of GDP in Rajya Sabha.

What is the existing budget demand of defense sector?

- The 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.
- 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

What is the share of India's Defence Budget to GDP?

- In Budget Expenditure (BE) 2019-20, total Defence Budget (including Miscellaneous and Pensions) is 15.47% of total Central Government Expenditure.
- In BE 2019-20, the Capital Budget of the Ministry of Defence is approximately 31.97% of the total capital expenditure of the Central Government Expenditure.
- The expenditure on operations/maintenance and Defence Infrastructure has been maintained optimally.
- The Defence Expenditure is increasing every year in absolute terms, implying higher spending.
- However, Defence Budget as a percentage of GDP may appear to be decreasing due to the increasing trend in the growth of GDP.

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.

2. LAND PORTS AUTHORITY OF INDIA

Why in news?

Recently, the 8th Foundation Day of the Land Ports Authority of India (LPAI) has been celebrated in New Delhi.

What is LPAI?

- The Land Ports Authority of India is a statutory body established under Land Ports Authority of India Act, 2010.
- Committee of Secretaries in 2003 recommended setting up of Integrated Check Posts (ICPs) at major entry points on India's land borders.
- These ICPs were planned to house all the regulatory agencies like Immigration, Customs, Border Security etc. together with support facilities in a single complex to serve as a single-window facility as is prevalent at Airports and Seaports.
- LPAI intends to provide safe, secure and systematic facilities for movement of cargo as well passengers at its ICPs along the international borders of India.
- Functions:
 1. It plans, constructs and maintains roads, terminals and ancillary buildings other than national highways, State highways and railways, at an ICP.



2. It establishes and maintains warehouses, container depots and cargo complexes for the storage or processing of goods with the establishment of hotels, restaurants and restrooms at ICP.

(e) Establish and maintain hotels, restrooms, warehouses, and container depots.

What is LPAI Bill 2019?

- The Land Ports Authority of India Bill, 2009 was introduced in the Lok Sabha on August 7, 2009.
- The central government shall constitute the Land Ports Authority of India, which shall have the power to manage facilities for cross-border movement of passengers and goods at designated points along the international land border of India.
- The Authority shall be composed of a Chairperson and members from the government and representatives of traders and workers.
- The Authority may
 - (a) Maintain or construct roads, terminals and ancillary buildings other than national or state highways and railways, at an integrated check post (as notified by the central government);
 - (b) Procure and maintain communication, security and goods handling equipment;
 - (c) Provide appropriate space for various services such as immigration, customs, security, and taxation authorities;
 - (d) Construct residential buildings for its employees; and
- The Authority may seek the assistance of armed forces, central para military force or state police to ensure peace and security at an integrated check post.
- Seeking to regulate the movement of people and goods across land borders, this Bill sets up an Authority.
- It provides for immigration control and customs at the borders.
- The customs, immigration, quarantine and other officials shall co-ordinate with the Authority to discharge their duties effectively.
- Any land needed by the Authority shall be deemed to be needed for a public purpose.
- The Authority has the power to enter any contract necessary for executing its duties.
- The Bill makes provisions for the mode of executing contracts on behalf of the Authority.
- The Authority may charge such fees and rent as provided by regulations.
- It shall establish its own funds where all receipts shall be credited.
- It may also establish a reserve fund for the purpose of expanding existing facilities or creating new facilities at any integrated check post.
- The Bill makes provisions for submission of the Authority's



programme of activities and financial estimates to the central government.

- It also makes it mandatory for the Authority to maintain accounts which shall be audited annually.
- If the central government approves, the Authority may borrow money from any source by issuing bonds and debentures.
- The central government may guarantee the repayment of the principal and the payment of interest on the loan taken by the Authority.
- Seeking to regulate the movement of people and goods across land borders, this Bill sets up an Authority.
- It provides for immigration control and customs at the borders.

What are the recent initiatives of LPAI?

- LPAI is involved in the development of land ports (also known as Integrated Check Posts (ICPs)) to maintain regional connectivity across the international borders of India.
- Currently, the LPAI is building the Passenger Terminal Building at Dera Baba Nanak, Kartarpur Sahib Corridor.
- Thus three important areas of LPAI are
 1. Integrated Check Posts (ICPs)
 2. Inland Custom Posts
 3. Shri Kartarpur Sahib Corridor
- The Integrated Check Posts (ICPs) along with the border areas, State/UT wise are given below:

ICP Location	State Borders with	Current Status
Attari (Amristar)	Punjab-Pakistan	Operational
Agartala	Tripura - Bangladesh	Operational
Petrapole	West Bengal - Bangladesh	Operational
Raxaul	Bihar-Nepal	Operational
Jogabani	Bihar-Nepal	Operational
Moreh	Manipur - Myanmar	Operational
Dawaki	Meghalaya-Bangladesh	Under construction
Rupaidiha	Uttar Pradesh - Nepal	Approved in 2018
Sunauli	Uttar Pradesh - Nepal	Operational
Sutarkandi	Assam-Bangladesh	Operational



3. USA - TALIBAN DEAL

Why in news?

Recently, the U.S. signed a deal with the Taliban at Qatar's capital-Doha.

What is US-Taliban deal about?

- On 11 September 2001, terrorist attacks in America killed nearly 3,000 people. Osama Bin Laden, the head of Islamist terror group al-Qaeda, was quickly identified as the man responsible.
- The Taliban, radical Islamists who ran Afghanistan at that time, protected Bin Laden, refused to hand him over. So, a month after 9/11, the US launched airstrikes against Afghanistan.
- The US was joined by an international coalition and the Taliban were quickly removed from power. However, they turned into an insurgent force and continued deadly attacks, destabilizing subsequent Afghan governments.
- Since then, the US is fighting a war against the Taliban.
- Donald Trump's 2017 policy on Afghanistan, was based on breaking the military stalemate in Afghanistan by authorizing an additional 5,000 soldiers, giving US forces a freer hand to go after the Taliban, putting Pakistan on notice, and strengthening Afghan capabilities.
- However, the US realized that the Taliban insurgency could not be

defeated as long as it enjoyed safe havens and secure sanctuaries in Pakistan, the US changed track and sought Pakistan's help to get the Taliban to the negotiating table.

- The negotiations began in September 2018 with the appointment of Ambassador ZalmayKhalilzad to initiate direct talks with the Taliban. After nine rounds of US-Taliban talks in Qatar, the two sides seemed close to an agreement.

What is the significance of the Doha deal?

- U.S.-Taliban could pave the way towards a full withdrawal of foreign soldiers from Afghanistan over the next 14 months and represent a step towards ending the 18-year-war in Afghanistan.
- Along with this, a separate joint declaration was also signed between the Afghan government and the US at Kabul.
- The peace deal is expected to kick-off two processes- a phased withdrawal of US troops and an 'intra-Afghan' dialogue.
- The deal is a fundamental step to deliver a comprehensive and permanent ceasefire and the future political roadmap for Afghanistan peace process and the Central region.
- **Troops Withdrawal** - The US will draw down to 8,600 troops in 135 days and the NATO or coalition troop numbers will also be brought down,



proportionately and simultaneously. And all troops will be out within 14 months.

- **Taliban Commitment** - The main counter-terrorism commitment by the Taliban is that Taliban will not allow any of its members, other individuals or groups, including al-Qaeda, to use the soil of Afghanistan to threaten the security of the United States and its allies.
- **Sanctions Removal** - UN sanctions on Taliban leaders to be removed by three months and US sanctions by August 27. The sanctions will be out before much progress is expected in the intra-Afghan dialogue.
- **Prisoner Release** - The US-Taliban pact says up to 5,000 imprisoned Taliban and up to 1,000 prisoners from “the other side” held by Taliban “will be released” by March 10.

What are the existing challenges in the Deal?

- **One-Sided Deal** -The fundamental issue with the U.S.’s Taliban engagement is that it deliberately excluded the Afghan government because the Taliban do not see the government as legitimate rulers.
- Also, there is no reference to the Constitution, rule of law, democracy and elections in the deal.
- Taliban is known for strict religious laws, banishing women from public life, shutting down schools and unleashing systemic discrimination

on religious and ethnic minorities, has not made any promises on whether it would respect civil liberties or accept the Afghan Constitution.

- Therefore, Shariat-based system (political system based on fundamental Islamic values) with the existing constitution is not easy.
- **Issues with Intra-Afghan Dialogue** - President Ashraf Ghani faces a political crisis following claims of fraud in his recent re-election.
- The political tussle is between Ashraf Ghani (who belongs to the largest ethnic group in Afghanistan- the Pashtun) and Abdullah Abdullah (whose base is among his fellow Tajiks, the second largest group in Afghanistan).
- If there are any concessions made by Mr Ghani’s government to the Taliban (predominantly Pashtun) will likely be interpreted by Mr Abdullah’s supporters as an intra-Pashtun deal reached at the cost of other ethnic groups, especially the Tajiks and the Uzbeks.
- Consequently, these ethnic fissures may descend into open conflict and can start the next round of civil war.
- Thus, the lifting of the US military footprint and the return of a unilateral Taliban could set the stage for the next round of civil war that has hobbled the nation since the late 1970s.



- **Problem with Prisoner's Swap** - The US-Taliban agreement and the joint declaration differ:
- The US-Taliban pact says up to 5,000 imprisoned Taliban and up to 1,000 prisoners from “the other side” held by Taliban “will be released” by March 10.
- However, the joint declaration lays down no numbers or deadlines for the prisoner's swap.
- Afghanistan President held that there is no commitment to releasing 5,000 prisoners.
- He also held that such prisoners' swap is not in the authority of the US, but in the authority of the Afghan government.
- Also, the Taliban is fragmented or divided internally. It is composed of various regional and tribal groups acting semi-autonomously.
- Therefore, it is possible that some of them may continue to engage in assaults on government troops and even American forces during the withdrawal process.
- It is unclear if there is a date for the complete withdrawal of US troops or for concluding the intra-Afghan dialogue, or how long the truce will hold.

What are the impacts of the deal on other stakeholders?

- **US** -The promise to end America’s “endless wars” in the greater Middle East region was one of the central

themes of US President Donald Trump’s election campaign in 2016.

- This deal may demonstrate progress on that front in his bid for re-election later this year.
- Though, the US doesn't recognise Taliban as a state under the name of Islamic Emirate of Afghanistan (key demand of Taliban), though many experts are of the view that this deal is a little more than a dressed-up U.S. surrender that will ultimately see the Taliban return to power.
- **Pakistan** -The deal provides the strategic advantage to Pakistan, who is a long-time benefactor of the Taliban.
- **China** -After the launch of the China-Pakistan Economic Corridor (CPEC), Pakistan is seen as more of a protectorate state of China.
- Thus, China may leverage Pakistan's influence on the Taliban, to propel its strategic projects like the Belt and Road Initiative.

What is the impact of this deal on India?

- This deal alters the balance of power in favour of the Taliban, which will have strategic, security and political implications for India. The deal may jeopardise the key stakes of India in Afghanistan:
- India has a major stake in the stability of Afghanistan. India has invested considerable resources in Afghanistan's development.



- India has a major stake in the continuation of the current Afghanistan government in power, which it considers a strategic asset vis-à-vis Pakistan.
- An increased political and military role for the Taliban and the expansion of its territorial control should be of great concern to India since the Taliban is widely believed to be a protégé of Islamabad.
- As Afghanistan is the gateway to Central Asia, the deal might dampen India's interest in Central Asia.
- Withdrawal of US troops could result in the breeding of the fertile ground for various anti-India terrorist outfits like Lashkar-e-Taiba or Jaish-e-Mohammed.

4. AFGHANISTAN TURMOIL AND IMPLICATIONS FOR INDIA

What is the issue?

US-Taliban deal proves geopolitically disadvantageous for India and may have serious implications on national security.

Who are Taliban?

- In 1979, Soviet attacked Afghanistan, to restore stability following a coup that brought communist parties to power.
- However, the Soviet presence touched off a nationwide rebellion by Islamist fighters, who won extensive covert backing from Pakistan, Saudi Arabia, and the United States and who were

joined in their fight by foreign volunteers.

- These fighters called themselves Taliban.
- The guerrilla war against the Soviet forces led to their departure a decade later in 1989.
- After this Afghanistan got involved in a civil war between Islamist fighters.
- In 1996 the Taliban seized Kabul and instituted a severe interpretation of Islamic law.
- That same year, al-Qaeda leader Osama bin Laden was welcomed to Afghanistan (having been expelled from Sudan) and established his organization's headquarters there.
- In retaliation of this, the Afghan Northern Alliance, officially known as the United Islamic Front for the Salvation of Afghanistan, a united military front (composed of many tribal factions like Tajiks, Uzbeks) that came to the formation in late 1996 after the Islamic Emirate of Afghanistan (Taliban) took over Kabul.
- The Northern Alliance fought a defensive war against the Taliban government.
- They received support from Iran, Russia, Turkey, India, Tajikistan and others, while the Taliban were backed by Pakistan.

How Taliban stay powerful?

- Between 1996-2001 majority of global and regional players were against the Taliban.



- However, nearly after 20 years, the Taliban has become an important stakeholder as most of the regional powers are backing it.
- This is because of the U.S. withdrawal suits future prospects of countries like China, Pakistan, Iran, or Russia.
- These countries consider the U.S. is the bigger challenge than the Taliban.
- Given the war fatigue and the geopolitical stakes in Afghanistan, most of the key players are lending legitimacy to the Taliban.
- US: US president wants to fulfil his electoral promise of withdrawing the US military from the conflict zone.
- Russia: Russia, just like Syria, sees Afghanistan as another theatre to outplay the US.
- Pakistan: Pakistan military may consider the Taliban as a strategic asset once it returns to power, which can be used against India to fuel terrorism.
- China: Pakistan's closeness with the Taliban and given the strong strategic relationship between Pakistan and China, these may be used by China to extend the influence of its Belt and Road initiative over Afghanistan.

What is the brief history of India-Taliban relations?

- India and the Taliban share a bitter history.
- IC-814 hijack in 1999 (India's passenger plane was hijacked and taken to Kandahar in Afghanistan-

under the control of Taliban) made India to release terrorists — including Maulana Masood Azhar who founded Jaish-e-Mohammed that went on to carry out terror attacks on Parliament (2001), in Pathankot (2016) and in Pulwama (2019).

- Also, the Taliban perceived India as a hostile country, as India had supported the anti-Taliban force after the 9/11 attacks.
- India never gave diplomatic and official recognition to the Taliban when it was in power during 1996-2001.
- However, as the Taliban's role in Afgan peace process becomes inevitable, India started to make some strides towards the Taliban.
- Earlier, India was part of the Moscow-led talks with the Taliban in November 2018, which two former Indian diplomats attended as “non-official representatives”.
- India is now moving to diplomatically engage with the Taliban.

What is India's approach on Taliban is different from others?

- India is the state that seems to be on the losing end in Afghanistan.
- The reason for this lies in India's approach in dealing with the Taliban starting from supporting the Northern Alliance (the force that fought against the Taliban) in 1996 and now supporting Ashraf Ghani Government in Afghanistan.



- The Taliban regime was anti-India because India had militarily supported the Northern Alliance that kept up the military pressure against the Taliban.
- India insisted with a moralistic approach towards Taliban i.e India will not engage in any dialogue with any terrorist group.
- Further, India put all its eggs in the democratically elected government, even on the eve of the signing of the peace deal in Doha.
- This approach has been called by many foreign policy experts as not a smart diplomatic strategy and called for a more dynamic policy.
- Similar can be said for Russia. India and Russia share a strong strategic partnership, however, the level of strategic convergence is not the same as it used to be in the Soviet era.
- **Kashmir Angle-** While the direct physical impact of the Taliban's return to power in Afghanistan on Kashmir will be negligible. However, the most important impact is going to be psychological.
- The return of the Taliban can be projected as a signal a victory of religious fundamentalism in the region and it might have serious implications for the region as a whole.
- The U.S.-Taliban deal will require Pakistan's assistance towards ensuring its success. Pakistan is leveraging this to involve the US in India-Pakistan equation related to Kashmir.
- Unless India carefully envisages a counter-strategy, these factors will increasingly push India into a geopolitical tough spot in the region.
- The US withdrawal may perhaps put Afghanistan on the verge of yet another long-drawn battle.

What are impacts of US-Taliban deal on India?

- India's relations with Afghanistan is expected to take a hit in the immediate aftermath of the US-Taliban deal and India's economic investments may get into headwinds.
- China now may try to deepen involvement in the geopolitics and geo-economics of Afghanistan.
- This will limit India's traditional ability to influence the region's political and security dynamics.
- Other regional actors in Afghanistan are also less friendly towards India than ever before:
- Although India and Iran have been closely associated, US sanctions on Iran act as an irritant in the bilateral relations.



5. INDO- US RELATIONS

Why in news?

Recently, the US President, Donald Trump visited India.

Why visit of US president to India is significant?

- Relations between India and the US have transformed from being Estranged democracies (during the cold war) to Strategic partners (in the Post-cold war era).
- **Estranged democracies** -US and India, though being the oldest democracy and largest democracy respectively, remained detached during the cold war.
- **Strategic partners** -US and India, in the post-cold war era (after 1991) turned into strategic allies.
- During the cold war, India got tilted towards the Soviet Union after If the 1971 Friendship Treaty, which was a response to the continuing U.S. tilt towards Pakistan and the beginnings of convergence between US and China.
- At present, India and US convergence is due to potentially hegemonic China in the Indo-Pacific region.
- In this context, the visit of the US president further cements the strategic convergence between India and the US.
- While only three of the nine US Presidents during 1947-2000 visited India, every President in the last two

decades has visited India at least once.

- Many reasons could be ascribed to the higher frequency of visits — a shift in global geopolitics in the post-Cold War era, India's economic ascent, the rise of an assertive China, and India's place on the global high table.

What are the divergences in India-US relations?

- **Trade Deal** - Trade has been a major bone of contention between India and the US. India has been referred by the US, as “tariff king” that imposes “tremendously high” import duties.
- Donald Trump formulated America First policy, on the economic dimension, it means reducing the U.S.'s trade deficits with major trading partners, including India.
- In June 2019, the Trump administration decided to terminate India's benefits under the **Generalized System of Preferences (GSP) scheme**, which provides preferential, duty-free access for over \$6 billion worth of products exported from this country to the US.
- Removal from the GSP list amidst rising trade tensions prompted India to finally impose retaliatory tariffs on several American imports. This made the US approach the WTO against India.
- The office of the **US Trade Representative (USTR)** has underlined India's measures to



restrict companies from sending personal data of its citizens outside the country as a “key” barrier to digital trade.

- Also, the US has long demanded greater access to American agriculture and dairy products.
- For India, protecting its domestic agriculture and dairy interests was a major reason to walk out of the RCEP agreement.
- **US-Pakistan Equation** -US has softened its position on Pakistan in the last seven months, due to the role Pakistan can play in the Afghan deal (between the US and the Taliban), likely to be signed on February 29, 2020.
- In return, Pakistan wants the US to engage with India on the Kashmir issue (internationalizing the Kashmir issue).
- Whereas India maintains the view that Kashmir is a bilateral issue between India and Pakistan and no third party can be engaged in it.
- Internal Issues in India: India-US strong strategic partnership is also based on an idea of “shared values” of democracy, rule of law, religious freedom and protection of minorities.
- However, the revocation of Article 370, the new citizenship law and the NRC is testing this “shared values” principle.
- Though the US president maintained that these matters are internal to

India, criticism from the US Congress and some parts of US civil society is pushing the US administration to tell India to bring Kashmir to normalcy and not go ahead with the new citizenship law followed by the NRC.

What are the convergences in Indo-US relations?

- A foundational military agreement that allows for the sharing of encrypted communications and equipment (COMCASA- Communications Compatibility and Security Agreement).
- A change in U.S. export control laws that places India in a privileged category of NATO and non-NATO U.S. allies.
- The signing of an Industrial Security Annex that will allow for greater collaboration among the two countries’ private defence industries.
- **New ‘2+2’ foreign and defence ministers dialogue** -The bilateral Strategic Energy Partnership was launched in April 2018 under which India has started importing crude and LNG from the US. Now, the US is India’s sixth-largest source of crude oil imports and hydrocarbons.
- Inauguration of the first India-US tri-service military exercise and expansion of existing military exercises.
- Inclusion of India and South Asia in the US Maritime Security Initiative.



- These intense engagement has helped achieve robust support from the US against terrorism.
- This was evident after the Pulwama attack, leading to the designation of Jaish-e-Mohammad chief Masood Azhar as a global terrorist under UN Security Council Resolution 1267.
- Also, placing Pakistan on the grey-list of the Financial Action Task Force.
- The US under its Pivot to Asia policy views India as an ideal balancer to check the aggressive rise of China. Therefore, the US has formulated the concept of Indo-Pacific to counter China in the South China Sea and the Indian ocean.
- The US has designated India as an integral part of the Indo-pacific narrative by the conception of Quad.

What lies ahead?

- Despite the historic nuclear deal (2008), civilian nuclear cooperation has not taken off, but the agreement with Westinghouse to build six nuclear reactors will finally bring US nuclear energy on Indian soil.
- In order to counter China in the maritime domain, India needs to fully engage with the US and other partners in the Indo-pacific region, in order to preserve the freedom of navigation and the rules-based order.
- In international politics, there are no permanent friends and no permanent enemies, only permanent interests in such a scenario India must continue

to pursue its foreign policy of strategic hedging.

- India-US relation remains critical for the shaping of world order in the 21st century.
- In order to realize the full potential of relations, the two governments must now strive to complete the unfinished agreements and set the course for a Comprehensive Strategic Global Partnership.

6. INCIDENTS OF OIL PRICE CRASH

Why in news?

Recently, the International oil prices crashed by about 31%, the biggest fall since the 1991 Gulf War.

What is the background of oil price war?

- In 2014-2015, Oil prices crashed, In order to sustain the oil-exporting economies, Russia and Saudi Arabia had held up oil prices by cutting production.
- They formed OPEC+ Alliance - made up of OPEC plus other producers including Russia. (Countries that belong to OPEC include Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela (the five founders), plus the Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan)
- They agreed to cut down production in order to sustain oil-exporting



countries to support US Shale production.

- However, Russia was facing issues on its energy front due to the US shale oil industry and sanctions imposed by the US and European Union against its energy industry, so Russia collapsed the OPEC+.
- Russia decided to unilaterally adopt an alternative strategy of increasing production and driving down prices, with the idea of driving high-cost oil producers and US shale out of business.
- The fall in prices came after the disintegration of the OPEC+ alliance that triggered an all-out price war between Saudi Arabia and Russia.
- In response to it Saudi Arabia has threatened to drive prices to such a low point that Russia will be forced back to the negotiating table and consequently, a price war has been started.
- This reduction in oil prices may have several global repercussions.

OPEC Membership, 2019



What are the existing issues in the global oil market?

- **High-Supply Scenario: Price War** - The global oil market is now set to witness the rare conjunction of a low-demand and a high-supply scenario.
- The price war between Russia and Saudi Arabia has raised the possibility of the market being flooded with excess oil production, leading to a supply shock.
- According to Goldman Sachs, this price war could drive the oil prices to as low as \$20 a barrel.
- **Low Demand Scenario: Coronavirus impact** - China's efforts to curtail the coronavirus outbreak has disrupted its economy and oil imports.
- This has slowed down the world's second-largest economy and has caused global economic disruptions.
- According to some forecasts, global oil demand growth in 2020 will be less than 0.48 million barrels per day, down from 1.1 million barrels in December 2019, as the shut-down of factories in China, disruptions in supply chains, and travel restrictions imposed across the world depress demand.

What are the impact on India?

- India imports more than 80% of its oil needs, the price crash offers a breather on the macroeconomic front. For example:
- **Current Account Deficit** - The collapse in oil prices will cut the



country's import bill, and soften its current account deficit.

- According to estimates, a one-dollar decrease in crude oil price reduces the oil bill by around \$1.6 billion per year.
- **Inflation** -The fall in crude prices will also help ease inflationary pressures that have been building up over the past few months.
- This will increase the space for the monetary policy committee to ease rates further.
- **Fiscal Health** - Low oil prices offer an opportunity to raise some revenue and improve its fiscal balance.
- The growth slowdown in the last two years has resulted in a precarious fiscal situation because of tax revenue shortfalls.
- The revenue earned, can be used by the government to spend or meet its fiscal commitments in the form of budgetary transfers to states, payment of dues and compensation for revenue shortfalls to state governments under the goods and services tax (GST) framework.
- **Reviving Economic Growth** - Further, the additional tax revenue thus generated through higher excise duty should be used to clear all dues of the central government, whether to private companies, state governments, or others awaiting tax refunds.
- Also, putting cash in the hands of households and small businesses may

tackle the slowdown in consumption in the Indian economy.

- The potential excise duty windfall from oil prices could come in handy for the government to provide relief to beleaguered telecom companies.
- **Negative fallouts** -However, there could be a flip side for India too from the oil price slump.
- The value of Indian oil and gas companies will be impacted (Reliance-Aramco deal may get delayed).
- Remittances from the Persian Gulf will reduce.
- Centre's disinvestment programme as the sale of Bharat Petroleum Corporation Limited (BPCL) could run into headwinds.

What lies ahead?

- During the last major oil prices crash (between mid-2014 and early 2016), the Centre and many States chose to appropriate most of the savings through regular hikes in excise duty and value-added tax on petrol and diesel.
- However, only a small proportion of cost reduction benefits were passed on to customers.
- In a similar scenario, the gains made by excise duty, should be used for productive infrastructure investments and not be wasted on runaway revenue expenditure.
- However, this oil prices crash will eventually recover in the future. Therefore, it is imperative that India



should persist with measures to reduce the country's oil dependency over the long run.

- It should strive to increase the use of renewable, and catalyse a shift to electric vehicles.
- More efforts should be put in to ramp up the stagnating domestic oil output.
- The country's strategic oil reserves should be strengthened by making use of attractive buying opportunities in global markets.

7. REVIVAL OF SAARC

Why in news?

Indian PM proposed to set up a South Asian Association of Regional Cooperation (SAARC) Emergency Fund (\$10 million).

What is the idea of SAARC about?

- In 1980's the idea of SAARC was initiated by General Zia Ur Rehman of Bangladesh, which resulted in the first summit of the seven leaders of the region in 1985.
- Later, Afghanistan joined in 2007. However, in the nearly 35 years of its existence, SAARC has not lived up to its promise of regional integration.
- South Asia is the world's least integrated region; less than 5% of the trade of SAARC countries is within.
- A South Asian Free Trade Zone, which was agreed on in 2006, has not been materialized yet.
- The 19th SAARC summit, scheduled to be held in Islamabad in November

2016, was postponed after the terrorist attacks in Uri; none has been held since then.

Why SAARC failed?

- Most of the smaller states and external players believe that the India-Pakistan conflict has undermined SAARC.
- Bilateral issues cannot be discussed in SAARC but since the organization relies on the principle of unanimity for all major decisions, Pakistan has often vetoed the major initiatives proposed at SAARC.
- For example, SAARC Motor Vehicle Agreement proposed at Kathmandu summit, 2014.
- For India, Pakistan's use of terror as an instrument of foreign policy has made normal business impossible.
- Dispute between Pakistan and Afghanistan over the Durand line, is also a reason.
- Also, India's economic position vis-a-vis other SAARC countries, creates an impression of India being a big brother rather than a strategic partner.
- Lack of Trust in Indo-Pakistan relations: After the deadly terror attack on the Indian security forces at Uri in 2016, India refused to engage with the SAARC.
- Since then, the SAARC has become almost marginal to the regions' collective consciousness and other organizations such as the Bay of

Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) came into the forefront.

What are key differences between SAARC and BIMSTEC?

SAARC	BIMSTEC
A regional organization looking into integrating South Asia.	Interregional organization connecting South Asia and Southeast Asia.
Established in 1985; a product of the Cold War era.	Established in 1997 in the post-Cold War.
Member countries suffer from mistrust and suspicion.	Members maintain reasonably friendly relations.
Suffers from regional politics.	Member countries share strategic trust amongst each other.
Asymmetric power balance.	Balancing of power with the presence of Thailand and India on the bloc.
Intra-regional trade only 5%	Intra-regional trade has increased by around 6% in a decade

What are the opportunities of SAARC revival?

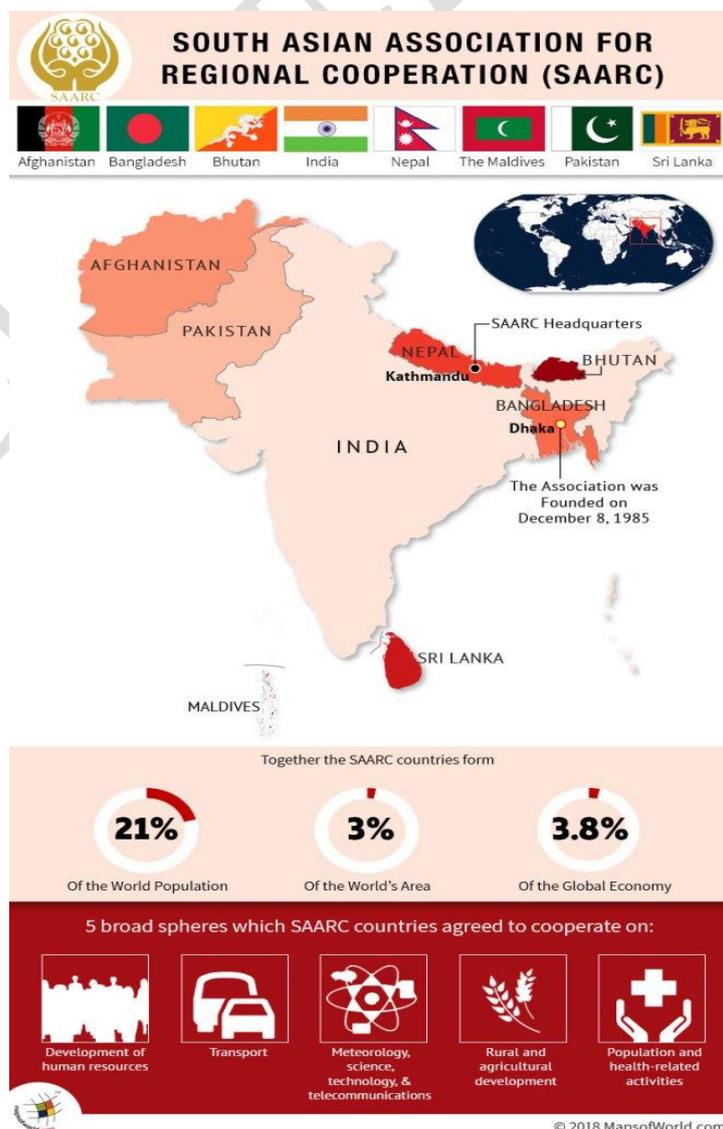
- The two organizations—SAARC and BIMSTEC—focus on geographically overlapping regions.
- However, this does not make them equal alternatives.
- SAARC is a purely regional organization, whereas BIMSTEC is interregional and connects both South Asia and ASEAN. BIMSTEC provides SAARC countries a unique opportunity to connect with ASEAN.
- Further, the scope of BIMSTEC has been undermined by China.
- Thailand and Myanmar are now economically and strategically closer to China.
- Apart from it, Nepal, Bhutan, Sri Lanka and Bangladesh also have extensive economic engagement with China and are struggling to work out balancing strategies between India and China.
- The revival of SAARC will also facilitate India's neighborhood policy in meeting the challenge of regional strategic encroachment by China through its Belt and Road Initiative.
- Thus, insofar as their regions of interest overlap, SAARC and BIMSTEC complement each other in terms of functions and goals. .
- The success of BIMSTEC does not render SAARC pointless; it only adds a new chapter in regional cooperation in South Asia.

What is SAARC's plan on COVID-19?

- The Maldives and Sri Lanka highlighted the massive economic impact of the dramatic decline of tourism that is a major source of revenue and employment.
- Land-locked Afghanistan is struggling to cope with the open border with virus-infected Iran and Pakistan's decision to close the border through which much of the nation's trade flows occur.
- Apart from this, many SAARC countries share borders with China, the place where the virus originated.
- Also, the population density in Indian subcontinent is very high, so there are more chances of rapid transmission of infection.
- Indian PM proposed to set up a South Asian Association of Regional Cooperation (SAARC) Emergency Fund (\$10 million) and formation of a Rapid Response Team (of doctors, specialists, testing equipment and attendant infrastructure) in order to combat Covid-19.
- Though, this initiative may or may not fully succeed in eradicating the epidemic, in a densely-populated South Asia which has very poor public health awareness and infrastructure.
- However, this may have prompted the reactivation and revival of the SAARC.
- The tragedy of Covid-19 may provide an opportunity for India to

demonstrate its compassionate face to secure a region at peace with itself.

- This emergency fund is a step in reviving SAARC which has been dysfunctional till now, is a reiteration of India's prompt and decisive support to the neighbors at the time of facing natural disasters.
- However, the dream of New South Asia requires much more diplomatic and political will.





8. INDIAN DIASPORA

Why in news?

According to Global Migration Report 2020, India continues to be the largest country of origin of international migrants with a 17.5 million-strong diaspora across the world.

What is the extent of Indian Diaspora?

- In India, diaspora is commonly understood to include Non-Resident Indians (NRIs), Persons of Indian Origin (PIOs) and Overseas Citizens of India (OCI), of which PIO and OCI card holders were merged under one category — OCI — in 2015.
- The Indian migration began in large numbers during the British rule as indentured laborers to former colonies like Fiji, Kenya and Malaysia.
- It continued in the post-independence period with Indians from different social strata moving to countries like the United Kingdom, the United States, and Gulf countries.

What is India's Diaspora Policy?

- India was initially sensitive to the view that championing the cause of overseas Indians might offend the host countries, who should be fully responsible for their welfare and security.
- J L Nehru's views were that the diaspora could not expect India to fight for their rights and therefore India's foreign policy in the 1950s was accordingly structured as a model of non-interference whenever the

emigrant Indians got into trouble in Sri Lanka, Myanmar, etc.

- However, Rajiv Gandhi was the first Prime Minister who changed the diaspora policy in the 1980s by inviting Indians abroad, regardless of their nationality, to participate in nation-building, much like the overseas Chinese communities.
- Then under, Atal Bihari Vajpayee Government after 2000, there came a host of positive measures such as a separate Ministry of Overseas Indian Affairs, the Person of Indian Origin (PIO) Card, PravasiBharatiya Divas, PravasiBharatiyaSamman Award, Overseas Citizen of India Card, NRI funds and voting rights for Indian citizens abroad.
- Furthermore, in 2015, the Ministry of External Affairs launched the e-migrate system that requires all foreign employers to register in the database.
- The current government has launched a scheme called 'Know India Program' (KIP) in 2016 for diaspora engagement which familiarizes Indian-origin youth (18-30 years) with their Indian roots and contemporary India,

What is the significance of Indian Diaspora in various aspects?

- Economic Front - Indian diaspora is one of the richest minorities in many developed countries, this helped them to lobby for favourable terms regarding India's interests.



- For example, at 2.8 million, Indians may number just 1% of the U.S. population, but they are the most educated and richest minority, according to a 2013 Pew survey.
- In 2019 India has received the highest remittance of \$78.6 billion (this amounts to a whopping 3.4% of India's GDP) from Indians living abroad.
- The migration of less-skilled labour (especially to West Asia) has also helped in bringing down disguised unemployment in India.
- In general, migrants' remittances have positive systemic effects on the balance of payments.
- Remittances of \$70-80 billion help to bridge a wider trade deficit.
- By weaving a web of cross-national networks, the migrant workers facilitated the flow of tacit information, commercial and business ideas, and technologies into India.
- **Political Front** - Many people of Indian origin hold top political positions in many countries, in the US itself they are now a significant part of Republicans and Democrats, as well as the government.
- The political clout of India's diaspora can be estimated by the fact, the role it played in turning around doubting legislators into voting for the India-U.S. nuclear deal.
- **Foreign Policy Front** - Indian diaspora is not just a part of India's

soft power, but a fully transferable political vote bank as well.

- Prime Minister Narendra Modi's reception at Madison Square Garden is a way of thanking the Indian-American community members who played a big part in his electronic campaign and election funding.
- The institutionalization of "diaspora diplomacy" is a distinct indication for the fact that a country's diaspora community has become considerably more important as a subject of interest for foreign policy and associated government activities.

What are the challenges faced by Indian diaspora?

- **Heterogeneous diaspora** - Indian Diaspora has different demands from the Indian Government.
- The diaspora from the Gulf, for example, look to India for support on welfare issues.
- While those from wealthier nations such as the US look to India for investment opportunities.
- The Indian communities in countries such as Fiji and Mauritius, meanwhile, desire to reconnect with the country on cultural grounds.
- **Anti-Globalization** - With the rising Anti-globalization wave, there has been an increase in the incidents of suspected hate crimes against the Indian community.
- **West Asian Crisis** -The volatility in West Asia, together with the fall in oil



prices, has caused fears of a massive return of Indian nationals, curtailing remittances and making demands on the job market.

- **Returning Diaspora** -India must also realize that diaspora in West Asia is semi-skilled and mainly engaged in the infrastructure sector.
- After the infrastructure boom will get over India should be ready for the eventuality of Indian workers returning.
- **Regulatory Cholesterol** -There are many inadequacies of the Indian system for the diaspora to collaborate with India or to invest in the country.
- For example, grievances like red tape, multiple clearances, distrust of government are acting as hindrances in fulfilling opportunities presented by Indian Diaspora.
- **Negative Fallout** -It must be remembered that having a strong diaspora does not always translate to benefits for the home country.
- India has had problems with negative campaigning and foreign funding, coming from abroad, for separatist movements like the Khalistan movement.

What measures are needed to utilize diaspora potential?

- India should formulate a new NRI policy, the government must immediately work with developed countries to ask that they kick back a

portion of the income tax revenues they collect from the Indian diaspora.

- This is fair because these countries did not invest anything in creating this talent but benefit immediately when the immigrant pays taxes abroad.
- There is a need for a strategic diaspora evacuation policy from conflict zones in a world where crises materialize without warnings and give very little reaction time for governments.
- India's foreign policy aims to translate partnerships to benefits for key projects like Swachh Bharat, Clean Ganga, Make In India, Digital India, and Skill India, the diaspora has plenty of scopes to contribute.
- VAJRA (Visiting Advanced Joint Research Faculty) scheme which seeks to formalize a rotation program wherein top NRI scientists, engineers, doctors, managers and professionals serve Indian public sector organizations for a brief period, lending their expertise- is a step in the right direction.
- Improvement in ease of doing business will go long, in enabling investments from the Indian diaspora.