BJP’S UNEASE WITH
THE “SAFETY VALVE” OF DISSENT

Bhima Koregaon Related Arrests: ‘Steady Erosion Of Civil Liberties, Fundamental Rights’

Election Strategy: Opposition Plays Catch-Up To BJP

BIMSTEC Summit: Focus On Terrorism
The Narendra Modi government’s crackdown on Leftist activists has not pleased the Supreme Court. Turning down the prosecution’s plea for arresting the accused – all of whom are well-known social...

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POLITY OPINION

INDIA-PAKISTAN: INDIA SHOULD RECIPROCAT IMRAN’S PEACE GESTURES
INDIA AND ITS NEIGHBOURS

ACQUISITIONS : DEFENCE PANEL CLEARS MILITARY PURCHASES WORTH RS 46,000 CRORE
DEFENCE AND SPACE DIARY

SPECIAL REPORT : RBI ANNUAL REPORT: 99.40% OF DEMONETISED NOTES RETURNED
INDIAN ECONOMIC PANORAMA

THE DEFENCE ACQUISITION COUNCIL (DAC), chaired by Defence Minister Nirmala Sitharaman, met on Aug 25 and accorded approval for procure-ment for the military amounting to...

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BJP’S UNEASE WITH THE “SAFETY VALVE” OF DISSENT

The Narendra Modi government’s crackdown on Leftist activists has not pleased the Supreme Court. Turning down the prosecution’s plea for arresting the accused – all of whom are well-known social workers – the court has allowed only their house arrest. While announcing the decision, one of the judges hearing the case said that dissent is a “safety valve”, the absence of which can lead to an explosion.

Even as the legal process follows its own leisurely course, the government’s critics have advanced several reasons why the activists were targeted on the grounds of their alleged links with Maoist insurgents. One explanation was that the focus on the supposedly subversive activities of these “urban Naxalites”, as they have been called in a police report, was to divert attention from the reported involvement of a Hindu right-wing organization, the Sanatan Sanstha, in terrorism.

The charges against the Sanstha also have a link with the cold-blooded assassinations of several members of the intelligentsia such as the rationalist Narendra Dabholkar and the journalist, Gauri Lankesh, by Hindu right-wing activists. At a time when a Hindu nationalist government is in power at the centre and in several states, the role of the Hindu Right in murder and mayhem will not only show the government in poor light, but can also lead to speculation of clan-deline connections between the lawless elements and the people in the corridors of power.

The targeting of the Leftist sympathizers can be expected to take some of the heat of the discomfort being faced by the Hindu Right. However, the fact that the prosecutors have failed to convince the judiciary of the veracity of their charges is also bound to raise questions about the real reasons why the police want to round up the suspected Maoists.

It is possible that the apparent weakness of the main charge that the “urban Naxalites” were targeting the prime minister is the reason why those allegedly guilty of such a serious offence has only been put under house arrest. The weakness stems from the seizure by the police of email messages where the prime minister has been mentioned.

But most people will think that it is odd for a group of highly intelligent and socially well placed “conspirators” to converse among themselves via emails without any attempt to maintain secrecy. Not surprisingly, the police have been accused of fabricating the supposedly damning evidence.

Since the Leftists are on the government’s radar, the Times of India has drawn a comparison between the attempts to arrest the suspects and the “red-under-the-bed” communist phobia of US Senator Joseph McCarthy during the Cold War period.

The pre-dawn swoops on the residences of the Leftist activists across several cities are in striking contrast to the lack of any such urgency in the matter of pursuing the cases of two members of the Hindu Right – Sambhaji Bhide and Milind Ekbote – who have been accused of inciting the violence at Bhima Koregaon in Maharashtra on January 1 where the Dalits were observing the 200th anniversary of the victory of their regiment under the British Indian army against the Peshwas in 1818. One of the charges against the Leftists is that they were involved in the Bhima Koregaon violence.

It may not be too far-fetched to suggest that the findings of several opinion polls predicting the BJP’s defeat in the forthcoming assembly elections in Rajas-than, Madhya Pradesh and Chhattisgarh, and the loss of its majority in the Lok Sabha in next year’s general election, have unnerved the ruling party to the extent that it is hitting out blindly at real and imagined enemies.

The reaction is understandable at a time when the economy continues to be under pressure because of the failure to create jobs, sluggish investments, stagnant exports, shortage of bank capital and the decline in the value of the rupee. In addition, the continuing unrest in Kashmir along with the intermittent depredations of the cow vigilantes have strengthened the impression that the government is not in total control of the situation.

The recent Reserve Bank report that 99.3 per cent of the currencies banned because of demonetization has been returned to the banks has demolished the government’s claim that the step was taken to unearth black money. What was said at the time when 85 per cent of the currencies were sucked out of the system that black money is not kept in bank notes but is invested in real estate or gold and jewelry has been proved correct.

Since little is going right for the government in the fields of the economy or law and order, the turning of the spotlight on the threat of insurgency by the urban and rural Maoists cannot but be seen as a diversionary tactic. The opposition may be overstating its case when it argues that an undeclared Emergency is in force. But it is becoming increasingly clear that the citizens have no other recourse than to turn to the judiciary to stop the government from intervening arbitrarily in their lives.

It is not a compliment to the government when the courts are seen as a bulwark for freedom because of the suspicion that the government is not following the rule of law in letter and spirit.
COVER STORY: BHIMA KOREGAON RELATED ARRESTS: ‘STEADY EROSION OF CIVIL LIBERTIES, FUNDAMENTAL RIGHTS’

Bhima Koregaon in Pune, Maharashtra, is a tiny village, but is associated with an extraordinary phase of Maratha history. Two hundred years ago, on January 1, 1818, a few hundred Mahar soldiers of the East India Company, led by the British, defeated the massive Peshwa (the Maratha hero) army, led by Peshwa Bajirao II, in Koregaon. This battle has, since, attained legendary stature in Dalit history.

Over the years, as the battle came to be seen as a victory of the Mahars (Dalits) against the injustices perpetuated by the Brahminical Peshwas of Maharashtra, thousands of dalits have been gathering in Bhima Koregaon on January 1 to pay their respect at the Vijay Sthamb (victory pillar). The pillar was erected by the East India Company in memory of those who fought the battle and includes the names of the Mahar soldiers who unknowingly brought an end to the Peshwa rule in 1818.

According to Prabodhan Pol (teaches history at Ramjas College, University of Delhi), Dalits do not see this from the narrow lens of nationalism versus imperialism. For them “denunciation of the Peshwas is strategic; it helps them relate to their social and political marginalisation in contemporary times.”

The present controversy arises after violence broke out at Bhima Koregaon in January this year.

NATIONWIDE ARRESTS

In raids conducted across five states Tuesday, the Pune police arrested five activists on charges of being Naxal sympathisers and investigate their alleged connection with the Bhima Koregaon violence that rocked Pune in January this year.

The five persons raided are Varavara Rao (Telangana), Vernon Gonsalves and Arun Pereira (Mumbai), Sudha Bharadwaj (Chhattisgarh), Gautam Navlakha (Delhi).

This is the second time that the police have taken such an action. On 17 April, the Pune Police swooped on over half a dozen Dalit activists and those involved with the Kabir Kala Manch, which organised an Elgar Conference (a programme held by intellectuals, including former judges, in Pune). The police had then targeted prominent human rights activists like Surendra Gadling, Mahesh Raut, Shoma Sen, Rona Wilson, Sudhir Dhawale (all arrested) besides raiding Harshali Potdar, Jyoti Jagtap, Ramesh Gaychor and Sagar Gorke.

According to the police, the speeches made by the activists arrested at the Elgar Parishad conclave, a day ahead of the bicentennial celebration of the battle of Bhima Koregaon, were one of the triggers for the violence that was gripped Pune the next day.

The violence left one person dead and ended with Maharashtra shutdown on 3 January called by the Bharipa Bahujan Mahasangh, headed by Prakash Ambedkar, grandson of BR Ambedkar.

According to Prakash Ambedkar, also a prominent Dalit leader from Maharashtra,
a few Hindutva organisations planned and perpetuated violence against the Dalits in Bhima Koregaon. He named Sambhaji Bhide and Milind Ekbote, prominent Maharashtra leaders who have been actively promoting organisations that advance the cause of Hindutva, as being responsible for bringing the State to a halt. These organisations have been polarising the political landscape on religious and caste lines, particularly against Ambedkarite Dalits who are seen as impediments to their political project.

**PLAN TO ASSASSINATE PRIME MINISTER**

Significantly, in June, police in Pune had allegedly recovered a letter mentioning a plan to assassinate Prime Minister Narendra Modi from the house of one of the five persons arrested in connection with the Bhima Koregaon violence.

The letter written by a person identified only as ‘R’ reportedly mentions a plot to kill the Prime Minister on the lines of Rigunthi Bhide, based on eyewitness accounts that leaders Milind Ekbote and Sambhaji Rao Bhide, based on eyewitness accounts that they and their lieutenants had incited the violence against the Dalit congregation.

The police instead embarked on a process of arresting a large number of activists, lawyers and journalists by first alleging that Maoists were involved in the Bhima Koregaon violence and then claiming that these activists lawyers and journalists were their urban supporters — the term, Urban Maoists has been coined to describe these activists.

About a letter that was addressed to a “Comrade Prakash” and signed by “R”, which apparently talked of “senior comrades” proposing concrete steps to end the Modi-era and a “Rajiv Gandhi-type” incident being planned to assassinate the prime minister, Bhushan dismisses it as “clearly fabricated. Justice Patil and Justice Sawant, the organisers of the Elgar Parishad, condemned this letter as fake. The letter was never produced as evidence in court.”

**OPPOSITION CRITICISM: ATTACK ON DEMOCRATIC RIGHTS**

“This is a brazen attack on democratic rights. We are demanding that all the cases against these people be withdrawn and they be released forthwith,” said CPI(M) leader Prakash Karat on raids and arrests.

Justice P B Sawant of the Elgaar Parishad (conclave), which was organised by former Supreme Court judge Justice Kolse Patil. The police initially filed FIRs (First Information Reports) on January 4 against Hindutva leaders Milind Ekbote and Shambhaji Rao Bhide, based on eyewitness accounts that they and their lieutenants had incited the violence against the Dalit congregation.

**THE ACTIVISTS’ VERSION**

Prashant Bhushan (human rights advocate and a petitioner in the Supreme Court for the arrested activists) gives an activists’ perspective to the arrests.

“The Pune police have arrested these activists on the basis of the ongoing investigations into the Bhima Koregaon violence that broke out in January this year during a march by Dalit activists. The march was preceded by a conclave called the Elgar Parishad (conclave), which was organised by former Supreme Court judge Justice P B Sawant and former High Court judge Justice Kolse Patil. The police initially filed FIRs (First Information Reports) on January 4 against Hindutva leaders Milind Ekbote and Shambhaji Rao Bhide, based on eyewitness accounts that they and their lieutenants had incited the violence against the Dalit congregation.

“But this investigation was shelved. The police instead embarked on a process of arresting a large number of activists, lawyers and journalists by first alleging that Maoists were involved in the Bhima Koregaon violence and then claiming that these activists lawyers and journalists were their urban supporters — the term, Urban Maoists has been coined to describe these activists.”

**PROFILE OF ARRESTED ACTIVISTS**

**Varavara Rao:** A renowned Telugu poet and writer, he founded Virasam (Revolutionary Writers’ Association) and is also known for espousing radical causes. A vocal advocate of tribal rights, he has been arrested by successive governments for his views.

**Vernon Gonsalves:** A writer, social activist and trade unionist, who was arrested in 2007 under similar charges. The security agencies had filed 20 cases against him, of which he was acquitted in 17. He was formerly a professor at a prominent Mumbai college.

**Sudha Bharadwaj:** She is a Trade Unionist, a civil rights activist, who has been working in the state of Chhattisgarh for 3 decades. She is the general secretary of the Chhattisgarh People's Union of Civil Liberties.

**Gautam Navlakha:** A human rights activist, a member of People's Union for Democratic Rights, a journalist (formerly editorial consultant with the journal Economic & Political Weekly). In 2011, he was refused entry into Kashmir at Srinagar airport and was forced to return to Delhi.

**Arun Ferreira:** A Mumbai based human rights activist and lawyer and an alumnus of St Xavier’s college, Ferreira was arrested in 2007 on the charges of being a Naxal operative but was later acquitted. His work for Navjan Bharat Sabha was alleged to be an activity for Naxalites.

**ANALYSES**

A nationwide outrage has build up over the arrests of five prominent intellectual dissidents, including poets, lawyers who take up the causes of the marginalised, and academics. The arrests have been under the Unlawful Activities (Prevention) Act that is generally used for dangerous terrorists. The Supreme Court was moved against the “malafide arrests” that criminalise dissent. The court has ordered only house arrests for now, while the matter is being heard.

**Opposition Criticism: Attack on Democratic Rights**

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Joining him in condemning the arrests, CPI(M) general secretary Sitaram Yechury said, “Ever since the Bhima Koregaon violence against Dalits, the Maharashtra Police along with central agencies have been targeting dalit rights activists and lawyers who have been taking up their cases. This is a brazen attack on democratic rights & civil liberties.”

Congress president Rahul Gandhi attacked the RSS over the development. “There is only place for one NGO in India and it’s called the RSS. Shut down all other NGOs. Jail all activists and shoot those that complain. Welcome to the new India. #BhimaKoregaon,” he wrote on Twitter.

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The latest arrests, concludes Bhushan, “represent a new and extremely dangerous phase in the steady erosion of civil liberties, fundamental rights and indeed democracy in India....”

“URBAN NAXALITES”

The Asian Age writes: “There have been strong sectional mobilisations against the government so far — of farmers, or on the communal question typified by cow vigilante actions and lynch mob attacks. The current mood of popular resentment is different. It’s over trampling of civil liberties by the State.

“The arrested dissenters, each with a long record of working with the poor, have been labelled “urban Naxalites” in order to tarnish them, but it’s not clear what
the charge against them is. Very loosely, it’s being suggested through friendly TV channels that a plot to assassinate the Prime Minister is being unravelled and ‘incriminating’ documents and close surveillance reveal these figures are likely to be associated.

“The idea of their association with such a plot, if one exists, sounds preposterous. Since none has been linked with violence and public disorder in their work going back decades, it’s plausibly being suggested their arrests are an example of the work of the ‘thought police’. It’s expected such actions will help keep government critics at bay.”

**CRACKDOWN ON POLITICAL DISSENT?**

The Hindu writes that the arrests has resulted in indignation, “because of the widespread suspicion that this is part of an orchestrated crackdown on political dissent. The intervention of high courts and later the Supreme Court has given rise to the hope that they will not be put away without sufficient basis, and that the case for proceeding against them will be properly scrutinised. The focus will now be on the next hearing of the Supreme Court, but the dramatic development — which has come months after some Left-leaning activists were arrested in a case relating to the Bhima-Koregaon violence — has raised a fundamental question. Namely, whether the arrests were the culmination of a legitimate probe into a Maoist plot, as the police claim, or whether this is yet another clumsy failure to distinguish between those who indulge in or actively support violent activity, and those who attempt to understand or empathise with the social conditions that breed extremism and insurgency the Maharashtra police carry the enormous burden of proof, having accused the activists of doing much more than inciting the violence that broke out in Bhima-Koregaon, near Pune, this year. What began as a controversy over allegedly provocative speeches made at a Dalit conference relating to the 200th anniversary of an iconic battle site has inexplicably morphed into a larger conspiracy involving the CPI (Maoist).”

A plot against a high dignitary like the PM is a very serious matter and should be painstakingly investigated but, writes the Tribune “without tangible proof, the timing of the action is bound to raise suspicion about the motive of law-enforcing agencies, as also State control, and give credence to the Opposition’s claim of a ‘virtual declaration of Emergency’. Amnesty International has condemned the police action as an attempt to crush rights interventions. There is need for circumspec- tion. Democracy will self-destruct in the face of systematic annihilation of dissent.”

Arrests ‘may provoke a backlash against the increasing authoritarian tendencies’

Pritam Singh, Professor of Economics, Oxford Brookes University, says the arrest of rights activists “marks a qualitative scaling up of attack on human rights and democracy. States all over the world dislike critics and dissidents because such dissenters bring to light many misdeeds of those who control and misuse power. The dissemination of knowledge about State’s misdeeds empowers those who are adversely affected by the actions of the State. Such empowerment is especially of critical importance in strengthening democracy in developing societies, where there is a significant cultural and educational gap between the rulers and the ruled. Rights defenders and democracy activists thus become intermediaries between the State and the powerless masses by siding with the masses.

“The sporadic attacks on human rights, civil liberties and democracy have been a constant feature of the Indian republic but a systemic onslaught took place during the Emergency rule of Indira Gandhi. The latest crackdown will go down as the second most extensive attack on rights, although in intensity, the 1984 and the 2002 riots mark the darkest spots in the history of post-colonial India. The guilty have not been brought to book, and this impunity adds to the lurking dangers behind the August 28 arrests.”

The attack on rights activists, says Singh “may further shrink the democratic space in India, but it is equally probable that it may provoke a backlash against the increasing authoritarian tendencies of this regime. Irrespective of the domestic response, internationally this crackdown on lawyers, journalists and poets will certainly further tarnish the image of this regime.”

**LAW COMMISSION DEFENDS FREE SPEECH**

Underlining that “singing from the same book is not a benchmark of patriotism” in a democracy and “people should be at liberty to show their affection towards their country in their own way”, the Law Commission has said that a person should not be charged with sedition for “merely expressing a thought that is not in consonance with the policy of the Government of the day”.

In a consultation paper on the sedition law (124A IPC) — in which it has spelt out multiple issues that require wider discussion — the Law Commission, headed by Justice (retired) B S Chauhan, has said that the stringent sedition law should be invoked only in cases “where intention” behind the act is to “disrupt public order or to overthrow the Government with violence and illegal means”.

“The Commission hopes a healthy debate will take place among the legal luminaries, lawmakers, Government and non-Government agencies, academia, students and above all, the general public, on the above issues, so that a public-friendly amendment could be brought about,” the panel said in its paper

Defending the right to freedom of speech and expression, the panel said: “In a democracy, singing from the same book is not a benchmark of patriotism. People should be at liberty to show their affection towards their country in their own way. For doing the same, one might indulge in con-
strucrive criticism or debates, pointing out the loopholes in the policy of the Government. Expressions used in such thoughts might be harsh and unpleasant to some, but that does not render the actions to be branded seditious. Section 124A should be invoked only in cases where the intention behind any act is to disrupt public order or to overthrow the Government with violence and illegal means.”

Every irresponsible exercise of right to free speech and expression, the panel said, cannot be termed seditious. “For merely expressing a thought that is not in consonance with the policy of the Government of the day, a person should not be charged under the section. Expression of frustration over the state of affairs, for instance, calling India ‘no country for women’, or a country that is ‘racist’ for its obsession with skin colour as a marker of beauty are critiques that do not ‘threaten’ the idea of a nation. Berating the country, or a particular aspect of it, cannot and should not be treated as sedition,” the panel said.

“If the country is not open to positive criticism, there lies little difference between the pre- and post-independence eras. Right to criticise one’s own history and the right to ‘offend’ are rights protected under free speech. While it is essential to protect national integrity, it should not be misused as a tool to curb free speech. Dissent and criticism are essential ingredients of a robust public democracy. Therefore, every restriction on free speech and expression must be carefully scrutinised to avoid unwarranted restrictions,” the panel said.

Seeking answers to the crucial question of amending the sedition law, the Commission laid out ten issues. “Should sedition be redefined in a country like India, the largest democracy of the world, considering that right to free speech and expression is an essential ingredient of democracy ensured as a Fundamental Right by our Constitution?” it said.

ELECTION STRATEGY: OPPOSITION PLAYS CATCH-UP TO BJP

Prime Minister Narendra Modi and BJP president Amit Shah, in a meeting of chief ministers of BJP-led states Tuesday, discussed the contours of strategising not just for the upcoming Assembly polls in Madhya Pradesh, Chattisgarh and Rajasthan, but also the 2019 Lok Sabha polls.

Chattisgarh Chief Minister Raman Singh, briefing the media after the meeting, said the meeting also flagged important issues central to the party’s campaign for 2019, including the National Register of Citizens and the Citizenship (Amendment) Bill, 2016, which seeks to accord citizenship rights to those from specific communities fleeing religious persecution from countries bordering India, along with development programmes launched by the Modi government. The meeting also discussed setting up of fast track courts.

No details were divulged but the underpinnings of the BJPs campaign for the 2019 polls that emerged from the meeting was the marrying of strong identity-based politics, the NRC, and the Citizenship Bill, along with development programmes launched by the Modi government. The meeting also discussed setting up of fast track courts.

It is clear, writes the Hindustan Times “that the party will try and reach these constituencies with the message that it did something for them, just as it will try and highlight this government’s welfare programmes, including its flagship health insurance scheme that is to be launched next month…”

BJP’S ‘PRAGMATIC’ STRATEGY IN SOUTH INDIA

A key element of the BJP strategy is to get a foothold in the South, tamil Nadu in particular. With the distinct possibility of the BJP getting less seats than it presently has in the Hindi belt, BJP has devised a “pragmatic” plan for southern states in time for the 2019 general elections.

“Pragmatism” would be adopted in forming alliances, said a senior party leader, adding that party president Amit Shah has clarified that the BJP would go for an alliance in Tamil Nadu. In Andhra Pradesh, where its estranged ally TDP is “getting cozy” to Congress, the BJP could join hands with smaller allies ahead of the election while in Karnataka, the party is “confident” that the ruling alliance of Congress and JD(S) would be to its advantage.

The BJP, however, is uncertain about its moves in Telangana, but claims that it would emerge as a formidable alternative to the TRS. Politics over flood may have dampened its prospects in Kerala, but BJP leaders say they “don’t think impact of developments of the past few days would decide” the party’s future there.

The five southern states-Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Kerala-and the Union Territory of Puducherry together elect 130 MPs to Lok Sabha. Despite its excellent performance in the 2014 Lk Sabha polls, the BJP could win only 20 seats from these states. In Tamil Nadu, the BJP won only one out of 39 Lok Sabha seats in 2014. It is now looking for a socio-political composition.

After the death of DMK patriarch M Karunanidhi, the party’s working president M K Stalin has to to the BJP. Options for an alliance with the ruling AIADMK are also open. Both parties have been weakened by the loss of their top leadership in recent times. According to BPP leaders “It is an important political space, not just because of electoral prospects, but also because of the vast Tamil diaspora in south Asia. Our advantage will be Modi and people there have a connect with him.”

In Kerala, where the BJP has increased its vote share but failed to make any major electoral impact so far, the party will focus on broad basing.

EARLY DAYS FOR AN OPPOSITION ALLIANCE

The Hindi belt however, remains crucial for the BJP as well as for the Op-
position. Assembly polls in three BJP-rulled Hindi-speaking states — Rajasthan, Madhya Pradesh and Chhattisgarh — are due in November-December.

The Asian Age is surprised that “there is no sign yet of any worthwhile moves between the Congress and the BSP for a tieup. If this doesn’t materialise, the BSP may not yield the Congress space in Uttar Pradesh, where the Congress’ condition is far from satisfactory. The party won just seven seats of 403 in the last Assembly polls.”

The alliance will eventually come, although even a “BSP-SP combination can give the BJP nightmares as a number of critical byelections showed not long ago. This is due to the coming together of certain social forces at the grassroots if these parties combine well.”

In London recently, Congress president Rahul Gandhi spoke of the resolve of a coalition of parties to oppose the BJP in the next parliamentary election to prevent the BJP-RSS from encroaching on the nation’s institutions. It may be early days yet.

ON RAHUL GANDHI’S WISDOM

There is, however, serious criticism of Rahul Gandhi’s speaking words of wisdom before an audience abroad. “At home he confines himself to mundane politicking” writes the Statesman. “In the Lok Sabha he limits himself to silly one-liners……….. yet abroad he has pontificated about what gave birth to ISIS, warned of similar disaffection gaining ground in India and likened the RSS with the Muslim Brotherhood of Egyptian infamy.”

The paper is rather critical of Rahul Gandhi who it says “has usurped the leadership of the party without a valid track record – neither administrative efficiency nor electoral success to support his dubious claim to fame. The ‘kid’ just refuses to mature, create public confidence of being able to successfully steer his party through the electoral minefield ahead.”

Ruchir Joshi (writer, a columnist for The Telegraph) is equally critical of Rahul Gandhi’s recent tour of Europe. The Gandhi scion may be most effective when talking about the Rafale scandal but on “economic matters he sounds woolly and banal.”

On a question by a student: “What do you think about dynastic politics in India?” Rahul Gandhi’s answer, “paraphrased, is yes my family is the reason why I joined politics but ultimately I am elected. Now, we know the elections for Congress president are a joke. We also know that RG may have been elected as an MP but he hasn’t administered so much as a tehsil (administrative unit), so the question that remains unanswered is this: suppose the RSS-BJP regime is thrown out by the electorate, what will Rahul Gandhi’s role be in the succeeding government? Are we looking at a ‘prime ministerial’ candidate, or are we, as RG insists, only to listen to him as an ‘enabler’ of a possibly successful alliance to unseat the RSS-BJP?”

Joshi concludes his essay on Rahul as follows: “Rahul Gandhi fumbles these catches but doesn’t quite drop them. Rahul Gandhi is possibly an honest, decent, reasonably intelligent and non-parochial man. In terms of megalomania there seems to be clear blue water between him and many of the other leaders we are saddled with, either from the ruling party or from the Opposition. Speaking for myself, I would vote for a dustbin rather than vote for a man like Narendra Modi but after seeing Rahul perform I find myself wishing for a better option, for somebody else to lead us out of the hell in which we find ourselves.”

RAFALE CONTROVERSY REFUSES TO DIE

Congress President Rahul Gandhi Friday once again hit out at Prime Minister Modi over the controversial Rafale deal. Citing a report from the Indian Express, Rahul Gandhi tweeted, “Globalised cor-

ruption. This #Rafale aircraft really does fly far and fast! It’s also going to drop some big bunker buster bombs in the next couple of weeks.”

Gandhi asked the prime minister to, “tell Anil, there is a big problem in France.”

INDIAN EXPRESS DISCLOSURE

Sushant Singh, Associate Editor of The Indian Express Friday reported that two days before then French President Francois Hollande came to New Delhi as the Republic Day chief guest and signed a Memorandum of Understanding with Prime Minister Narendra Modi for delivering 36 Rafale aircraft, Anil Ambani’s Reliance Entertainment entered into a deal to produce a film with Hollande’s partner and actor Julie Gayet.

Later that year, Ambani’s Reliance Defence became part of the offset programme of the Rs 59,000-crore Rafale deal through Dassault Reliance Aerospace Ltd (DRAL), in which it holds a 51% stake. Dassault Aviation, the French manufacturer of Rafale, holds 49% stake in DRAL.

On January 24, 2016, Reliance Entertainment announced that it had entered into an agreement with Gayet’s firm, Rouge International, to jointly produce a French film.

On January 26, 2016, both countries signed the MoU for the purchase of 36 jets in flyaway condition. The deal, called the Inter-Government Agreement, was expected to be signed during Hollande’s visit but was delayed due to “some financial issues”.

The film Reliance helped produce was released in France on December 20, 2017 under the title, Tout La-Haut.

This was eight weeks after Dassault Aviation chairman Eric Trappier and Ambani laid the foundation stone for DRAL manufacturing facility in Nagpur in the presence of then French Defence Minister Florence Parly; Roads and Highways Minister Nitin Gadkari; Maharashtra
Chief Minister Devendra Fadnavis and Ambassador of France to India Alexandre Ziegler.

The deal for 36 Rafale jets was announced, negotiated between the two governments and signed during the presidency of Hollande, when Gayet was staying with him in Elysee palace in Paris. Hollande was President of France from May 2012 to May 2017 and his relationship with Gayet became public in January 2014.

The first announcement of Dassault and Reliance creating a JV in India as a “key player” for execution of offset obligations was made in October 2016, again during Hollande’s Presidency.

This was 10 days after the deal worth Rs 59,000 crore was signed between Indian and French Defence ministers in New Delhi on September 23, 2016, with a clause for 50% offset obligations.

Under the offsets clause, France is to invest 50 per cent of the total order cost in local contracts in India, worth Rs 30,000 crore. The offset obligations of the deal are to be discharged from September 2019 to September 2023, as per the contract.

Rafale offset was the first project of this magnitude won by Reliance Defence, which placed it at the centre of a major political controversy. Opposition parties, including the Congress, have alleged that undue favours had been granted to Ambani’s firm in this deal, a company without any defence manufacturing experience.

This was done, they alleged, at the cost of public sector Hindustan Aeronautics Limited (HAL), Bangalore which was to make the aircraft in India in the earlier 126 aircraft deal scrapped by the BJP government.

The Defence Ministry clarified in a statement that “no Indian Offset Partner for the 2016 deal for 36 Rafale Aircraft has been so far selected by the vendor (Dassault Aviation or DA) because as per the applicable guidelines, DA is free to select the Indian Offset Partners and provide their details at the time of seeking offset credits, or one year prior to discharge of offset obligation”.

Reliance Defence dismissed the claim that Dassault had given Rs 30,000-crore worth of offset contract to Reliance as “totally unfounded”. Dassault and its main suppliers have already indicated that more than 100 Indian companies would participate in the offset contracts including joint ventures with public sector firms such as HAL and Bharat Electricals Ltd, the company said in a statement this month.

COMPARING RAFALE AND BOFORS CONTROVERSIES

Rajdeep Sardesai, senior journalist and author compares the Bofors and Rafale controversies. The Bofors gun corruption charge tarred Rahul Gandhi’s father Rajiv Gandhi’s reputation and eventually hurdle the Congress towards defeat in the 1989 elections. “Now, three decades later, the Congress president seems determined to extract revenge for his father’s political downfall by making the Rafale aircraft deal a centrepiece of his 2019 election campaign.”

Looking at the similarities, Sardesai notes that both Rajiv Gandhi and Narendra Modi have been major governments and came to power with the promise of being change agents.

“Both leaders have been dragged into similar defence deal controversies where the armed forces requirements are not under question: India in the 1980s needed the Howitzer field guns desperately just as the Rafale aircraft is seen today as an urgent need to reinforce the Air Force’s depleted squadron capabilities…… And typically, in both the instances, there has been a veil of secrecy around the contractual terms that has left governments open to the charge that they have something to hide.’

Writing about the differences, Sardesai says “the charge of kickbacks in Bofors was very specifically made by Swedish radio first; this was then followed up by a series of detailed investigative reports that very clearly established pay-offs and the presence of middlemen in the deal. So far, there has been no similar money trail established in the Rafale case.

“Moreover, in Bofors, the then defence minister, VP Singh, dramatically resigned and became the magnet for the sustained Opposition attack on the government. Here, there is no such opposition unity in evidence……”

More importantly, Rajiv Gandhi was no match to Modi who “brings an element of awe and fear to his politics. Where Rajiv Gandhi was quickly pushed on the defensive by the allegations, Modi has chosen to brazen it out……”

Finally, VP Singh succeeded Rajiv Gandhi “in becoming prime minister in 1989 because he was able to artfully position himself as the challenger who could occupy the moral high ground on corruption. Rahul Gandhi is not the incumbent but the baggage of the Congress’s past corruption scandals weighs him down……”

FACTORS THAT DETERMINE COSTS OF WEAPON SYSTEMS

In the context of controversies over costs of weapon systems that India procures or is in the process of procurement, Bhartendu Kumar Singh, Indian Defence accounts service, analyses various factors that can determine costs.

The “international arms market is ambivalent in terms of pricing, technology transfer, support system and localised production through transfer of technology (ToT). Many foreign firms guard their costing process beneath a veil of secrecy. Price agreements with one country may not be shared with another. Thus, readymade price references are not readily available and estimates by defence think tanks or publications are, at best, ‘vague’. Prospective buyers often solicit one of the suppliers for ‘estimated price’. The absence of an information environment encourages suppliers to play and
manipulate the market. Even in the Indian context, despite some existing guidelines, the estimation process does not help towards objective, acceptable and verifiable benchmarks. The ubiquitous practice is to add some value to previous procurements and compare the same with some secondary sources. The process may not be of much help since the gestation period between similar items could be too long and the quantitative requirements may have changed drastically.”

Singh writes further “The technological know-how in the buyer country and alternative sources of weapons supply also affect costs, which get inflated if firms enjoy monopoly or quantum edge in the market. Lead players in international arms market do not want military-industrial complexes (MICs) of developing countries to become self-sufficient. It is perhaps India’s growing confidence in its domestic MICs that has prompted Western arms suppliers to offer weapons with generational advantage since they don’t want to lose a lucrative market. Perhaps, the relative success of the Light Combat Aircraft (LCA) project has forced Western suppliers to make a head turn and offer their fighter jets at competitive rates. A hidden objective could be to stifle the growth of this project and perpetuate India’s dependence on international arms market for the purchase of fighter jets.”

Offset principles and clauses…. also dilute the actual impact of costing, though the correlation is debatable among procurement specialists. There is an emerging view that offset provisions inflate the costing since it is almost one-third of the contracted value in the Indian context. However, actual investments through offsets have been lesser than expected……

“Costing decisions can also get impacted in actual negotiations with the suppliers. Effective negotiations require requisite skills, tactics and environmental knowledge of defence procurement since foreign vendors often take advantage of professional ignorance. However, in the Indian context, negotiations are largely a bureaucratic exercise with little corporate exposure…..

“Geopolitical considerations also influence costing. Most developing countries prefer weapons from friendly countries for reciprocal diplomatic support on international platforms. The terms of such procurements are flexible and often executed through Inter Governmental Agreements (IGA)……National interests determine such procurements and ethical or financial cannons become irrelevant.”

**COUNTERING TERROR: GOVERNMENT RETHINKS STRATEGY**

Union Home Minister Rajnath Singh has sought to rope in experts with the help of National Commission for Minorities (NCM) to counter radicalisation among youth. Singh, along with Home Secretary Rajiv Gauba, took up the issues of deradicalisation and counter-radicalisation at a review meeting Monday.

The National Investigation Agency (NIA) has arrested many youths over the last few months across the country for alleged affiliation to the Islamic State.

Besides scholars and researchers, Singh said that clerics who can counsel young people about Islam should be engaged in this counter-radicalisation move. The civil society should ascertain the reasons behind the youth taking up radical beliefs and then use the influence of community interventions, he is learned to have said in the meeting.

Singh also sought to modernise police forces to provide an elaborate insight into religious radicalisation and all forms of extremism, counter-insurgency, and cyber and economic crimes.

During the review, Singh also discussed proposed amendments to the National Investigation Act, 2008. The amendments, which give broader powers to the NIA, is pending before the Cabinet and was to be introduced in the recent Monsoon Session of Parliament but was delayed due to objections raised by some states for giving powers to the director-general of NIA for seizure and attachment of property representing proceeds of terrorism, said officials who were part of the meeting.

At present, the NIA requires the approval of the D-G of the state police concerned.

The draft provisions of the Bill include mandating the NIA to launch parallel probes into terror attacks on Indians and their properties abroad. The US Federal Bureau of Investigation (FBI) has similar powers that were exercised to conduct a parallel probe after the 2008 Mumbai attacks, which killed six American nationals.

The Bill also proposes to designate any individual suspected of having terror links in the list of terrorist entities.

The decision was taken after a surge in the number of youths joining the Islamic State. The amendment, according to officials, will lead to a ban on individuals who may not be associated with any terrorist organisation but are indulging in terror acts independently.

At present, there are 39 groups in the list of banned terrorist organisations under Section 35 of Unlawful Activities (Prevention) Act, (UAPA), the latest being NSCN (Khaplang), which carried out an attack on Indian Army personnel last year.

**‘SECULAR PRINCIPLES REALLY MATTER ONLY WHEN THEY ARE COMPATIBLE WITH POLITICAL INTEREST’**

The recent election for the post of Rajya Sabha deputy chairman, saw BJP’s candidate being supported by Shiv Sena, BJD and JD(U). This election has shown that in the Upper House some parties do not necessarily vote according to the ideological principles they articulate in public. According to Christophe Jaffrelot (senior research fellow at CERI-Sciences...
Po/CNRS, Paris and professor of Indian Politics and Sociology at King’s India Institute, London), “such a gap between principle and practice is not new and may even be taken for granted in politics. In India, the contradiction between proclaimed faith in secularism and actual collaboration with communal forces has been a case in point for decades.”

This phenomenon “suggests that secular principles really matter only when they are compatible with political interest.” The example of the ruling Janata Dal (U) in Bihar is case in point. Chief Minister Nitish Kumar refused to share a platform with Modi keeping in mind JD(U)’s secular image. This image ceased to be a problem, however, when the JD(U) needed the BJP’s support for governing Bihar.

This kind of opportunism has two effects writes Jeffrelot: “First, citizens have developed cynicism vis-à-vis a political discourse based on values. Politicians’ lack of ideological credibility is one reason why voters are attracted by newcomers who have one quality no one can deny: They were not part of the political class that betrayed its own ideals. These new leaders also do not articulate values-based ideologies, but identity-based ideologies. They claim they will defend the ethnic majority against threats from domestic minorities or/and neighbouring countries………”

In the short term, parties like the JD(U) “get something in return by playing ball with a party whose ideology they don’t share, but they undermine democracy and take the risk of becoming redundant once the hegemon has taken over from them in their own pocket borough.”

Tamil Nadu: Political Import of M K Stalin as DMK President

M K Stalin was elected president of the Dravida Munnetra Kazhagam (DMK) Tuesday at the party’s General Council meeting. The 65-year-old, has been poised to take over the reins of the party from his father, the late M Karunanidhi. Stalin, who has been at the helm of DMK’s affairs since the run-up to the Tamil Nadu Assembly Elections in 2016, was appointed ‘working president’ of the party in 2017.

Karunanidhi’s death earlier this month had led to a succession war within the party, with expelled party leader M K Alagiri — Karunanidhi’s eldest son — claiming DMK’s “true loyalists” were on his side. Despite being expelled from the party in 2014 for ‘anti-party activities’, Alagiri has claimed he is heir to the party and has questioned Stalin’s leadership. Azhagiri warned Monday that if he was not taken back into the party, then DMK would have to face “consequences”. He has also announced his plans to hold a rally in Chennai early next month to show his strength.

Azhagiri had on August 13 claimed that all “loyal” party workers were with him and accused Stalin of blocking his return to the party, indicating a fresh succession war in the DMK.

Stalin’s rise in DMK’s ranks has not been meteoric in his five-decades-old political career. It was only after his brother Alagiri’s ouster from the party in 2014 that he got the much-needed elbow room, and only after Karunanidhi retired from active politics did he emerge as the working president.

Stalin was born to Karunanidhi and his second wife Dayalu Ammal on March 1, 1953 — four days after Soviet Communist leader Josef Stalin's death.

Political Impact

Tamil Nadu is important for the BJP because it realises that it is difficult to repeat the kind of sweep it managed in 2014 in several western and northern states, especially if the Opposition parties come together.

BJP does not want to repeat the mistakes of 2004, when the DMK walked out of its alliance in TN. Until now, writes Hindustan Times, “Tamil Nadu has been a hard nut to crack as far as the BJP goes. Most parties in the state have held true to the Dravidian ideology with its anti-upper caste and anti-Hindi position. Except for winning the odd seat such as Kanyakumari or Coimbatore in alliance with a regional party, the BJP has faltered in the state.

“However, circumstances have changed now and with politics being as fluid as it is in the state, the BJP is hoping to get a foot in the door.”

Strong Anti-BJP Line by Stalin

Politics in the state revolve around the ruling AIADMK and the DMK. While officially the DMK is part of the UPA, the BJP will look to lure it away; it is, currently, a more attractive option than a split AIADMK.

However, after taking over as head of the DMK, M.K. Stalin clearly defined the party’s secular line while reiterating its commitment to fight the BJP in very strong language. At a time when Hindutva is on the rise elsewhere in India, the DMK’s stance against authoritarianism and communalism is a statement of intent and political positioning when it is open season for alliances ahead of 2019. The Dravida party, that rode to power on the back of a powerful student movement opposing the imposition of Hindi in 1967, may have fallen on lean days electorally now as it has been sidelined since its association with UPA-2 when it came under the 2G cloud. But there’s no reason to doubt whether the party will have a crucial national role to play again in a major state with 40 (including Puducherry) Lok Sabha seats.

Jammu and Kashmir Targeting Security Personnel

Seven close relatives of J&K policemen were abducted Thursday by suspected
militants in different parts of south Kashmir. This comes a day after four J&K policemen were killed by suspected militants and follows allegations of the Army setting on fire houses of militants — both in Shopian. The Army has denied the allegations. On the same day, J&K Police also arrested the father of Hizbul Mujahideen’s operations chief Riyaz Naikoo.

Hizb chief’s son arrested in 2011 terror funding case: Meanwhile, The National Investigation Agency (NIA) Thursday arrested Shakeel Yousuf, the eldest son of ‘global terrorist’ and Hizbul Mujahideen chief Syed Salahuddin, in connection with a 2011 case pertaining to terror funding.

Yusuf works as a medical assistant at Sher-i-Kashmir Institute of Medical Sciences in Srinagar. He has appeared before the agency when it issued summons in March.

The investigation in the 2011 terror funding case involving Hurriyat leaders has picked up after it was briefly suspended when the Centre announced suspension of operations (SoO) during the month of Ramzan.

There are multiple cases that the agency is probing in the Kashmir Valley. The particular case where Yusuf has been summoned pertains to the transfer of money from Pakistan to J&K through hawala channels via Delhi, which the agency believed was used in funding terrorism and secessionist activities.

In November 201, the NIA had arrested Syed Shahid Yousuf, another son of Salahuddin. He was working in the agricultural department of the Jammu and Kashmir government and is presently in Tihar jail.

ARTICLE 35A HAS MOBILISED SEPARATISTS, MAINLINE PARTIES AND THE YOUTH

The Supreme Court Friday deferred to January 2019 the hearing over a clutch of petitions challenging the constitutional validity of Article 35A that empowers the J&K government to define the state’s permanent residents and their rights. The Centre and State urged the court to hear the matter only after the local body elections scheduled for December in the state.

Thursday onwards, the Kashmir Valley and parts of Jammu region observed a complete shutdown to protest against any “tampering” with the special constitutional rights of the people of Jammu and Kashmir. The Joint Resistance Leadership, including Syed Ali Shah Geelani, Mirwaiz Umar Farooq and Yasin Malik, gave the call for the shutdown.

Earlier in the first week of August, the apex court had deferred the hearing in the matter to the last week of August after both the Centre and Centre-ruled J&K administration sought an adjournment of proceedings, citing ongoing preparations for local body polls.

A bench of Chief Justice of India Dipak Misra and Justice A M Khanwilkar adjourned the hearing, saying a three-judge bench needs to decide whether it should be referred to a Constitution Bench.

The provisions of Article 35-A bars Indian citizens, other than those who are permanent residents of J&K, from seeking employment, settling in the state, acquiring immovable properties or undertaking any trade or business if the state makes any law to that effect and it cannot be challenged before any court.

Following the adjournment of the hearing the matter, former chief minister Mehbooba Mufti said, “Even though the deferment of hearing on Article 35 A is not a solution, it has brought interim relief to the people of JK. But with uncertainty looming over its status, it has unleashes a wave of anxiety and panic amongst the people of J & K.”

Anand Sahay, senior journalist based in Delhi writes about the insensitivity of the Centre to Jammu and Kashmir, India’s only Muslim-majority state.

“With anger welling up across Kashmir — and across the political spectrum in the Valley — on the issue of Article 35A of the Constitution, we should prepare for stormy disturbances ahead in addition to the military-related troubles that already exist” and it will be Pakistan that will gain from this turmoil.

Sahay writes that the imposition of President’s rule consequent to the toppling of the PDP-BJP government in which the BJP was a more than vigorous ally, was “acknowledgment of political inadequacy.”

This was compounded by the substitution of N.N. Vohra, a retired civil servant of distinction, who was held in esteem across the Valley, with Malik, a BJP politician, “who has flitted across the political spectrum, is giving rise to fears in Kashmir that unpalatable political measures could be on the cards. The replacement of a governor during Governor’s Rule is itself unusual and gives rise to a sense of dissonance at the top….”

But the biggest worry is “the RSS’ espousal of the case to remove Article 35A of the Constitution, through which is defined the identity of the Kashmiri people in relation to the rest of India, is causing turmoil in the minds of ordinary men and women in the Valley.

“This dangerous advocacy — taken to the Supreme Court by a NGO with RSS leanings — has unleashed demons in the minds of the people of J&K, indeed even in ‘Hindu’ Jammu, where a BJP MLA spoke out against his party.”

For the first time in many years, writes Sahay, “a Valley-wide mobilisation is building up on the question of Article 35A even as these lines appear. Every Kashmiri is getting involved, and there are no exceptions……

“The separatists and the mainline parties have come together as one. The anger building up now is not just against the Narendra Modi government in Delhi. It is also turning out to be against India for contemplating to renegotiate — as the Valley sees it — on an understanding reached with Kashmir and its people……”

Article 35A lays down that only
permanent residents of J&K shall own immoveable property in the state, or get government jobs or scholarships. This provision also lays down that only the J&K legislature shall be competent to determine who a permanent resident is. It is also important to note that it is through Article 35A that permanent residents of J&K become citizens of India.”

The RSS-inspired NGO, writes Sahay, “which is in the Supreme Court petitioning for its removal, has argued on a pseudo-technical basis that this article was not incorporated into the Constitution through the due process of amendment, but was incorporated through a presidential order in 1954 as per powers conferred on the President of India by Article 370 (i) (d) of the Constitution.”

**DELAYS IN MEGA PROJECTS**

At least 28 big projects — each worth Rs 1,000 crore or more — in the Prime Minister’s Development Package (PMDP) for J&K announced nearly three years ago remain stuck at various stages, official records accessed by The Indian Express show.

A report by the erstwhile state government on the status of the projects under the PMDP shows that of the 61 identified projects, 13 are in the Jammu region, 11 in Kashmir and nine in Ladakh. At least 28 projects cut across regions and are state-wide.

The development package of Rs 80,068 crore for the state was announced by the Prime Minister on November 7, 2015. It comprised 61 major development works to be implemented by 15 central ministries with the assistance of the state government. The last review of the PMDP, by the Union Home Secretary, when the BJP-PDP alliance was intact showed that Rs 62,991 crore (approximately 79 per cent) had been sanctioned by March end this year.

However, just Rs 24,443 crore (31 per cent) had been released, and the amount utilised was even lower at Rs 20,417 crore (25 per cent). Official records also show that at least 28 big-ticket projects — each worth Rs 1,000 crore or more — under the PMDP are stuck at various stages.

It is not only projects worth Rs 1,000 crore or more, which are struggling to make progress. The 61 projects under the PMDP also include 10 – each that costs Rs 100 crore or less. The Valley has four such projects totalling Rs 307 crore, while the Jammu and Ladakh regions account for two and four projects costing Rs 275 crore.

Most of the mega projects under the PDMP are struggling to make progress due to various reasons, including preparation of detailed project reports, land acquisition, forest clearances and even release of funds from the Centre.

Most of these projects are in infrastructure-related sectors and have a gestation period of 3-5 years. They are worth a total of Rs 69,178 crore, which is over 86 per cent of the total PMDP outlay of Rs 80,068 crore. Roads and tunnels alone account for over 50 per cent of the outlay.

Until June 30, the records show, detailed project reports (DPRs) were still being finalised or had just been submitted in four of the 13 road and tunnel projects. Two more projects, cleared by the state government, remain stuck at the Centre. Five road projects have been awarded, and foundation stone laid in January this year for the mega Rs 9,090-crore Zozila tunnel.

Power projects, which make up another 15 per cent, have moved at a comparatively faster pace. The Pakal Dul 1,000 MW project and the Srinagar-Leh transmission line are on course. Of the 28 small hydro power projects estimated to cost a total of Rs 2,000 crore, those being executed by state-owned JAKEDA, are awaiting disbursal by the central government.

Premier educational institutions — AIIMS (All India Institute of Medical Sciences) and IIMs (Indian Institutes of Management) — account for another 7.5 per cent. Forest land has been acquired for an IIT (Indian Institute of Technology) and an IIM in Jammu, and students have been enrolled.

Release of funds for rebuilding homes and infrastructure has been expedited. For instance, of the sanctioned amount of Rs 1,195 crore for rebuilding homes, Rs 1,024 crore has already been utilised. Similarly, about Rs 1,095 crore has already been spent on restoring damaged infrastructure.

While the state has created additional government jobs for 3,000 Kashmiri migrants, selections were still being made by relevant recruiting agencies, according to records. The state has also extended financial assistance of Rs 578 crore through Direct Benefit Transfer to 12,588 displaced families (of the 36,384) from Pakistan-occupied Kashmir and Chhamb.

**CHALLENGES FOR THE NEW GOVERNOR**

Syed Ata Hasnain (retired lieutenant-general, a former commander of the Srinagar-based 15 Corps. He is also associated with the Vivekananda International Foundation and the Institute of Peace and Conflict Studies), rightly emphasises that governance before anything must be the new “governor’s priority. There are languishing projects which were under the former governor’s gaze for revival with additional funds which the state is seeking. These must get impetus and the credibility of ensuring project completion must be demonstrated at least in some projects…”

Noticeably, the former general says “security is being given second priority among the challenges before the leadership. That is because it remains a work in progress, though much can be done beyond just the conduct of operations to neutralise terrorists. If at the outset the governor can give importance to the Unified Command and comprehend its utility beyond just being a meeting and conference point for the security
agencies, it would be a transformation in approach. With infiltration attempts on the rise, the aim of the Deep State in Pakistan is to work towards the next season in terms of filling terrorist numbers and leadership, both being deficient in north Kashmir. The Army must remain focused on preventing this. In south Kashmir, the three challenges in particular are the increasing recruitment of local youth, the killing of local policemen to cause turbulence in the ranks of the J&K police and the attempt to radicalise young people. The efforts towards neutralising all three have been in progress, but there is apparent insufficient success in these. There have been successful efforts in obtaining the cooperation of the clergy to message the youth on the needs to remain moderate in outlook and follow the traditional path of faith in the Valley. These efforts must multiply manifold and social media platforms should be provided for these.

“There are many more serious issues to contend with — including the question of Article 35A. The leadership must keep these in mind but work incrementally towards creating an environment to enable more interaction before serious discussions on these matters.”

**DRONE POLICY TO BE EFFECTIVE FROM 1 DECEMBER**

The Director General of Civil Aviation has announced its policy for remotely piloted aircraft or drones. Set to come into effect from December 1, 2018, the new policy defines what will be classified as remotely piloted aircraft, how they can be flown and the restrictions they will have to operate under.

**DEFINITION OF DRONES**

The DGCA has defined remotely piloted aircraft (RPA) as an unmanned aircraft piloted from a remote pilot station. “The remotely piloted aircraft, its associated remote pilot station(s), command and control links and any other components forms a Remotely Piloted Aircraft System (RPAS),” the policy states. Also, as per the civil aviation requirements — issued under the provisions of Rule 15A and Rule 133A of the Aircraft Rules, 1937 – these RPAs will need a Unique Identification Number (UIN), Unmanned Aircraft Operator Permit (UAOP) and need to adhere to other operational requirements.

**DGCA HAS SEGREGATED DRONES INTO FIVE DIFFERENT CATEGORIES**

i) Nano : Less than or equal to 250 grams.

ii) Micro : From 250 grams to 2kg.

iii) Small : From 2kg to 25kg.

iv) Medium : From 25kg to 150kg.

v) Large : Greater than 150kg.

All drones, other than in the nano category, shall apply to DGCA for import clearance and based on that Directorate General of Foreign Trade shall issue license for import of RPAS.

Unmanned Aircraft Operator Permit (UAOP)

Operators of civil drones will need to get a permit from the DGCA. There are exceptions for:

i) Nano RPA operating below 50 feet (15 m) in uncontrolled airspace / enclosed premises.

ii) Micro RPA operating below 200 feet (60 m) in uncontrolled airspace / enclosed premises – but will need to inform local police 24 hours prior.

iii) RPA owned and operated by NTRO, ARC and Central Intelligence Agencies but after intimating local police.

The DGCA has to issue the UAOP within seven working days provided all the documents are complete. This UAOP shall be valid for five years and not transferrable. The policy also stipulates that RPAs shall be flown only by someone over 18 years of age, having passed 10th exam in English, and undergone ground/ practical training as approved by DGCA.

**OPERATING PROCEDURE**

The basic operating procedure will restrict drone flights to the daytime only and that too within “Visual Line of Sight (VLOS)”. This applies to all categories. Also, along with other SOPs, the DGCA has clarified that no remote pilot can operate more than one RPA at any time. Plus, manned aircraft will also get priority. There can’t be any human or animal payloads, or anything hazardous. It cannot in any manner cause danger to people or property. An insurance will be mandatory to cover third-party damage.

**RESTRICTIONS FOR DRONES**

RPAs cannot be flown within 5km of the peripherals of the airports in Mumbai, Delhi, Chennai, Kolkata, Bengaluru and Hyderabad and within 3km from the perimeter of any other airport.

It cannot fly within “permanent or temporary Prohibited, Restricted and Danger Areas” and within 25km from international border which includes the Line of Control (LoC), Line of Actual Control (LAC) and Actual Ground Position Line (AGPL).

It cannot fly beyond 500 m into sea from the coast line and within 3 km from perimeter of military installations.

It also cannot fly within a 5 km radius of the Vijay Chowk in Delhi, within 2 km from perimeter of strategic locations/ vital installations notified by Ministry of Home Affairs and within 3 km from radius of State Secretariat Complexes.

It also cannot be operated from a mobile platform such as a moving vehicle, ship or aircraft.

Eco-sensitive zones around National Parks and Wildlife Sanctuaries are off-limits without prior permission.

Violations will be acted on under relevant sections of the IPC and the Aircraft Act 1934.
The Defence Acquisition Council (DAC), chaired by Defence Minister Nirmala Sitharaman, met on Aug 25 and accorded approval for procurement for the military amounting to approximately Rs. 46,000 crore.

The Defence Acquisition Council (DAC), in a landmark decision, approved procurement of 111 Utility Helicopters for the Indian Navy at a cost of over Rs. 21,000 crores. This is the first project under the MoD's prestigious Strategic Partnership (SP) Model that aims at providing significant fillip to the Government’s ‘Make in India’ programme.

The SP Model envisages indigenous manufacturing of major defence platforms by an Indian Strategic Partner, who will collaborate with foreign OEM, acquire niche technologies and set up production facilities in the Country. The model has a long-term vision of promoting India as a manufacturing hub for defence equipment thus enhancing self-sufficiency and establishing an industrial and R&D ecosystem, capable of meeting the futurerequirements of the Armed Forces. The contract when finalised, would result in a vibrant and wide-spread Defence industrial ecosystem in the Indian Aviation Sector with the Private Industry and MSMEs as major stakeholders.

In further quest for modernisation of the armed forces, the DAC also granted approval to a few other proposals amounting to approximately Rs. 24,879.16 crores, which included approval for procurement of 150 numbers of Indigenously Designed and Developed 155 mm Advanced Towed Artillery Gun Systems for the Indian Army at an approximate cost of Rs 3,364.78 crores. These guns have been indigenously designed & developed by DRDO and will be manufactured by production agencies, as nominated by DRDO. They are likely to be the mainstay of Artillery in the near future. A nod to these major schemes will provide a fillip to the ‘Make in India’ push by the Government, will help create self-reliance in the Country in Defence manufacturing sector and has the potential of making the Defence Industry as a major engine of India’s economic growth.

To enhance the capability of Navy at sea, approval has also been granted for procurement of Anti-Submarine capable, 24 in number Multi Role Helicopters, which are an integral part of the frontline warships like the Aircraft Carriers, destroyers, frigates andcorvettes. Availability of MRH with the Navy would plug the existing capability gap.

In addition, procurement of 14 Vertically Launched Short Range Missile Systems was also cleared by the DAC. Of these, 10 systems will be indigenously developed. These systems will boost the self-defence capability of ships against Anti-Ship Missiles.
ARMY
ASHOK LEYLAND WINS TENDER FOR DEFENCE TRACKED COMBAT VEHICLE

Ashok Leyland, the flagship of the Hinduja Group and the largest supplier of Wheeled Military Vehicles to Indian Army, on Aug 24, announced a tender win in the 'Tracked Vehicle' space. This tender is for developmental work and marks Ashok Leyland’s foray into tracked vehicle business. As per the scope of work, the Company will collaborate with Combat Vehicles Research and Development Establishment (CVRDE), Chennai for manufacture, assembly and testing of light weight clutch for the design and development of weight optimized 1500 hp Automatic Transmission for Main Battle Tanks.

Sharing his views on this win, Mr. Amandeep Singh, Head - Defence, Ashok Leyland, said, “For over three decades, Ashok Leyland has been a vital part of our Defence forces through our mobility solutions. As part of our strategy to enhance our contribution to our Defence Forces and to expand our business scope within our focus area of ‘Solutions for Mobility on Land’, we have been working on Tracked Vehicles. With this win, we mark yet another milestone where we start working on the Tracked Vehicles that our soldiers use.

“We see huge potential in repowering and upgrading of existing BMPs/Tanks of the Indian Army. We have the expertise to develop indigenous solutions for power packs and running gear for upgrade of existing ICVs as well as for the new FICVs. We are proud that we are the only vehicle manufacturer in India having indigenously designed, developed and manufactured power packs beyond 350 HP. The tracked combat vehicle opportunity also exists in several other countries which use Russian made combat vehicles.”

TATA MOTORS ROLL-OUT 1500TH GS800 SAFARI STORME

Reiterating its commitment to ‘Make in India, Tata Motors on Aug 25 rolled out the 1500th GS800 (General Service 800) Safari Storme 4x4 for the Indian Armed Forces. The vehicle was rolled out with a ceremonial flag off by Minister of State for Defence Dr. Subhash Bhamre along with Tata Motors Defence & Government Business Vice President Vernon Noronha at its Pune facility. The company bagged the order to supply 3,192 units of Safari Storme to Indian Armed forces and have successfully delivered 1300+ vehicles.

The Safari Storme GS800 is indigenously designed to meet the requirements of the Indian Army with a contemporary, highly reliable and sturdier Diesel SUV with robust features, and a minimum payload capacity of 800 kgs. The vehicle has undergone a total rigorous trial duration of fifteen months in varied terrains across the country, demonstrating its supreme performance, with a capability of coping with on-road or off-road terrains. Offering 60% higher payload, over 70% higher power and over 200% higher torque, this vehicle has been customized to endure severely rugged operational conditions ranging from high-altitude drives, traversing snow-bound regions, crossing deserts to the marshy lands.

Commenting on the successful roll-out of the 1500th Tata GS800 Safari Storme, Vernon Noronha said, “We, at Tata Motors, take immense pride to roll-out the 1500th GS800 Safari Storme of the 3192 order for the Indian Army. This modern SUV – Tata GS800 is specially customized to meet the requirements of the Indian Armed Forces. The continued faith bestowed by the country’s security forces in Tata Motors is a reflection of our pedigree & aspiration to serve the nations challenging requirements on the front lines. The milestone of rolling out the 1500th Safari Storme is the result of the absolute dedication of our workforce, while reiterating our commitment to support Government’s ‘Make in India’ initiative.”

The Tata GS800 Safari Storme is a fully loaded vehicle packed with special features such as ABS, recovery hooks, jerry can and fog lamps to suit army requirement during missions. Being a low maintenance vehicle, it comes with bucket seats, mobile charging point, Air Conditioning (AC), heating, demisting, power windows and ample space inside the cabin to accommodate six crew members comfortably.

Tata Motors has been serving the country’s off-road defence and security forces, since 1958 having supplied over 1.5 lakh vehicles to the Indian Military and Paramilitary forces, so far. The company offers products and services that not only meet the needs of the domestic market, but are also positioned to meet most stringent requirements across the world.

NAVY
WARSHIP SAHYADRI REACHES AUSTRALIA’S DARWIN PORT

After having been deployed to the South China Sea and Pacific Ocean for over four months, which included representing Indian Navy in multinational exercises MALABAR 18 at Guam and RIMPAC 18 at Hawaii, INS Sahyadri entered the Port of Darwin, Australia on 29 Aug 18 to participate in Exercise KAKADU 2018.

Exercise KAKADU, which started in 1993, is the premier multilateral regional maritime engagement exercise hosted by the Royal Australian Navy (RAN) and supported by the Royal Australian Air Force (RAAF). The exercise is held biennially in Darwin and the Northern Australian Exercise Areas (NAXA). Exercise KAKADU derives its name
from Kakadu National Park, which is a protected area in the northern territory of Australia, 171 km south-east of Darwin. KAKADU 2018, the 14th edition of the exercise, is scheduled from 29 Aug – 15 Sep 18 and would see participation from 23 warships, one submarine, 45 aircraft, 250 marines and approx 52 foreign staff from over 25 different countries.

Indian Navy’s participation in KAKADU 18 provides an excellent opportunity to engage with regional partners and undertake multinational maritime activities ranging from constabulary operations to high-end maritime warfare in a combined environment, aimed at enhancing interoperability and development of common understanding of procedures for maritime operations. During the exercise, professional exchanges in harbour and diverse range of activities at sea, including complex surface, subsurface and air operations would enable sharing of best practices and honing of operational skills.

At the helm of INS Sahyadri is Captain Shantanu Jha, who is assisted by a team of professional and highly motivated men of the Indian Navy. Participation in KAKADU 18 is a significant milestone in Indian Navy’s efforts towards strengthening mutual confidence among regional navies and is expected to further bolster India’s contribution in ensuring peace and stability in the Indo-Pacific region.

L&T HANDS OVER ICGS VIJAYA TO COAST GUARD

Ahead of schedule, L&T handed over delivery of the Offshore Patrol Vessel ICGS Vijaya (OPV-2) to the Indian Coast Guard on Aug 30. The 2,160-ton vessel is second in the series of seven OPVs being designed and constructed by L&T under a March 2015 Ministry of Defence contract. The first vessel of the series ICGS Vikram was handed over on April 11 this year, as a curtain raiser for DEFEXPO-2018.

The delivery of ICGS Vijaya comes close on the heels of the launch of OPV-3 on August 28 at the L&T Kattupalli shipyard. The work is simultaneously in progress on the OPVs 4, 5 & 6, that are at different stages of completion.

L&T has so far delivered 40 Interceptor Boats out of the series of 54 Boats designed & built for the Coast Guard while the remaining 14 are also ready for delivery, with the program being about two years ahead of schedule. The Floating Dock FDN-2 for the Navy, designed and built for the first time in India, was delivered in March 2018 and is fully operational at Andaman & Nicobar Islands.

Under the Govt’s ‘Make in India’ program as OPVs, FDN and IBs have all been designed completely in-house at L&T’s Warship Design Centre.

Commenting on the occasion, L&T MD and CEO S. N. Subrahmanyan said: “Delivery of ICGS Vijaya ahead of contractual schedule reinforces our impeccable record of accomplishments in Defence Shipbuilding. Going forward, with commitment, huge infrastructure and talent pool in place, L&T aims to contribute significantly towards making Indian Coast Guard and Naval Fleet self-reliant.”

Jayant D Patil, Whole-time Director (Defence) and Member of L&T Board, said: “Delivery of ships continuously ahead of schedule has won the confidence of our esteemed customers. L&T has pioneered in developing indigenous defence technology for the Indian Armed Forces for the past three decades. With a wide range of defence solutions on offer, L&T is diligently working to realize ‘Make in India’ in defence through a series of success stories across defence domains.”

Vice Admiral B Kannan (Retd.), MD & CEO L&T Shipbuilding, said: “Early delivery of ICGS Vijaya is yet another testimony of L&T’s focused efforts on innovation, quality and speed of execution. Modern shipyard facilities & layout that enhance efficiency, in-house design, modular construction, high level of pre-outfitting, and innovative digital solutions have enabled L&T to achieve this new standard amongst Indian Shipyards. We are proud of attaining yet another benchmark in Indian shipbuilding by accomplishing better than design performance for both ICGS Vikram and ICGS Vijaya established in just two sea sorties.”

Earlier, on Aug 28, continuing the focus on ‘Make in India’ in the defence sector, the L&T Shipyard at Kattupalli launched the third offshore patrol vessel (OPV-3) at the hands of Sunita Nautiyal in the august presence of the Chief Guest, Indian Coast Guard’s Eastern Seaboard Commander Additional Director General K. R. Nautiyal.

Larsen & Toubro is currently executing the Ministry of Defence Contract of 2015 to design and construct seven OPVs and deliver them to the Indian Coast Guard between 2018 to 2021. The first of Class OPV-1 (ICGS Vikram, launched in October 2017) was handed over in April 2018 and commissioned ahead of contracted schedule. OPV-2 was launched on 20th January 2018 and is about to be handed over to the Coast Guard.

L&T has also been entrusted by the Ministry of Defence of the Socialist Republic of Vietnam to design and construct High-Speed Patrol Vessels for the Vietnam Border Guard and to enable the friendly nation to build some of the vessels indigenously. The mandate is thus far the largest export order received by any Indian shipyard not only in value but content.

L&T also provides repairs and refit services to the Indian Navy and Coast Guard at Kattupalli shipyard and has till date completed repair/refit (SR/MR as well as Emergency Repairs) of 11 Indian Naval and Coast Guard ships, meeting user requirements.
WARSHIP HELPS MERCHANT VESSEL IN THE GULF OF ADEN

On Aug 25, whilst patrolling in the piracy infested waters of Gulf of Aden, INS Teg, a warship of the Western Naval Command, received a call from a Combined Task Force aircraft for providing assistance to MV Vela, a Norwegian owned ship with an all Indian crew. The vessel was in distress as her Port Anchor along with the entire 330 m cable weighing approx 42 tons had inadvertently slipped and was hanging into the sea. This had severely disabled the ship with her speed being restricted to 5-6 knots, thus making her vulnerable to piracy attacks, apart from being a navigational hazard for herself as well as for other ships in the dense shipping corridor.

INS Teg quickly dispatched a specialist team to carry out an assessment of the situation and provided assistance for recovery of the anchor and cable. The team was lead by the ship’s Engineering Officer and comprised the other specialist officers, Seamanship Instructor, Anchor Chain Cable Specialist and Machinery Specialist.

Concerted efforts over three days finally resulted in the successful recovery of the anchor alongwith the entire 330 m of cable. This evolution not only ensured onward safe voyage of MV Vela, which had to subsequently transit through the constricted waters of Red Sea and Suez Canal, but also averted huge financial loss.

AIR FORCE DYNAMATIC DELIVERS 75TH CHINOOK AEROSTRUCTURES ASSEMBLY TO BOEING

Boeing and Dynamatic Technologies announced the delivery of the 75th aft pylon and cargo ramp components for Boeing’s H-47 Chinook heavy-lift helicopter. Dynamatic manufactures critical components for the H-47 Chinook, one of the world’s most advanced multi-mission, heavy-lift transport helicopters. The aerostructures will be integrated at Boeing’s facility in Philadelphia.

“This delivery marks a significant milestone in the success of the Make in India program and our commitment towards building indigenous manufacturing capabilities,” said Pratyush Kumar, president, Boeing India. “We established the Chinook production line in 2014 as part of our commitment to manufacture aerospace aerostructures in India and Dynamatic has been our key partner in that journey. The future of advanced manufacturing in India looks promising.”

Dynamatic Technologies delivered the first set of aft pylon and cargo ramp assemblies for the Chinook in February 2015. This first delivery was mentioned by India Prime Minister Narendra Modi at his inaugural address at the Aero India exhibition in 2015.

“This is a remarkable milestone in our partnership with Boeing and the Chinook program to deliver high quality aerospace products from India,” said Udayant Malhoutra, CEO & Managing Director, Dynamatic Technologies Ltd. “We are manufacturing complex assemblies for global OEMs and have become an integral part of the worldwide supply chain, incorporating globally accepted standards of aerospace manufacturing in our facilities.”

The Chinook is a true multi-role, vertical-lift platform, emphasizing heavy-lift transport of troops, artillery, equipment, and fuel. It is the helicopter of choice for humanitarian disaster-relief operations, in missions such as transportation of relief supplies and mass evacuation of refugees.

Boeing has been working with suppliers in India for over two decades in manufacturing, IT and engineering services. Today, there are more than 160 suppliers providing advanced, complex components and subassemblies for Boeing commercial and defense aircraft as part of an integrated global supply chain.

These parts and assemblies cover critical components such as aerostructures, wire harnesses, composites, forgings, avionics mission systems and ground support equipment for aircraft that include the 777, 787, P-8, F/A-18 Super Hornet, F-15 and H-47 Chinook.

DEFENCE PRODUCTION SATHEESH REDDY TAKES OVER AS DEFENCE R&D CHIEF

Dr. G Satheesh Reddy, a renowned missile scientist of India who was appointed as India’s defence R&D chief earlier in the week, took over the charge of Secretary, Department of Defence R&D and Chairman, DRDO, in New Delhi on Aug 27.

Dr. Reddy is known for his significant contributions towards indigenous design, development, deployment of diversified Missiles & Strategic Systems, Guided Weapons, Avionics Technologies. He has contributed towards advancement of Aerospace Technologies & Industries in India.

SPACE MANNED SPACE MISSION BEFORE 75TH I-DAY

In his Independence Day address from the Red Fort, Prime Minister Narendra Modi had announced that an Indian will go to space by 2022 “with the tricolour in his hand.”

Dinakar Peri of The Hindu writes that if everything goes according to plan, in 40 months, three Indians will be launched into space by an Indian
rocket. This is the aim of India’s ambitious manned spaceflight mission, Gaganyaan, the contours of which were outlined by Dr. K. Sivan, Chairman of the Indian Space Research Organisation (ISRO) Tuesday.

“We will do it before the 75th Independence Day. I will say that we will target six months before that. Sceptics have been doubtful but we are confident. Most of the technologies are already developed,” Dr. Sivan told a press conference.

He stated that ISRO began work on the manned mission in 2004 and some of these technologies have been demonstrated successfully through various tests — Space Capsule Recovery Experiment, Crew module Atmospheric Re-entry Experiment and Pad Abort Test.

ISRO will use its GSLV Mk-III launch vehicle, which has the necessary payload capability to launch Gaganyaan, Dr. Sivan said. Two unmanned missions will be undertaken prior to sending humans on the first manned flight within 30 months and manned mission in 40 months.

“The mission will aim to send a three-person crew to space for a period of 5-7 days. The spacecraft will be placed in a low earth orbit of 300-400km,” Dr. Sivan said.

The total programme is expected to cost less than ₹10,000 crore and will result in significant spinoffs in multiple dimensions, including technology spinoffs in the social sector. “This is very cost-effective when you look at it from a larger perspective, more so when you compare it with similar missions sent by other countries. The benefits which we are going to obtain from them are invaluable,” Dr. Jitendra Singh, Minister of State for Space, said.

Launch sequence: A crew module, along with the service module, together called the orbital module weighing seven tonnes, will be mounted atop the GSLV launch vehicle.

“The crew will reach low earth orbit in 16 minutes and stay in orbit for 5-7 days. During orbit, the astronauts will carry out micro gravity experiments,” Dr. Sivan said.

In the return phase, at 120 km above earth, the crew module will separate from the service module and head towards earth in a controlled manner. “It will take 36 minutes to reach the earth,” he stated.

The crew module will splash down on the Arabian Sea closer to Ahmedabad. However, Dr. Sivan said ISRO is drawing up plans to land the module on the Bay of Bengal or even on land in case of any contingency to “ensure safety of the crew.”

The mission crew can be either Air Force pilots or even civilians. However, Dr. Sivan said that for the first flight the preference is for pilots. The selection of the crew is expected to begin shortly as it will take 2-3 years to complete the training. “You can expect an advertisement soon,” Dr. Sivan stated.

Given the complexity of the programme, Dr. Sivan said, it will truly be a national endeavour with the participation of ISRO, academia, industry as well as other government and private agencies as stake-holders. The project will also result in employment for 15,000 people most of it in the private sector.

To accelerate the programme, ISRO is considering seeking collaborations with space agencies from friendly countries with advanced space programmes.

The programme once launched, will make India the fourth nation in the world to have a manned space mission. So far only the U.S., Russia and China have launched human space flight missions.

**ISRO, ANTRIX TO INVOLVE PRIVATE SECTOR IN SSLV BIZ**

The Indian Space Research Organisation (ISRO) and Antrix (commercial and marketing arm of ISRO) are to involve private sector majorly in ₹1500-2000-crore annual Small Satellite Launch Vehicle (SSLV) business. “SSLV’s launches will commence sometime mid-2019. We want to involve private sector from the beginning and will be offering them development and launches,” said K Sivan, Chairman ISRO.

Addressing a press conference to announce the 6th edition of Bangalore Space Expo, 2018, organised by Antrix and CII, Sivan said: “We have already worked with a few corporates like Godrej, L&T and HAC. We don’t see any hurdle involving the private sector.”

Rakesh Sasibhushan, CMD Antrix said: “Antrix is looking at 50/60 launches SSLVs a year and in the next 10 years, we see a business potential of ₹1500-2000 crore annually.”

He said: “Business-wise it is not rosy. It is a challenging task with core-competency the key. By partnering we, (Antrix) and private sector, will be creating one of the biggest manufacturing bases in the space sector. In SSLV’s launches, there will be opportunities in building single-vehicle launches, propellant vehicles in large numbers.”

The Bengaluru Space Expo (BSX) is a biennial event organised by the Confederation of Indian Industry (CII), in association with ISRO and Antrix Corporation Limited. The first edition of BSX was organised in the year 2008. The sixth edition, BSX-2018, is scheduled from September 6-8 at Bengaluru International Exhibition Centre (BIEC).

Vikram Kirloskar, Vice-President CII said: “The BSX was started with the intent to bring together Indian industries, ISRO and various other stake holders in the space domain for common benefit of improving productivity and commerce.”
INDIA - THAILAND
NIRMALA SITHARAMAN VISITS THAILAND

India's Defence Minister Nirmala Sitharaman went on an official bilateral visit to the Kingdom of Thailand from Aug 27 to 28 and held bilateral talks with Deputy Prime Minister and Defence Minister of Thailand Gen. Prawit Wongsuwon in Bangkok on Aug 27. She also called on Prime Minister of Thailand Gen. Prayuth Chan-o-cha.

During the meetings, both sides discussed a gamut of issues relating to defence cooperation between India and Thailand. The Ministers welcomed the positive momentum and substantive content of ongoing bilateral defence engagement and discussed measures to further enhance and deepen defence cooperation between India and Thailand.

It was decided to step up military-to-military engagement by commencing bilateral navy exercises. In addition, both countries will explore enhancement of ongoing joint exercises, the MAITREE counter-insurgency and counter-terrorism Army Exercise as well as their SIAM BHARAT Air Force exercise. Both sides would also expand cooperation on maritime security, focussing on greater sharing of information to develop Maritime Domain Awareness. Raksha Mantri offered additional training opportunities for the Royal Thai Army in India, including through tailor made courses in specialised areas, which was welcomed by Thailand.

The Ministers also discussed stepping up defence industry and R&D cooperation. The two sides identified specific areas for such engagement and would discuss this further through institutionalised dialogue mechanisms.

The Indian Defence Minister and the Thai leadership also discussed regional security developments. Both sides noted complementarities in their approaches to the Indo-Pacific region and decided to hold regular consultations on issues of mutual interest.

Sitharaman welcomed Thailand’s forthcoming Chairmanship of ASEAN and as the ASEAN country coordinator for India, which would create additional pathways for engagement between India and Thailand, including under the ADMM Plus framework. In this context, the Defence Minister of Thailand welcomed India’s initiative to host the inaugural BIMSTEC Army Exercise and Conclave of Chiefs in India in September 2018 and confirmed Thailand’s participation.

COMMENT
CHINA’S VULNERABILITY, INDIA’S OPPORTUNITY

Abanti Bhattacharya

India has reportedly decided not to join the US-led counter to China’s Belt and Road Initiative (BRI). The US initiative, which is a trilateral one involving Japan and Australia, was launched at the first Indo-Pacific Business Forum meeting on July 30 and seeks to fund infrastructure projects in the region for which about USD 113 million has been earmarked. India has opted to stay out of this initiative and thus maintain a fine balance between the US and China. Here, it is pertinent to recall that India has also stayed out of the Chinese BRI initiative.

Such an attempt to maintain a balance between China and the United States needs to be jettisoned since it is a confusing strategy that involves sitting on the fence and, at times, even appeasing the Chinese. Arguably, India could take advantage of the vulnerabilities in the Chinese system and gain an upper hand in the asymmetric power equation that has developed vis-a-vis China.

Any mention of China’s vulnerability, whose economy is USD 11 trillion-strong, is sure to raise eyebrows. But the fact remains that China is not all that strong. Geopolitically, President Trump’s outreach to North Korea and advocacy of an Indo-Pacific strategy are eroding China’s geopolitical manoeuvrability. Economically, the ongoing trade war between the US and China is expected to hurt China’s growth, and that could very well mean the erosion of the Communist Party’s credibility given that it draws its legitimacy from continued good economic performance. Internally, one-party rule might appear resilient and the People’s Liberation Army (PLA) most powerful. But it is quite baffling to see the Chinese Premier visiting Tibet between 25 and 27 July and declaring it an inseparable part of China’s “sacred” territory as well as urging religious figures to promote national unity and ethnic harmony. Why has this statement been made now when Beijing has issued more than a dozen white papers on Tibet since the 1990s to bolster its claims, and has rapidly intensified the militarization of Tibet since the 2000s? Further, the fate of Muslims in Xinjiang is dire as China has detained a million ethnic Uighurs and sent some two million Uighurs and other ethnic Muslims to secret camps for indoctrination to Chinese nationalism. Clearly, all is not well inside China. It is spending an enormous amount of money on the People’s Armed Police (PAP), deployed to curb internal rebellion and dissent. China’s expenditure on internal security is reportedly USD 196 billion, larger than the PLA’s official budget. This suggests internal destabilization is a greater worry for the Communist Party than external threats. Indeed, internal vulnerabilities have only exacerbated with President Xi Jinping’s anti-graft effort, which is apparently the largest organized one in the history of Communist rule in China. More than a million people, including high-ranking military and party officials have been indicted for corruption so far. Many
portray this as more of a political purge than an effort to cleanse the rot in the party ranks. Arguably, Xi might confront some kind of a rebellion from within his party ranks and society at large. That presumably explains his holding onto power and the scrapping of the two-term presidential term limit.

These rising internal vulnerabilities and external pressures have caused China to woo India, with the first such instance in the post-Doklam phase being the statement made by Foreign Minister Wang Yi on the sidelines of the parliamentary session in March 2018, when he was quoted saying, “if China and India are united, one plus one will become eleven instead of two.” The subsequent Wuhan informal summit in April between Prime Minister Modi and President Xi should also be seen in this context. Again, during the 10th BRICS Summit held in Johannesburg between 25 and 27 July, Xi held the view that the five countries of the BRICS represented the five fingers, and that “when the BRICS come together, we form a fist that can punch.” Obviously, it is meant to punch the US. Keeping up the momentum, the Chinese defence minister, Wei Fenghe, visited New Delhi in the third week of August to seemingly re-establish military relations between the two Asian giants.

Simply put, vulnerability not only explains China’s courting of India at this juncture, but it also defines China’s broad foreign policy shifts. If one looks at China’s foreign policy strategy in the Cold War period, it was essentially based on the identification of the principal contradiction (threat), and thereafter progressively isolate it by tilting towards a lesser contradiction. Notably, the US-China rapprochement of the 1970s came about after the identification of the Soviet Union as the principal hegemon and joining hands with the capitalist United States. Mao Zedong did not regard the rapprochement with the US as an aberration of Marxist ideology. Instead, he vindicated his tilt by advocating the Three Worlds Theory in 1973-74. In other words, ideology mattered the least when China found itself vulnerable. And to end the vulnerability, China did not shy away from mending its relations with the capitalist West. This psyche of vulnerability is deep-rooted in Chinese history. In fact, if one identifies the primary characteristic undergirding China’s history, it is the constant tussle between vulnerability and stability. From the first centralized dynasty, the Qin, to the last, the Qing, the threat from nomadic barbarians or non-Han groups was the predominant source of vulnerability. Hence the construction of the Great Wall to check barbarian invasions. Interestingly, China’s rise as a maritime power, as well as decline, was significantly shaped by the barbarian threat from the north.

China’s current vulnerability emanates from Trump’s Indo-Pacific strategy, which challenges Xi’s dream project, the BRI, with an estimated cost of USD 8 trillion. And to deal with this vulnerability, China is wooing India. At this juncture, India is a lesser contradiction, notwithstanding the 2017 Doklam crisis and New Delhi’s refusal to endorse the BRI. There is no real bonhomie between India and China, and there can never be, because according to Confucian thought, there cannot be two tigers residing on a single mountain.

In dealing with China, India should thus be aware of the former’s deep insecurities and vulnerabilities. It should shape its China policy from such ‘knowing’ and not from a superficial analysis of the immediate global circumstances. India should reconsider joining the US-led counter to the BRI, albeit after scrupulous negotiations that both uphold its foreign policy interests and shield it from the dragon’s wrath.

(The article was first published by New Delhi-based IDSA)
INDIA - PAKISTAN: INDIA SHOULD RECIPROCATE IMRAN’S PEACE GESTURES

India’s Permanent Representative to the United Nations Syed Akbaruddin Wednesday said it hoped that the new Pakistan government, led by Prime Minister Imran Khan, will help in ensuring that the South Asian region is free of terror and violence. Addressing a debate on ‘Mediation and Settlement of Disputes’, Akbaruddin said, “regurgitating a failed approach, which has long been rejected, is neither reflective of pacific intent nor a display of Pacific content. We hope that the new government of Pakistan will, rather than indulge in polemics, work constructively to build a safe, stable, secure and developed the South Asian region, free of terror and violence.”

India’s statement comes when Pakistan’s newly-appointed Prime Minister Imran Khan has expressed his willingness to improve relations between the border nations and said that his government would like the leaders of the two sides to resolve all disputes, including the “core issue” of Kashmir, through talks. According to Pakistan’s senior minister, Khan is also preparing a proposal to resolve the Kashmir issue. “We will prepare the proposal within a week and circulate it among all the stakeholders,” Minister for Human Rights Shireen Mazari said. “If the draft is approved, we will move forward on it,” she added.

Consequent to the taking over of Imran Khan as prime minister, there is all round support and speculation over improved ties with India. Even the Trump administration wants to give new Pakistan Prime Minister space to explore opportunities to improve relations with India, Randall G Schriver, US Assistant Secretary of Defence for Asian and Pacific Security Affairs said.

Manini Chatterjee, writing in The Telegraph is one the many journalists that strongly suggest India should reciprocate the new government’s peace gesture. Recalling India’s rejection of the offer of aid from the United Arab Emirates for the flood-ravaged state of Kerala, Chatterjee writes that little known is the fact that Pakistan also made a similar offer. On August 23, Khan had tweeted: “On behalf of the people of Pakistan, we send our prayers and best wishes to those who have been devastated by the floods in Kerala, India. We stand ready to provide any humanitarian assistance that may be needed.”

Manini Chatterjee, writing in The Telegraph writes that “when a new regime is elected to power next door, and its new leader makes a graceful gesture, the least New Delhi could have done was respond with a note of appreciation. Instead, there has been only silence so far.”

Apart from the Kerala offer, Islamabad’s been making “all the right noises about peace and friendship. New Delhi, in contrast, has been muffled and grudging in its response.”

Conceding that the new prime minister is a controversial figure, “as Imran Khan has himself pointed out, that he has had closer ties with India than any other Pakistani leader….. “I am the Pakistani who has the most familiarity with India, I have been all over that country.”

More important, he is now the elected leader of Pakistan who is on record telling the Pakistani people that “it will be very good for all of us if we have good relations
with India. We need to have trade ties, and the more we will trade, both countries will benefit.” Of course, he did refer to Kashmir as “a core issue” but said that “Pakistan and India’s leadership should sit at a table and try to fix this problem. It’s not going anywhere.”

Candidly admitting that India-Pakistan relations were at “square one right now”, the then prime minister-elect gave the very large - even if largely silent - constituency for peace on both sides of the border some reasons to cheer. “If India’s leadership is ready, we are ready to improve ties with India. If you step forward one step, we will take two steps forward. I say this with conviction, this will be the most important thing for the subcontinent, for both countries to have a friendship.”

Four days later, on July 30, the Indian prime minister called up Imran Khan to congratulate him on his party’s success in the election. According to the ministry of external affairs, “Prime Minister expressed hope that democracy will take deeper roots in Pakistan. Prime Minister also reiterated his vision of peace and development in the entire neighbourhood.”

Not much more is known about this. Chatterjee says “a similar opacity marks the written communication sent by Narendra Modi to Imran Khan when the latter was formally sworn in as prime minister on August 18……….It remains a mystery why the letter from the Indian prime minister to his Pakistani counterpart cannot be shared with the people of India.

“One reason could be that with the Lok Sabha elections a few months away, the Modi government does not want to risk any peace overture that could cloud the aggressive, jingoistic and communally polarizing narrative that has been central to the Bharatiya Janata Party’s outreach to voters in the last few years…….” Chatterjee says it will be a pity if “ratcheting up anti-Pakistan sentiments is going to be part of the BJP’s electoral strategy…….At a time when the new Pakistani leadership is repeatedly making gestures of friendship and stressing the need for dialogue, India’s mealy-mouthed responses diminish our stature as the bigger country and reduces our claims of moral superiority.”

**THE CPEC CHALLENGE FOR IMRAN KHAN**

While Prime Minister Imran’s tweets and statements focus on reviving talks with India, Pakistan analyst Huma Yusuf writing in The Dawn writes that his “government’s greatest challenge arguably comes across a different border, from friend not foe: China.

“Do not be fooled by the $2billion post-election bailout. If anything, this timely intervention betrays China’s recognition that our new prime minister will struggle to reconcile his populist politics and the current relationship with Beijing. Indeed, China’s anxiety about Sino-Pak ties in the Khan era was betrayed the moment his victory was clear and the Chinese media began to warn Khan against paying heed to Western media coverage of the bilateral relationship.”

Yusuf believes that CPEC’s progress could expose Prime Minister Khan’s populism as rhetoric.

Before becoming PM, Khan’s populist politics spoke of transparency of CPEC financial arrangements. “Finance Minister Asad Umar has already promised to make public the terms of CPEC deals. But will these be terms the public can stomach?” For example, increased transparency around CPEC could indicate that “Pakistan has received loans — not grants — that will be repaid with taxpayers’ money.”

There is then the matter of job creation. “PM Khan’s promise of creating 10 million jobs in his first 100 days has been among his most lauded. But his tenure will see an influx of Chinese workers to service CPEC projects, while unskilled Pakistani labour is relegated to the sidelines.”

In recent years, the prime minister’s stance on CPEC has been strong and often principled. Yusuf notes that he was one of few political leaders willing to question and criticise projects, and push for more equitable distribution of Chinese largesse. And it was Imran Khan’s 2014 dharna that led Xi Jinping to postpone his Pakistan trip and the official CPEC launch by a year.

“But the prime minister’s post-election odes to China, the tweets in Mandarin, the sudden reframing (without evidence) of CPEC as a jobs generator and promoter of human development — these are the actions of one who is falling in line.

“Indeed, with his praise for China’s anti-corruption and poverty alleviation programmes, PM Khan has gone one step further than previous leaders, who celebrated the strategic importance of the alliance with China, to embracing Chinese governance and values.”

**AFGHANISTAN: PEACE MOVES AND INDIAN STAKES**

War ravaged Afghanistan has seen increased Taliban attacks, the latest being the offensive on the strategic city of Gazni. The attack was repelled but there was considerable evidence that the attackers came from Pakistan, with Afghan allegations of direct Pakistani army involvement.

In this context, it is significant that President Ghani, who for some time refrained from blaming Pakistan for sheltering the Taliban, called upon General Bajwa to prevent cross-border attacks. He also invited Imran Khan to visit Afghanistan.

**ROAD TO PEACE RUNS THROUGH THE PAKISTANI ARMY**

Shakti Sinha (Director, Nehru Memorial Museum & Library, New Delhi) writes that “there is now general acceptance in Afghan and US circles that the road to peace in Afghanistan runs through the Pakistani army. China’s initiative in convening trilateral dialogue bringing together Afghanistan, China and Pakistan indicated seriousness on the part of Kabul to bring Islamabad on board the peace process.”

Pakistan’s military-intelligence apparatus has continued to play a crucial role
in the professionalization of the Taliban’s military and intelligence apparatus.

Pakistan also continues to define the Afghan conflict very narrowly, in anti-India terms. Of the countries bordering Afghanistan, only Pakistan seems to have a strategy that is underpinned by indirect control of Kabul. Other states are simply interested in creating a buffer zone and keeping certain stakes in the Afghan political game. This is the view of Vinay Kaura (Assistant Professor, International Affairs & Security Studies at Sardar Patel University of Police, Security and Criminal Justice).

RUSSIA’S ROLE

Writing about the changing role being played by Russia in Afghanistan, Kaura notes that Russia has decided to postpone a multilateral conference on Afghan situation which was scheduled to be held in Moscow in the first week of September. Many countries, including India and the United States, were invited to attend the consultations. The Afghan Taliban had also agreed to participate. However, since the US decided not to attend and Afghanistan wanted more time to forge a unified position, Russia was left with little option but to postpone the meet. New date is yet to be announced.

Moscow’s increasingly active role in recent years to end the Afghan conflict, according to Kaura “may be attributed to the genuine anxieties about the emergence of the Islamic State (ISIS) in Afghanistan and Washington’s failure to end the conflict.

“Moscow no longer views the Taliban as a security threat; it views them as a legitimate stakeholder in Afghanistan. The Taliban have been fighting against the ISIS in Afghanistan and assured the regional states that their struggle remains confined to Afghanistan. Russia has repeatedly voiced its concerns about the possible disorder that threatens to destabilize the borders of Central Asian countries, which is considered by Moscow as within its sphere of influence. There are several reports of Russian leadership holding secret meetings with the Taliban leaders.”

INDIAN STAKES

India meanwhile, has keenly watched the games being played by various countries including the US whose role is becoming increasingly ambiguous. “Given its developmental and strategic partnership with Afghanistan, India has stakes in ensuring a government in Kabul that is truly independent of Islamabad, but New Delhi currently lacks the means to take action towards that end. And the manner in which Pakistan’s military establishment has been trying to install a Taliban-infested regime in Kabul with the help of Russia and China is only prolonging the Afghan conflict. All hold a dim view of American staying power as the conflict is getting protracted amidst apparent failure of Trump’s Afghan policy announced last year. But a hasty retreat from Afghanistan would seal the decline of American influence in Central Asia to the advantage of Russia and China.”

COMMENT

WHILE TALIBAN ARE STRENGTHENING, PEACE IN AFGHANISTAN CAN COME ONLY THROUGH NEGOTIATIONS

Jai Kumar Verma

The beleaguered Afghan government has offered a ceasefire to the Taliban, after the latter kidnapped about 200 bus passengers on 20th August in the Northern Province of Kunduz. The Taliban released all civilians but carried 20 Afghan security personnel away. The ceasefire offer, welcomed by the US and NATO forces, was rejected by Taliban commanders, who declared they would carry on their fight against Afghan forces assisted by foreign troops. The Afghan government claimed the Taliban released civilians because of operations launched by security forces, in which seven insurgents were killed.

The Afghan government had also offered peace talks in February 2018, agreed for “unconditional” negotiations and agreed to recognise Taliban as a legitimate political entity, but the Taliban declined to negotiate with the Afghan government and offered to talk with US forces.

The emboldened Taliban also fired 30 rockets, from two different locations, on the presidential palace when President Ashraf Ghani was delivering his Eid-al-Adha message. Although Afghan military helicopters destroyed both locations, killed four terrorists and arrested five insurgents, this indicates that terrorists are also tightening their hold on Kabul.

The Taliban have increased attacks, bringing more territory under their control and, in recent weeks, have attacked cities like Ghazni, killing many security forces personnel and civilians.

Recent successes have made Talibn commanders overconfident. Analysts claim that although Talibn are winning now, they have several inherent weaknesses whereby they cannot completely defeat Afghan forces.

Taliban implement a primitive and extreme form of Islam, which most Afghans do not wish to follow. Afghans want to use new technology, music, and favour giving basic rights to females. Secondly, Taliban are ruthless and slaughtered large number of civilians and government officials, especially security forces personnel. They have resorted to daylight massacres, raids, surprise attacks and bomb blasts. Thousands of Afghans have been killed in suicide bomb blasts, while tens of thousands were crippled. The inhuman behaviour of Talibn is disliked by common Afghans.

Thirdly, there is widespread corruption within Talibn groups. Several are involved in drug cultivation and smuggling. Afghan youths have become drug addicts because of increased drugs trade. Fourthly, the top Talibn leadership is predominantly Pashtun, hence other ethnic groups, like the Tajiks, Uzbeks and Hazara are reluctant to support them. Finally, Talibn are fully dependent on Pakistan and its Inter Services Intelligence (ISI) agency for training, finance, intelligence, weapons,
communication equipment, shelter for their families and safe haven to them after operations or when Afghan security forces encounter them.

The Afghans hate Pakistan and claim that Islamabad is responsible for the turmoil in the country. In 2016, Gallup and Broadcasting Board of Governors conducted an opinion poll in which only 3.7 percent Afghans favoured Pakistan while 62 percent backed India.

US-led NATO (North Atlantic Treaty Organization) forces are in Afghanistan and President Trump has not announced any date for withdrawing the troops, and it is likely that their numbers may increase. Ranged against NATO troops, the Taliban may win battles but cannot win the war.

Approximately 350,000 soldiers of Afghan National Security Forces (ANSF) are responsible for maintaining law and order and countering the Taliban in war-torn Afghanistan. NATO forces often provide air support to ANSF to counter Taliban onslaughts.

However, ANSF is unable to effectively counter the Taliban and faces problems including rampant corruption, large-scale desertions, with several ANSF personnel joining Taliban along with weapons. ANSF morale is very low and, according to Afghanistan watchers, the ANSF has to replace people because of causalities and desertions. The ANSF also lacks motivation to fight the Taliban and is badly managed. The US has spent about $65 billion on ANSF, a large portion on training and equipment, but the force is still ill-trained and poorly equipped.

After being uprooted from Iraq and Syria, Islamic State of Iraq and Syria (ISIS) are trying hard to establish themselves in Afghanistan and Pakistan, as both countries are thoroughly radicalised. Hence, the ANSF has to counter ISIS and the Taliban.

Afghan watchers claim that Taliban and several other insurgent groups are getting assistance from the ISI. Numerous warnings and threats by the US, especially the Donald Trump administration, have not worked. Pakistan has not stopped assisting the Taliban and terrorist outfits like the Haqqani network. ISI will continue assisting terrorists till it succeeds in establishing a government of its choice in Kabul. The US should negotiate with countries like Russia, China, India and even Iran.

With its innate weaknesses, the Taliban will not be able to occupy Kabul, while the ANSF and US-led NATO troops must understand that, despite efforts for over 15 years, they could not defeat the Taliban. The only way to restore peace in Afghanistan is through negotiations. Washington should press Pakistan to compel the Taliban to negotiate and reach some solution. With Pakistan's economy in the doldrums, potent pressure may work.

The Afghan government should also give some concessions to the Taliban that controls large parts of the country. While Taliban may demand enforcement of Islamic laws, withdrawal of foreign troops, etc, both parties must know that peace can be restored only through negotiations.

(The author is a New Delhi-based strategic analyst and member of USI and IDSA)

In arrangement with South Asia Monitor

**COMMENT**

**INDIA’S ECONOMIC VISION 2022 CAN LIFT LIVING STANDARDS OF SOUTH ASIA**

Srimal Fernando and Megha Gupta

India’s Economic Vision 2022 is an upcoming economic model which can change the social and economic status of the eight South Asian nations which are members of the South Asian Association for Regional Cooperation (SAARC). With an economy of US$ 2.6 trillion, India is proposing to invest in twelve major sectors to achieve its target of a US$ 5 trillion economy forecast for 2025.

This economic push by India is set to double the inter-state trade between the neighbouring South Asian countries and, for these policies to get successfully implemented, a stable neighborhood is essential for India and the region.

It has been 30 years since SAARC was formed yet improvements seen in the region are marginal. Most of India’s neighboring countries are either at low or middle income status and, with India’s economic growth at a faster pace of 7% GDP, the 2025 Vision Plan will not only help India, but also lift the economic standard of living of all other SAARC nations.

Currently, India’s bilateral trade with Pakistan is US$ 5 billion, with Bangladesh is US$ 6.6 billion, with Nepal is US$ 6.35 billion, and with Sri Lanka is US$ 5.2 billion. If this Vision plan is implemented and India’s economy is to grow, then India’s bilateral trade with these countries will also majorly increase and, in turn, raise the other South Asian nations.

India has a strong interest in the maintenance of a more stable balance of power in this region. On a more fundamental level, profound changes in India’s policy initiatives over the next few years will impact its seven neighbours.

Underlying this positive transformation, however, India’s role in South Asia is bound to be limited because of its bilateral disputes with Pakistan. Also, countries like Sri Lanka, Maldives, Nepal and Bangladesh tend to be more cautious in freely trading with their neighbouring countries.

It is time for the neighbouring countries to realize that if India’s GDP grows at 9% in the next 20 to 30 years, then the per capita income will also rise, from US$ 1500 to US$ 7000 per annum, according to the report by PriceWaterhouseCoopers, which will significantly enable them to reach a higher income level.

In recent years, a new line of thinking called ‘New inclusive India for the poor and the middle class’ has also emerged under the Vision 2022, which will be instrumental in developing the wellbeing of over 20,000 villages across the country. The new job creation in the industrial, tourism and service sectors will largely form the backbone of the Indian economy.
that is evolving from the Vision 2022 policy document.

Economic Policy visions of the neighboring countries are also linked to the domestic economic and political interest. In the Sri Lankan Vision of 2025 policy document, Sri Lanka is planning to raise the per capita income to US$ 5000 per year and create one million jobs by doubling the current exports to US$12 billion per year. These economic initiatives will push people to the upper income category.

The Indian Blue Economy Vision of 2025 will also harness business potential to the Indian coastal belt and to nearby countries such as Maldives, Bangladesh, Sri Lanka and Pakistan, which depend on the Indian Ocean.

The changing global geopolitical and geo-economic landscape is likely to influence India and other South Asian nations. These shifts will particularly impact the people-centred policies especially in South Asian countries, where democracy has an instrumental value in enabling the people to express and support their claims to political attention, including claims of economic requirements.

All the eight countries are conscious of their responsibilities to contribute towards the economic and political stability of the region. This new 2022 economic vision of India will focus on economic prosperity, well-being for the middle class and the poor and on increasing bilateral and multilateral trade with its neighbouring countries. Therefore, these policies will have a direct effect on the 1.5 billion citizens of South Asia.

(Fernando and Gupta are scholars associated with the Jindal School of International Affairs)

In arrangement with South Asia Monitor

INDIA’S ECONOMIC PARTNERSHIPS WITH EASTERN, SOUTHERN EUROPE TO COUNTER CHINA’S BRI

President Ram Nath Kovind is to undertake back-to-back visits to Cyprus, Bulgaria and Czech Republic (September 2-9) followed by a visit by Vice President Venkaiah Naidu to Malta, Serbia and Romania (mid-September). This will be Kovind’s second visit to the region, after he outlined India’s Europe policy during his trip to Greece a few months ago.

According to Dipanjan Roy Chaudhury (Senior Assistant Editor at The Economic Times), the visits to Eastern Europe and with Southern Europe are India’s counter to counter China’s Belt and Road Initiative (BRI) initiative.

President Kovind will be accompanied by a strong business delegation to Bulgaria. The country is providing a platform for IT industry and cybersecurity related applications.

China has promised huge investments in the Eastern and Central Europe, augmented by the 16 (Eastern-Central Europe) +1 (China) process. India’s focus on this region is significant in this context writes Chaudhury.

Cyprus, a supporter of India’s position on Kashmir for decades, is the country’s gateway to the Mediterranean, North Africa, Southern Europe and even parts of West Asia. Cyprus is the eighth largest source of foreign direct investment (FDI) in India. From April 2000 to June 2017, the cumulative investment flows to India from Cyprus were $ 9.278 billion.

Indo-Czech ties span from culture to investment to Indology. Indian companies have invested in Czech Republic in sectors such as IT, tea, textiles, pharmaceutical, automobiles and auto components. Following on the original investments of Skoda Auto, Skoda Power and Tatra, there are a number of new and prospective Czech investment projects in India in the machinery, transportation, power and automotive sectors.

Serbia is the only European nation to offer a 30-day visa-free entry to Indians. The decision has enabled India’s manufacturers and film industry to take advantage of its European location. Similarly, Bulgaria too is emerging as a popular destination for the film industry.

WATER DISCHARGE FROM CHINA THREATENS ARUNACHAL VILLAGES

High discharge of water from China, the highest in 50 years, is threatening to submerge at least 12 villages flanking river Siang in Arunachal Pradesh.

T. Tatak, the deputy commissioner of Arunachal Pradesh’s East Siang district, had Wednesday issued an advisory warning the people of the 12 villages to be on alert because of the sudden surge in the Siang’s water level. The villages are near district headquarters Pasighat, about 560 km northeast of Guwahati.

He cited a report received by New Delhi from the Chinese government saying the Yarlung Zangbo (Tsangpo) was swelling with an observed discharge of 9,020 cumecs due to heavy rainfall in Tibet. But the “incremental discharge of 950 cumecs” compared to a discharge of 8,070 cumecs in the Tsangpo reported on August 14 “should not be cause for panic”, he said.

Guwahati-based water expert Partha Jyoti Das said “There is a lot of concern at the international, national and local level about the geologically and strategically important Siang that impacts Bangladesh too,” he said.

Congress MP Ninong Ering, who represents Arunachal East in the Lok Sabha, had attributed the turbidity of Siang’s water last year to China’s plan to divert Tsangpo to the parched Xinjiang province via a 1,000 km tunnel.

Beijing later clarified that seepage through the blocked Tsangpo – upstream of Siang, which meets two other rivers to form the Brahmaputra in Assam downstream – caused debris to flow down and result in turbidity of the Siang’s water.

A similar alert has been sounded in Assam’s Dibrugarh district downstream of Siang.
Hungary, Poland and Slovakia – are also seeking to attract India to Eastern and Central Europe. Hungary and Poland had also witnessed high-level visits from India in the past few years. These three together with Czech Republic form a group – V-4 or Visegrad-4 (all European Union member states) for the purposes of advancing military, cultural, economic and energy cooperation with one another along with furthering their integration in the EU.

Experts said that the V-4 provides India an appropriate platform to engage with Eastern and Central Europe amid China’s 16+1 process for the region. All four nations in the group figure very high on the Human Development Index and have enjoyed more or less steady economic growth. If counted as a single nation state, the Visegrád Group would be the fifth largest economy in Europe and the 12th largest in the world, presenting India with a huge opportunity. Interestingly, notes Chaudhury, the V4 countries are pro-nuclear power. They have sought to counter what they see as an anti-nuclear power bias within the EU, believing their countries would benefit from nuclear power’s zero emissions and high reliability.


title=INDIA - MALDIVES: NO BREAKTHROUGH IN RELATIONS

India’s ties with Maldives remain tense with the latter insisting on the withdrawal of two Indian helicopters. This is considered the most serious bilateral crisis in recent times. It is understood that the Indian government is unlikely to withdraw the helicopters and some 50 personnel, whose visas have expired until the outcome of the September elections in Maldives. The Indian assets are deployed at a location close to several islands that the Maldives has given to the Chinese to develop.

Maldives diplomatic sources have meanwhile, continues to negotiate with India the possibility of acquiring a Dornier maritime surveillance aircraft.

title=SEPTEMBER ELECTIONS: OPPOSITION CONCERNS

India may be waiting the outcome of the September elections to make its further moves.

With about a month before Maldives goes for elections, the opposition presidential candidate Mohamed Solih, speaking to 400 citizens resident in Sri Lanka Monday, said he did not expect September’s election to be free and fair but trusted voters to decide on his challenge to President Abdulla Yameen, who imposed a state of emergency this year.

“We are also very aware that President Yameen is going to rig it as much as he can,” former President Nasheed, who also attended the meeting, said, referring to the election. “But when people come overwhelmingly, there is very little he can do. We are going to win this election.”

Yameen is seeking a second five-year term in country riven by political instability since a police mutiny forced its first democratically-elected leader, Mohamed Nasheed, to quit in 2012.

Responding to Solih’s remarks, the Maldives ambassador to Sri Lanka, Mohamed Hussain Shareef, said, “The opposition is crying foul as an exit strategy and ploy to save face internationally for when they are eventually defeated.”

title=SUBRAMANIAN SWAMY CALLS FOR INVASION OF MALDIVES

Meanwhile, tension between New Delhi and Male has escalated following a tweet by BJP Rajya Sabha MP Subramanian Swamy, calling for “invading” the island nation if the polls are “rigged”.

It is understood that Maldives Foreign Secretary Ahmed Sareer summoned Indian High Commissioner Akhilesh Mishra 26 August and conveyed Male’s “displeasure” at Swamy’s tweet. The Maldives government has also submitted a demarche to the Indian government, where it expressed shock at the statement. On August 24, Swamy had tweeted: “India should invade Maldives if rigging of election takes place”.

The tweet included a link to a Maldivian news report on a meeting between Swamy and former Maldives President Mohamed Nasheed in Colombo early last week.

Ministry of External Affairs’s official spokesperson Raveesh Kumar clarified saying: “The opinion expressed by Dr Swamy in his tweet is personal. It does not reflect the views of the Government of India.”

However, suspicions in Maldives on Delhi’s role has intensified after India expressed concern over the announcement of elections without allowing democratic institutions, including Parliament and the judiciary, to work in a free and transparent manner. India had said that it wanted “credible restoration” of the political process and the rule of law before the elections are conducted. Swamy’s tweet is being viewed in the Maldives as an indication of Indian strategy and a “provocative” statement from the ruling party in Delhi, sources said.

Relations between India and Maldives has soured, especially since February this year, when Yameen declared emergency for 45 days despite Delhi’s call for restraint.

title=INDIA’S OPTIONS

Under the current circumstances, the Hindustan Times writes: “India’s options for intervention in the Maldives are limited but it must stay the course by keeping up the pressure on Mr Yameen’s government while maintaining contacts with key opposition leaders such as Mr Nasheed. At the same time, it must be mindful of the fact that antagonising the current dispensation in Male too much will only drive the island nation closer to China. In this context, an Indian lawmaker’s comments about India ‘invading’ the Maldives certainly weren’t helpful. Tacitful handling of the relationship is required as the fate of some India-backed projects and Indian workers in the island chain also hangs in the balance. Given the government’s stated policy of ‘neighbourhood first’, clearly some out of the box thinking is required by the mandarins in South Block to address the situation.”

SEPTMBER 3, 2018
The 4th BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) summit successfully concluded in Kathmandu Friday, with Nepal Prime Minister K.P. Sharma Oli handing over the chairmanship of the grouping to Sri Lankan President Maithripala Sirisena.

Prime Minister Narendra Modi and top leaders of other BIMSTEC member-states attended the two-day summit.

Oli presented a draft of the Kathmandu declaration, which was unanimously adopted by the member-states.

Addressing the closing session, Oli said that collective wisdom, thought and vision on the goal of peaceful, prosperous and sustainable Bay of Bengal region was eloquently captured in the Kathmandu declaration.

Earlier, P Oli had said that the summit will be very much fruitful in facing challenges posed by global warming, achieve sustainable development goals, and expanding connectivity to ease movement among the people of BIMSTEC-member states and enhance cooperation.

The theme of the fourth BIMSTEC summit is ‘Towards a Peaceful, Prosperous and Sustainable Bay of Bengal Region’.

The BIMSTEC, comprising India, Bangladesh, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal, accounts for 22 per cent of the global population.

It has a combined gross domestic product of USD 2.8 trillion

**INDIA PITCHES FOR ENHANCED REGIONAL CONNECTIVITY**

Earlier, making a strong pitch for enhanced regional connectivity, Prime Minister Narendra Modi Thursday said that India was committed to working with the BIMSTEC member states in the critical sector and to combating the menace of terrorism and drug trafficking.

“I believe that there is a big opportunity for connectivity — trade connectivity, economic connectivity, transport connectivity, digital connectivity, and people-to-people connectivity,” Modi said, addressing the inaugural session of the fourth BIMSTEC summit in Kathmandu.

The Prime Minister said the region had become a meeting point for India’s ‘Neighbourhood First’ and ‘Act East’ policies. “India is committed to working with the BIMSTEC member states to enhance regional connectivity,” he said.

The BIMSTEC is a regional grouping, comprising India, Bangladesh, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.

“There is no country in the region which has not suffered from terrorism and transnational crimes, such as drug trafficking linked to networks of terrorism,” Modi told the summit, which was inaugurated by Nepal Prime Minister Khadga Prasad Sharma Oli.

Nepal Prime minister Oli said the BIMSTEC was not a substitute to the
SAARC, and the two organisations could complement each other. He underlined the need for implementing the BIMSTEC poverty plan as well as the Millennium Development Goals for the benefit of the member states. He stressed the need for deeper economic integration and collaboration among the members for speedy development of the region.

Prime Minister Narendra Modi said the BIMSTEC member states, situated between the Himalayas and the Bay of Bengal, face frequent natural disasters such as flood, cyclone and earthquake, and called for “cooperation and coordination” among them in humanitarian assistance and disaster relief efforts. “As no single country can move alone for attaining peace, prosperity and development, we need to collaborate and cooperate with each other in this interconnected world,” he said.

For research on art, culture and other subjects in the Bay of Bengal, India would set up a Centre for Bay of Bengal Studies at the Nalanda University, he said.

Prime Minister Modi said India will host the International Buddhist Conclave in August 2020 and invited all BIMSTEC leaders to attend the event as guests of honour.

He also said India was committed to enhance its national knowledge network in the field of digital connectivity in Sri Lanka, Bangladesh, Bhutan and Nepal. India also plans to extend it to Myanmar and Thailand. Mr. Modi hoped that the BIMSTEC member states will attend the India Mobile Congress in New Delhi scheduled for October.

KATHMANDU DECLARATION: MEMBER NATIONS TERM TERRORISM AS ‘GREAT THREAT’

An 18-point declaration paper was signed at the end of the Summit.

Describing terrorism as a “great threat” to international peace and security, India and six other BIMSTEC nations on Friday called for identifying and holding accountable States and non-State entities that encourage, support or finance terrorism, provide sanctuaries to terrorists and falsely extol their virtues.

The Kathmandu Declaration issued at the end of the two-day 4th BIMSTEC summit deplored terror attacks in all parts of the world including in BIMSTEC countries and stressed that there can be no justification whatsoever for any act of terrorism.

“Today’s proceedings at the BIMSTEC Summit were extremely productive. We built on the ground covered yesterday and reiterated our commitment to further strengthen multilateral cooperation in diverse areas,” Modi said.

“Terrorism and transnational organised crimes continue to pose a great threat to international peace and security including in the BIMSTEC countries,” the Kathmandu declaration said as it strongly condemned terrorism in all its forms and manifestations wherever and by whomsoever committed.

The declaration, which was unanimously adopted by all the member states, said the “fight against terrorism should target not only terrorists, terror organisations and networks but also identify and hold accountable States and non-State entities that encourage, support or finance terrorism, provide sanctuaries to terrorists and terror groups and falsely extol their virtues.”

The declaration did not name any specific country, but Pakistan is often accused by its neighbours, including India, of providing safe havens to terrorists.

It asked all nations to devise a comprehensive approach which should include preventing financing of terrorists and terrorist actions from territories under their control, blocking recruitment and cross-border movement of terrorists, countering radicalisation, countering misuse of internet for purposes of terrorism and dismantling terrorist safe havens.

It said that combating terrorism and transnational organised crimes require sustained efforts and cooperation and comprehensive approach involving active participation and collaboration of the Member States.

The declaration called for strengthening cooperation and coordination among the law enforcement, intelligence and security agencies of the member states, holding meetings at the level of BIMSTEC Home Ministers and the BIMSTEC National Security Chiefs.

The declaration also underlined the importance of multi-dimensional connectivity, which promotes synergy among connectivity frameworks in the region, as a key enabler to economic integration for shared prosperity.

It stressed the need for a fair, just, rule-based, equitable and transparent international order and reaffirming faith in the multilateralism with the United Nations at the centre and the rule-based international trading system.

In the declaration, the member states reiterated their pledged to work collectively towards making BIMSTEC a stronger, more effective and result-oriented organisation for achieving a peaceful, prosperous and sustainable Bay of Bengal Region.

They have also resolved to achieve, leveraging on BIMSTEC’s position as a bridge linking South and South East Asia, an enhanced level of economic and social development in the region, and remain fully committed to consolidate and deepen cooperation among Member States towards transforming the organisation into an effective platform to promote peace, prosperity and sustainability.

The member states have also stressed
on the need to accelerate progress in the core areas of cooperation and to review, restructure and rationalise the existing areas of BIMSTEC cooperation and streamline the operational modalities for activities, implementation of programmes and projects under BIMSTEC for bringing out tangible results.

The declaration also recognised that eradication of poverty is the greatest regional challenge in realising development objectives and expressed firm commitment to work together for implementing the Agenda 2030 for sustainable development.

At the end of the summit, Nepal Prime Minister KP Sharma Oli handed over the chairmanship of the grouping to Sri Lankan President Maithripala Sirisena.

Oli congratulated Sri Lanka for assuming the role as new host for BIMSTEC and extended thanks to the heads of states/governments of member states for their support in materialising the summit with success.

A Memorandum of Understanding was also signed on establishment of the BIMSTEC Grid Interconnection to enhance energy cooperation among the member states.

“The MoU provides for optimisation of using energy resources in the region & promotion of efficient & secure operation of power system, among other things,” Ministry of External Affairs spokesperson Raveesh Kumar tweeted.

MODI MEETS MYANMAR, BANGLADESH ON THE SIDELINES OF BIMSTEC SUMMIT

Prime Minister Narendra Modi Thursday and Friday met leaders from other countries on the sidelines of the Summit.

He and Myanmar President Win Myint discussed ways to strengthen bilateral cooperation. “Discussion focused on development cooperation, energy and other areas of bilateral cooperation,” Ministry of External Affairs spokesperson Raveesh Kumar tweeted.

Earlier, Prime Minister and other leaders from BIMSTEC met informally at the Leaders’ Retreat in Kathmandu. On Thursday he held talks with Bangladesh Prime Minister Sheikh Hasina and Sri Lankan President Maithripala Sirisena.

Prime Minister Modi also met Dasho Tshering Wangchuk, Chief Advisor of the interim government of Bhutan.

“India cherishes the longstanding and robust friendship with Bhutan. In Kathmandu today, held extensive talks with Dasho Tshering Wangchuk, Chief Advisor of the Interim Government of Bhutan,” Modi tweeted. “Their discussions will add great vigour to India-Bhutan relations,” the Prime Minister’s Office said.

SIGNIFICANCE OF BIMSTEC

Bimstec is important for India in terms of New Delhi’s Act East Policy and Neighbourhood First Policy, with northeastern India acting as a bridge between South Asia and Southeast Asia.

India is the lead country for cooperation in four priority areas: counter-terrorism and transnational crime, transport and communication, tourism and environment, and disaster management.

With the South Asian Association for Regional Cooperation (SAARC) virtually rendered ineffective as a bloc, largely due to non-cooperation on the part of Pakistan on issues like connectivity and counter-terrorism, India has been giving more importance to Bimstec in recent times.

The renewed push came from India in October 2016, a month after the terror attack in Uri. Alongside the BRICS summit in Goa, India hosted an outreach summit with leaders of BIMSTEC countries. Weeks earlier, some of these countries had supported New Delhi’s call for a boycott of the SAARC summit scheduled in Islamabad that November. When that summit was postponed, India claimed victory in isolating Pakistan.

India had long felt the potential of SAARC was being under-utilised and opportunities were being missed due to lack of response and/or an obstructionist approach from Pakistan. At the SAARC summit in Kathmandu in 2014, Modi said these opportunities must be realised “through SAARC or outside it” and “among us all or some of us”.

“As former Indian ambassador to Myanmar Rajiv Bhatia once noted that BIMSTEC was at risk of being little more than a ‘rebound relationship’ whenever New Delhi fails to pursue regional integration through SAARC,” Constantino Xavier, fellow at Brookings India, wrote in a paper in 2018 for Carnegie India.

For India, the region’s largest economy, a lot is at stake. In a 20th anniversary speech last year, Modi said BIMSTEC not only connects South and Southeast Asia, but also the ecologies of the Great Himalayas and the Bay of Bengal. “With shared values, histories, ways of life, and destinies that are interlinked, BIMSTEC represents a common space for peace and development. For India, it is a natural platform to fulfil our key foreign policy priorities of ‘Neighbourhood First’ and ‘Act East’,” he said.

PLATFORM TO COUNTER CHINA

The Bay of Bengal is crucial for an increasingly assertive China in maintaining its access route to the
Indian Ocean. As China has undertaken a massive drive to finance and build infrastructure in South and Southeast Asia through the Belt and Road Initiative in almost all BIMSTEC countries, except Bhutan and India, BIMSTEC is a new battleground in the India-China battle for dominance.

BIMSTEC could allow India to push a constructive agenda to counter Chinese investments, and instead follow best practices for connectivity projects based on recognised international norms. The Chinese projects are widely seen as violating these norms.

Again, the Bay of Bengal can be showcased as open and peaceful, contrasting it with China’s behaviour in South China Sea. “It could develop codes of conduct that preserve freedom of navigation and apply existing law of the seas regionally. In addition, BIMSTEC could stem the region’s creeping militarisation by instituting, for instance, a Bay of Bengal Zone of Peace that seeks to limit any bellicose behavior of extraregional power,” Xavier wrote.

Joyeeta Bhattacharjee, senior fellow with Observer Research Foundation (ORF), wrote in a paper this year: “The two organisations — SAARC and BIMSTEC — focus on geographically overlapping regions. However, this does not make them equal alternatives. SAARC is a purely regional organisation, whereas BIMSTEC is inter-regional and connects both South Asia and ASEAN… Since the SAARC summit has only been postponed, not cancelled, the possibility of revival remains.”

Amid Chinese assertiveness, there have also been suggestions of BIMSTEC engagement with other groupings: ASEAN, (Bangladesh-Bhutan-India-Nepal) BBIN, IORA (Indian Ocean Rim Association), MGC (Mekong Ganga Cooperation) and CMLV (Cambodia-Myanmar-Laos-Vietnam).

According to K Yhome, senior fellow with ORF, “The irony may be that BIMSTEC was in fact once a well-connected subregion through the littorals’ waterways and seaports up until the middle of the 20th century. Indeed, it may be said that current efforts are merely a ‘rediscovery’ of the old routes that once connected these nations.”

**COMMENT**

**BIMSTEC AND MARITIME SECURITY**

Abhijit Singh

Prime Minister Narendra Modi will be in Nepal later this week attending the fourth summit of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) summit in Kathmandu. During his deliberations with regional leaders, the Prime Minister is likely to emphasise connectivity, counter-terrorism, radicalisation and maritime security in the Bay of Bengal, a key area of discussion during recent meetings.

It was after the BRICS-BIMSTEC outreach summit in Oct 2016 that Bay states got serious about ‘comprehensive’ security in their shared littoral. Their discussions since have revolved around issues of both hard security and soft development, including environmental protection and ‘Blue Growth’ -- a developmental priority for many regional governments.

National security chiefs have met regularly seeking to enhance cooperation in diverse areas, pushing for the Bay’s recognition as a common security space.

Still, progress has been slow. Notwithstanding the enhanced emphasis on issues of human security and socio-economic development, smaller Bay states have struggled to evolve systems and procedures to address vexing challenges such as armed robbery, terrorism, illegal fishing and migration. More worryingly, regional governments have failed in arrest the decline of natural habitats across the shared littoral. In particular, rampant illegal fishing has caused a huge dip in fish-stocks, with illicit practices like bottom trawling and the use of seine nets severely depleted marine wealth, creating a massive ‘dead zone’ in the middle of the Bay of Bengal.

Meanwhile, coastal regions are witnessing a rapid expansion of plastic pollution. Studies show that of the US$13 billion in annual estimated damage to the marine ecosystem, a significant portion comes from South Asia. Unfortunately, the regional response to the challenge has been inadequate. Notwithstanding nascent efforts to partner with international organisations such as the Global Environment Facility, the Asian Development Bank, and the Food and Agriculture Organisation, Bay states haven’t come around to effectively addressing the principal impediments to marine governance: unsustainable fishing, pollution and destruction of habitat, and vulnerability of coastal communities to a changing climate.

For India, a complicating factor has been its inability to rein in the fisheries subsidies program, with the government continuing to support small fishermen via sops such as fuel, motorisation of boats, and provision of gear.

At a World Trade Organisation Ministerial meeting in Buenos Aires in December 2017, Indian officials insisted on continuing with a national program for fisheries subsidies, unless members agreed to special and differential treatment for developing states. That the subsidies program has led to overcapacity and overfishing in India’s seas -- resulting in a significant rise in illegal fishing -- have seemed beyond the pale of discussions.

Paradoxically, the centerpiece of New Delhi’s marine developmental initiative is a Rs. 8000 crores sea exploration proposal focused mainly on ocean energy and seabed mineral resources.
If seabed mining seabed resources has been the focus of official attention, few seem interested in marine life conservation. Even with ‘Blue Economy’, New Delhi has made tall promises, but struggled to deliver results. Many in government believe the term refers to ocean-dependent economic development. As they see it, inclusive social development, environmental balance and ecological security, though important, should not trump the larger imperative of financial expansion and industrial growth.

No developmental strategy, however, is likely to deliver results unless it can improve the lives of coastal communities. For this, the political leadership needs to impose limitations on technology-based economic development, pushing the industry to meet its social obligations for the protection and conservation of coastal and marine ecosystems. The challenge for Bay states is to get industry interested in a social model of blue growth that does not focus exclusively on commercial interests.

Of course, terrorism remains the most significant threat in the region, with BIMSTEC members continuing to work towards halting the spread of violent extremism and radicalisation. During the security chiefs’ meeting at Dhaka in March this year, the focus was on enhancing law enforcement coordination and intelligence exchanges.

The other area of all-round interest is connectivity and marine infrastructure creation. Bay states have been collectively working on a master plan for connectivity, sought to reach an understanding on the establishment of a grid interconnection, and even concluding an agreement on mutual assistance on customs matters. Promisingly, a pact on coastal shipping seems on the anvil.

To deepen regionalism, member states know their security initiatives need high-level political attention. This means endowing BIMSTEC with resources, strengthening capabilities through reforms, and enhanced political focus.

On the sidelines of a joint military exercise at Pune, shortly after the summit at Katmandu, army chiefs of Bay states are likely discuss collective responses to common challenges.

Yet, India’s driving compulsion is to respond effectively to China’s expanding political and economic footprint in South Asia. As Chinese state-owned enterprises establish a stronger presence in India’s near littorals, there is a sense that New Delhi’s political leverages are being steadily eroded. This is one reason why the Modi government is placing so much emphasis on strengthening regional connectivity, with northeastern India acting as a bridge between South Asia and Southeast Asia.

(The article was first published by New Delhi-based ORF)

INDIA US: 2+2 DIALOGUE POSSIBLE AGENDA

The first two-plus-two dialogue between India and the United States scheduled in New Delhi next week is an indication of the deepening strategic partnership between the two countries, the Trump administration has said.

U.S. Secretary of State Mike Pompeo and the Defence Secretary Jim Mattis will be in New Delhi for the talks.

They will be meeting their Indian counterparts, External Affairs Minister Sushma Swaraj and Defence Minister Nirmala Sitharaman, to discuss enhancing America’s engagement with India on critical diplomatic and security priorities, State Department spokesperson Heather Nauert told reporters at her daily news conference last week. “The dialogue is an indication of the deepening strategic partnership between our two countries, and India’s emergence as a net security provider in the region,” she said.

The importance of the U.S.-India strategic partnership is highlighted in the U.S. President’s National Security Strategy and the administration’s South Asia and Indo-Pacific strategies, Nauert said.

AREAS OF DISCUSSION

Meanwhile, Randall G. Schriver, Assistant Secretary of Defence for Asian and Pacific Security Affairs said the dialogue will discuss regional and strategic issues of Asia and “will also have some real outcomes.” How to respond to China “will be front and centre” of the dialogue.

The Trump administration was mindful of India’s legacy ties with Russia, but did not appreciate its continuing defence cooperation with it, Schriver said, adding that he was not sure of granting a waiver to India from sanctions if it went ahead with the planned purchase of S-400 missile defence system from the Kremlin.

Schriver said the U.S administration expected some concrete outcomes such as concluding an enabling agreement on communication and expanding the scope of military exercises between the countries. The official said India and the U.S. have complete agreement on the vision of Asia Pacific though there is a requirement to work on the strategy to operationalise it.

“Our visions are completely in convergence, and on strategy, we are building on,” he said, adding that operationalising India-U.S. partnership in Asia would be part of the 2+2 agenda. “To operationalise the strategy, we need to figure out what the division of labour will be,” he said.

Responding to Ashley Tellis on how China fits in the India-U.S. ties, Schriver said the U.S. does “not want to exclude the possibility that this (America’s Asia Pacific policy) is an inclusive strategy,” but China was “demonstrating that they have different aspirations” for the Asia-Pacific. “In the world that we live in, countries are encouraged by China’s
behaviour to coalesce with us,” he said, citing the Belt and Road Initiative and militarisation of the South China Sea. “We also need to have an alternative (to BRI), and we are talking to India on this. The same goes for military strategy. This is the conversation that will have in Delhi,” he said.

Schriver said the U.S. continued to seek Pakistan’s support for a political settlement in Afghanistan. “We want the new Prime Minister of Pakistan to explore ways to improve ties with India. There is no question that we need Pakistan’s help to persuading, pressuring Taliban toward a political process. We want Pakistan to use its influence over the Taliban,” he said. Asked what the U.S. expected from India on Afghanistan, the official said, it could help with its “experience of managing a multicultural, multi-ethnic country”. “India could also help with some logistic support in security and development also.”

The official said keeping contentious economic issues separate from strategic issues will be a challenge in bilateral ties in the days ahead. “These economic and trade issues are long-standing irritants. The Trump administration may be using different tools to deal with these irritants, but they are not new. But the reality of the security situation will be compelling and persuasive for both of us to stay the course on security cooperation.”

**SIGNING OF SECURITY AGREEMENT (COMCASA) ON THE CARDS**

Preparing for the dialogue, India has prepared ground for the signing of the much-awaited Communications Compatibility and Security Agreement (Comcasa) with the agreed text of the foundational military agreement (one of the three such the US signs with close partners) sent to the highest level of the Modi government for approval.

The agreed text of Comcasa agreement will, after it is vetted, be put up before the Cabinet Committee on Security (CCS) for clearance and will be signed during the 2-plus-2 dialogue on September 6 between the Indian and US foreign and defence ministers, Indian and US diplomats familiar with the matter said.

The Comcasa agreement, which has been hanging for the past decade, allows India to operate on high-end secured communication equipment installed on American platforms acquired by Indian armed forces, such as C-130 J, C-17, P-8I aircraft, and Apache and Chinook helicopters.

In some cases, the use of such equipment is a prerequisite to acquiring these platforms, or in exploiting their full potential. It also facilitates interoperability or cooperation with other countries using the equipment.

The first deliveries of Apache attack helicopters and Chinook heavy lift choppers to India will be done in the second half of 2019. India’s original concern was that the use of such equipment could threaten its own operational independence. The final version is believed to have addressed all such concerns.

After the Defence Acquisition Council (DAC) cleared a $1 billion purchase of 24-multi-role Sikorsky-Lockheed Martin helicopters for the Indian Navy through the foreign military sales route, India is planning to send a request for information (RFI) to the US shortly and begin commercial negotiations.

India has also sent an RFI for acquiring National Advanced Surface to Air Missile System-II (NASAMS-II) from the US at a cost of around $1 billion, and which will make parts of New Delhi impregnable from aerial attacks.

India and the US have also decided for the first time to conduct an advanced tri-service humanitarian assistance and disaster relief exercise off the coast of Visakhapatnam in the Bay of Bengal later this year.

“Earlier, bilateral exercises were confined to individual services but it has now been decided that India and US will conduct a joint tri-service exercise. The possibility of holding a tri-service amphibious exercise and a counter-terrorism exercise are also in the pipeline,” said a South Block official. India participated in a tri-service human assistance and disaster relief exercise with Russia last year.

**SEEKING NSG MEMBERSHIP ONCE AGAIN**

The Nuclear Suppliers Group (NSG) will hold its second half-yearly plenary in December. New Delhi will lobby in the months beforehand, seeking to get a consensus on India’s joining the international rules-making nuclear technology body. Given India’s repeated failure to gain entry to this exclusive multilateral club, there will be more than a little scepticism about the worth of so much diplomatic effort.

The Hindustani Times notes that “India won an exemption from the NSG’s layers of nuclear technology sanctions, thanks to the India-US nuclear deal. However, in theory, such an exemption can be revoked by the NSG. Becoming a full-fledged member remains the best guarantee against such a reversal. In part, India’s determination to get NSG membership reflects the scars left behind by decades of nuclear sanctions. There is a more pragmatic reason to join. India is unique in being a recognised nuclear country exempt from NSG sanctions but is not a signatory to the comprehensive test ban treaty. This grey legal status has hampered its ability to access higher-end nuclear technology from Western companies. NSG membership would resolve this problem.”

India will “hope that Beijing may have become more flexible on the issue. There might be some reason to
believe this is the case. The Chinese system has been rattled by its escalating trade war with the United States. There are even a few signs of dissent within Beijing at Chinese leader Xi Jinping's aggressive foreign policy stance. China has signalled a desire for a less confrontational relationship with India this year. There is no evidence that any of the underlying causes of Sino-Indian rivalry are being addressed, but if even a temporary truce between the two countries possibly means Beijing can be pressed on NSG membership, it is worth the effort."

**INDIA - US: NEED TO COUNTER CHINA ECONOMICALLY**

Jonathan DT Ward (Founder of Atlas Organisation, a consultancy focussed on the rise of India and China and the new geopolitics of the Indo-Pacific) and Hemal Shah (director for emerging markets focussing on innovation policy at a business federation based in Washington DC) suggest that India and the US must build greater trade and business synergies to face China's geopolitical challenge.

On the eve of the US-India '2+2' foreign policy and defence strategy dialogue on September 6, Michael Pompeo, US Secretary of State, and Wilbur Ross, US Secretary of Commerce, unveiled several new initiatives as part of US President Trump's Indo-Pacific vision. This includes easing exports of high technology products to India, a significant authorisation normally reserved for NATO allies. While this is powerful symbolism, what does it mean for India and the region's business community?

China's geopolitical rise, write the authors, "is the result of the expansion of China's economy. The continued expansion of Chinese power will be based on the success of Chinese global business. China's Belt and Road Initiative (BRI) is a case in point.......Most importantly, China's long-term strategy is based on the objective of becoming the world's pre- eminent economic and military power, replacing the US. If the Communist Party succeeds in achieving its objectives, India stands much to lose, both in its region, and at home. Mobilising India's business community to reify the Indo-Pacific vision — particularly with the upcoming 2+2 dialogue — opens up the potential to turn the tide around."

While the Wuhan Summit in April may have led to a thaw in relations between India and China, the authors warn "Indian government and business should beware the Chinese olive branch. Here is why: Chinese policy towards most countries relies predictably on a strategy of economic engagement and military coercion. However, at a certain point, economic engagement becomes economic coercion....."

"India already stands to be impacted by not one, but three major economic initiatives coming from Beijing. The first is the BRI, which many in India recognise as both a geopolitical and an economic initiative.

"The second is 'Made in China 2025', an economic strategy released by the State Council, which aims to make China the pre-eminent manufacturing power, through the mastery of 10 advanced industries, ranging from robotics and agricultural machinery to next-generation IT and 'new energy vehicles'. This initiative will impact India....."

"The third is the 'going out' strategy of China's major corporations. In varying degrees of alignment to the Chinese state, both state-owned enterprises and private firms like Tencent and Alibaba are poised to expand their presence throughout India's region, and in India itself. Unlike other global firms, this does not mean business as usual.

"......Chinese business interests in India go beyond commercial interests — they are calculated and strategic. Chinese companies are expanding their footprint not only in India's backyard — from Nepal and Pakistan in the north to Sri Lanka and Maldives in the south — but also in the Indian Ocean, passage to 40 per cent of the world's oil supplies, home to 15 per cent of the world's fishing, and 7,500 km of coastline."

India's unwillingness to court the BRI has so far not yet translated into geo-economic balancing strategies.

Working with the Indian business community, the author suggest "the Indian government can focus on three important strategies and capitalise on the upcoming talks with the US."

"First, India must identify and implement concrete initiatives to match its BRI rhetoric with action and stave off geo-economic risk from increasing Chinese investments."

"Second, India must assume stronger commercial leadership in the region and formulate competitive policies to attract foreign investment from Asian democracies, including Japan, South Korea, Taiwan, and Australia."

"Third, India should negotiate directly with the US to form a trade strategy based on the long-term interests of US-India relations. Both countries run uncomfortably large trade deficits with China — this can be reduced if both can find ways to buy less from China and more from each other. That would be a win-win for Indo-US business and the US-India strategic partnership."
Indian Ocean Conference in Hanoi, pointed out that the seas around India have nurtured its links of commerce and culture with its extended neighbourhood over millenia, and that nurturing a climate of peace and stability in this region is an important priority for New Delhi’s foreign policy.

“This region is host to the world’s busiest waterways and three quarters of that traffic is headed for destinations beyond our region,” Sushma Swaraj said.

“As an important trade and energy waterway, carrying half the world’s container shipment, one third of its bulk cargo traffic and two third of oil shipments, the Indian Ocean clearly assumes importance well beyond its immediate shores and its littorals,” she said.

“Nurturing a climate of peace and stability in this region is therefore an important priority for our foreign policy.”

Stating that that though there is diversity within the region, Sushma Swaraj said challenges within it are “quite similar”.

“Our vision for the region is one of cooperation and collective action,” she said.

India, along with the US, Japan and Australia, are part of a quad revived last year that seeks to work for peace and prosperity in the Indo-Pacific region.

Sushma Swaraj’s remarks assume significance given China’s belligerent attitude in the South China Sea region and Beijing’s attempts to increase its footprint across the Indian Ocean.

“Hanoi is therefore a particularly appropriate setting for us to discuss developments in the Indian Ocean and the Indo-Pacific region,” she said.

She said that India sees the Association of Southeast Asian Nations (Asean) regional bloc as central to the regional maritime architecture, reflecting Indian Prime Minister Narendra Modi’s remarks at the Shangri-La Dialogue in Singapore in June.

Sushma Swaraj stressed on three priorities that New Delhi accords to the Indian Ocean region and referred to the SAGAR (Security and Growth for All in the Region) initiative of New Delhi. “In its implementation, this approach includes: projects to promote hinterland linkages and strengthen regional connectivity; linking South Asia to Southeast Asia (under India’s Act East Policy); and playing an active and constructive role in strengthening regional maritime security.”

Sushma Swaraj said that the first part is India’s focus on developing hinterland linkages and regional connectivity. She said that India is devoting more resources and assigning greater priority to building connectivity, contacts and cooperation in its immediate neighbourhood.

“The second element is the expanded interpretation of what constitutes our neighbourhood,” she said. “This is reflected in the renewed emphasis in our Act East Policy and the new Think West policy towards West Asia and the Gulf region.”

Sushma Swaraj said that the Act East Policy is at the heart of New Delhi’s eastward orientation and ties in with its broader approach to the Indo-Pacific.

She said that India accords high priority to key infrastructure projects such as the Kaladan multimodal transport linking the Sittwe Port in Myanmar with Mizoram in India’s northeast, and the Trilateral Highway linking India, Myanmar and Thailand.

“Our recent agreement with Indonesia to develop port infrastructure in Sabong is yet another step in this direction,” she said.

“Coming to the third element, contributing to regional maritime security: we are working to ensure the safety and security of maritime traffic through the ocean by strengthening skills and logistics of our Indian Ocean neighbours,” Sushma Swaraj said.

Sushma Swaraj arrived in Hanoi on 26 August on the first leg of her two-nation tour to Southeast Asia that will also see her visiting Cambodia.
RBI ANNUAL REPORT: 99.40% OF DEMONETISED NOTES RETURNED

According to the Reserve Bank of India’s annual report, close to 99.40 per cent of specified bank notes (SBNs) of Rs 500 and Rs 1,000 denominations, which were scrapped in the November-December 2016 period, have been returned from circulation.

The report pegged the total SBNs returned from circulation at Rs 15.31 lakh crore. On November 8, 2016, when the demonetisation process kicked-in, currency notes of denominations of Rs 1,000 and Rs 500 (SBNs), valued at Rs 15.4 lakh crore and constituting 86.9 per cent of the value of total notes in circulation were demonetised (scraped).

The Modi Government had scrapped the SBNs to clamp down on corruption and black money, cut off terrorist financing and tackle fake Indian currency notes. But with almost all the money coming back, experts wonder whether the purpose of demonetisation has been served.

However, Subhash Chandra Garg, Secretary, Department of Economic Affairs, said, “In terms of black money, terrorist financing, fake currency, digital payments... I think demonetisation has achieved its objectives quite substantially.” The RBI report said that during the year, 27.7 billion pieces of banknotes were disposed of as against 12.5 billion pieces the previous year, mainly on account of the accelerated processing of SBNs of ?500 and ?1,000 denominations.

CONGRESS CRITICISM

Reacting to the RBI report, Congress leader P Chidambaram said the Indian economy had suffered due to the notes ban by way of job loss, closure of industries and the GDP growth.

In a series of tweets, the former finance minister also said the RBI figure has suggested that the government had actually demonetised only Rs 13,000 crore and the “country paid a huge price” for it. “Indian economy lost 1.5 per cent of GDP in terms of growth. That alone was a loss of Rs 2.25 lakh crore a year. Over 100 lives were lost. 15 crore daily wage earners lost their livelihood for several weeks. Thousands of SME units were shut down. Lakhs of jobs were destroyed,” he tweeted.

Chidambaram said every rupee of the Rs 15.42 lakh crore, barring a small sum of Rs 13,000 crore, has come back to the RBI. “I suspect that the bulk of the Rs 13,000 crore is currency in Nepal and Bhutan and some that was lost or destroyed. Remember who had said that Rs 3 lakh crore will not come back and that will be a gain for the government!?” he said.

Congress president Rahul Gandhi accused the Prime Minister Narendra Modi of lying to the people of the country on the “benefits” of demonetisation. He said the result of the ‘notebandi’ is out and the entire money is back in exchequer.

“He promised the people that demonetisation will end black money, fake currency and terrorism. Now, the entire money is back. Two per cent of the GDP and employment of crores of people was taken away. The PM must answer what was the logic and reasoning for such a big blow to the people of the country,” he said.

He said 10-15 big corporates are the only beneficiaries of demonetisation. “I
want to tell the youth and retailers of this country that Modi took the money from the people to help 10-15 crony capitalists of the country. This was the biggest aim of demonetisation. Modi’s friends used the opportunity to launder black money and we have seen how a Gujarat cooperative bank, of which BJP president Amit Shah is a director, changed ₹700 crore worth old notes,” he said.

DEMONETISATION HAD NO POLITICAL FALLOUT

The Hindu writes that the annual report of the RBI makes a couple of things crystal clear. “First, the hope that a large chunk of unaccounted money would not return to the system — arguably, the principal reason for the exercise — was almost wholly belied. As a result, the plan to transfer the arising surplus from the RBI to the Centre, which was not formally declared but strongly rumoured, was a non-starter. Second, given the sheer logistical difficulty in penalising all those who converted unaccounted money into legal tender, demonetisation worked as an unintended amnesty scheme. Despite the significant cost to the economy, demonetisation, to the disappointment of the Prime Minister’s critics, had no political fallout. Narendra Modi succeeded in portraying the move as one that would knock out the corrupt rich — a harsh but necessary shock therapy. This was perhaps why the massive disruption caused by the overnight removal of 86% of the currency in value terms did not cause agitations.”

FIX RESPONSIBILITY

The Asian Age wants someone should take “responsibility for 100-plus lives lost, children’s education that was derailed, the sick who couldn’t afford medical aid, untold and unimaginable suffering of farmers, and daily workers deprived of their wages for months.

“The economy lost over one per cent of GDP and was burdened with an expenditure of Rs 12.877 crores for printing of notes in the next two years. The small, medium and micro sector that depends on cash had to shut down, throwing an estimated 15 crore daily wage earners out of employment. This sector is the economy’s backbone.”

THE DOWNSIDE AND THE UPSIDE

Business Line is its assessment of the RBI’s Annual Report writes that demonetisation failed to achieve its objectives. “With the counting of the returned notes done and dusted, the RBI reports that ₹15.3-lakh crore worth of cancelled currency — 99.4 per cent of those withdrawn — returned to its coffers. This demolishes the idea espoused during the note ban that 15-20 per cent of the cash in use was ‘black’ money, which would be permanently put out of circulation. India’s transition to a less-cash economy hasn’t speeded up either, with the currency-to-GDP ratio climbing back to 10.9 per cent in FY18 after dipping to 8.8 per cent in FY17. The report notes that India has ‘amongst the highest levels of currency usage’ compared to emerging market peers. The ban has also failed to unearth significant counterfeiters as promised, with the proportion of fake notes detected by banks in FY17 and FY18 amounting to 0.00001 per cent of the notes in use. There has been no further word on the CBDT’s investigation into large bank deposits to nab tax evaders. Therefore, one is forced to conclude that the only material benefit to the economy from demonetisation was the improvement in India’s tax compliance metrics this past year. With the data now at hand, a comprehensive cost-benefit analysis of demonetisation would have been educative for future policy-making. But the NDA seems to be in denial mode…..

“On the positive side, the RBI’s own finances have posted a quick recovery from demonetisation. With surplus liquidity from banks abating, the RBI saved on interest outgo and increased its income by 27 per cent in FY18. Expenses, helped by lower note-printing costs, plummeted by 22 per cent. This allowed it to increase its surplus transferred to the Centre by 63 per cent to ₹50,000 crore. Here, it is good to see that the RBI has continued with its practice, resumed last year, of putting aside surpluses towards its contingency reserves. Given that these reserves cushion fluctuations in forex reserves, losses on exchange rate operations and systemic risks, skipping the transfer would have sent all the wrong signals this year.”

STATE OF THE ECONOMY

BJP TRANSFORMED ‘WEAK ECONOMY’ WITH REFORMS: FM

Finance Minister Arun Jaitley Thursday said that India is expected to surpass Britain next year to become the world’s fifth largest economy. “This year, in terms of size, we have overtaken France. Next year we are likely to overtake Britain. Therefore, we will be the fifth largest (economy),” he said.

Other economies in the world are growing at a much lesser rate, he said, adding that India has the potential to be among top three economies of the world in the next 10-20 years.

Earlier, in a Facebook post, Jaitley has cited IMF reports to highlight how the Narendra Modi-led government through a series of reforms has transformed the “weak economy” it inherited from the UPA government.

Jaitley, in a Facebook post, said an analysis of what the IMF had to say in 2014 was very clear - high inflation, high fiscal deficit, high current account deficit, a standstill infrastructure, power sector, allocation of natural resources. The report of 2014 talks about weak economy during the UPA government and the latest points at near-term macroeconomic outlook broadly favourable and growth forecast rising to 7.3 per cent in FY 2018-19, he said.

Quoting the IMF report of 2014, released in February, Jaitley said there was high fiscal and current account deficits as well as a standstill in infrastructure, power
and in the allocation of natural resources. In its 2018 report however, Jaitley says the IMF noted, “Stability-oriented macroeconomic policies and progress on structural reforms continue to bear fruit. Following disruptions related to the November 2016 currency exchange initiative and the July 2017 goods and service tax (GST) rollout, growth slowed to 6.7 per cent in FY2017/18, but a recovery is underway led by an investment pickup.”

Headline inflation averaged 3.6 per cent in FY2017/18, a 17-year low, reflecting low food prices on a return to normal monsoon rainfall, agriculture sector reforms, subdued domestic demand, and currency appreciation, he said.

Quoting from the report he said, economic risks were tilted to the downside. “On the external side, risks include a further increase in international oil prices, tighter global financial conditions, a retreat from cross-border integration including spillover risks from a global trade conflict, and rising regional geopolitical tensions,” he said.

Domestic risks pertain to tax revenue shortfalls related to continued GST implementation issues and delays in addressing the twin balance sheet problems and other structural reforms, he added.

INDIA’S MACROECONOMIC MANAGEMENT IS SOUND: PANAGARIYA

Former Niti Aayog vice-chairman Arvind Panagariya has believes that rupee depreciation was long overdue, saying appreciated currency had hurt the country’s exports.

Panagariya further said India’s macroeconomic management is sound and there was no reason to worry. “The main news recently in the macro story is depreciation of the rupee. But this had been long overdue. The real exchange rate has seen large appreciation in recent years and this has hurt our exports,” he said in an interview.

Panagariya who is currently a professor of economics at Columbia University further said, “I am personally very pleased the RBI has used our foreign exchange reserves prudently in managing the exchange rate.”

Replying to a question, the former Niti Aayog vice chairman said that he expects India’s growth rate to cross the 8 per cent mark by the third or fourth quarter of fiscal 2018-19. “I am confident that in less than ten years we will cross the UK, Germany and Japan to become the third largest economy in the world,” he predicted.

On the possibilities of populist measures being announced by the Modi government ahead of 2019 general elections, Panagariya said that the risk is omnipresent “but I do not see this happening.” The government, he said, has more or less announced its revenue and expenditure trajectories.

He also pointed out that FDI in India in 2017-18 has been slightly higher than in 2016-17 and 70 per cent higher than in 2013-14. Stating that inflation in July at 4.2 per cent was lower than 4.9 per cent in June, Panagariya said, “In my view, inflation in the neighbourhood of 5 per cent for a rapidly growing developing country is about right since it allows relative prices to adjust and provide the necessary signals to investors.”

GDP GREW AT 8.2% IN Q1: INDIA IS FASTEST GROWING MAJOR ECONOMY

The Indian economy grew at 15-quarter high of 8.2 per cent in the April-June quarter of current fiscal on good show by manufacturing and farm sectors, according to the government data released Friday.

The growth cemented India’s position as the fastest growing major economy, clocking higher expansion rate than China’s 6.7 in the same quarter.

The gross domestic product (GDP) at constant (2011-12) prices in the first quarter of 2018-19 is estimated at ? 33.74 lakh crore, as against ? 31.18 lakh crore in Q1 of 2017-18, showing a growth rate of 8.2 per cent, a Central Statistics Office statement said.

According to statement, the quarterly GVA (Gross Value Added) at basic price at constant (2011-12) prices for Q1 of 2018-19 is estimated at ? 31.63 lakh crore, as against ? 29.29 lakh crore in Q1 of 2017-18, showing a growth rate of 8 per cent over the year-ago period.

The previous high quarterly GDP growth was recorded in July-September period in 2014-15 at 8.4 per cent.

As per the data, the quarterly GVA at basic prices for Q1 2018-19 from ‘manufacturing’ sector grew by 13.5 per cent as compared to contraction of 1.8 per cent in Q1 2017-18.

The Quarterly GVA at basic prices for Q1 2018-19 from ‘agriculture, forestry and fishing’ sector grew by 5.3 per cent as compared to growth of 3 per cent in Q1 2017-18.

Growth much above forecasts: strong growth indicators: India clocked a 7.7% Gross Domestic Product (GDP) growth in the January-March quarter of the financial year 2017-18, in a sharp rebound from 7.1% in the previous quarter.

While the full year GDP growth rate was lowest in four years at 6.7% due to disruptions caused by the switch to the new indirect tax regime of Goods and Services Tax (GST), the fourth quarter was on the back of strong performance by manufacturing and construction sector, with some uptick in investments.

As India continues to stabilise against the disruptive structural reforms, analysts expected high growth in the first quarter of the financial year 2018-19 as well.

The State Bank of India in its research report had projected that the Indian economy is expected to grow by 7.7% in the first quarter as there has been a pick-up in activities forming key indicators such as cement production, the sale of vehicles, bank credit etc.

Care Ratings forecast a GDP growth of 7.6% and GVA growth of 7.4% in the Q1-FY19. Care Ratings says that there will be an uptick in mining & quarrying, manufacturing and construction sector.
Morgan Stanley expected the GDP growth of 7.5% in the April-June quarter of the current fiscal year, saying that macroeconomic indicators like inflation and current account deficit are likely to be in check and high-frequency indicators on the production side point towards pick-up.

Global financial services major Nomura had projected a 7.8% growth in the first half of the year, however, not giving forecast on a quarterly basis. It said that it expected India's GDP to peak in the April-June quarter before moderating in the second half of the financial year.

Economists estimate a quantum jump in economic growth, led by the manufacturing sector, thanks a weaker year-ago base. But they are not sure whether the growth will match the fourth quarter print of 7.7 per cent. Most are estimating it at 7.5-7.6 per cent. A few have gone overboard to project 8 per cent expansion.

Abheek Barua, Chief Economist at HDFC Bank, had pegged his Q1 growth estimate at 7.6 per cent and says a favourable base effect should prop up growth numbers across sectors. "It is not all just a statistical push, and there are some genuine signs of revival in the economy. The major push to growth is likely to come from manufacturing and services sectors, while agricultural growth is also likely to be supportive. On the demand side, private consumption could gain traction, especially on the back of stronger demand as reflected by lead indicators such as domestic passenger traffic, retail credit and consumer durables," Barua said.

Lead indicators are showing strength in manufacturing and service sectors. With the rise in rabi (crops that are sown in winter and harvested in the spring) output, which hit the market in Q1 of FY19, agriculture growth is likely to come in at 4 per cent.

Mining activity is expected to show a pick-up too while agricultural activity is likely to be steady, with the allied agricultural sectors continuing to do well, said Nirmal Bang Institutional Equities.

"We expect the GDP growth print to come in at 7.5 per cent in FY19," the brokeraged said.

Economists at ICICI Securities “GDP growth is expected to come in at around 7.5 per cent YoY in Q1, decelerating on a sequential basis, but sharply higher than the 5.6 per cent YoY growth print for Q1 of FY2018,” it said.

Economist Anirban Nag writing in the Economic Times is of the view that India's economy, is relying on domestic consumption to stay on course to becoming the fastest-growing major economy this year. Demand for bank loans remained solid going into the July quarter despite rising interest rates, and so was the case with services and manufactured goods, a cross-section of forward-looking indicators compiled by Bloomberg show ahead of government data on economic growth due Aug. 31. Foreign investments slowed, highlighting risks to India's balance of payments position.

Other risks loom in the form of higher oil prices, tightening global financial conditions and a shortfall in taxes that can put budget targets out of reach. For now, the economy is showing steady expansion, with the IMF forecasting growth of 7.3 percent in the fiscal year through March 2019 and 7.5 percent in the next as reforms initiated by Prime Minister Modi pay off.

**NAG ELABORATES FURTHER:**

Business Activity: India's main services index rose at the fastest pace in 21 months in July, the latest purchasing managers survey showed, while manufacturing continued to expand, but at a slower pace. These together pushed the composite index to its highest level since October 2016. The optimism stems from a rise in new orders, giving confidence to businesses to produce more.

Data from the central bank also showed an uptick in capacity utilization to above 75 percent. That gain usually drives inflationary pressures and indicates improved pricing power, which eventually provides more incentive to invest.

Exports: Exports grew by a relatively strong 14.3 percent in July from a year earlier, although slower than the 18 percent pace in the previous month. Economists and policy makers are optimistic that the recent weakness in the rupee will help support the recovery in sectors such as textiles.

Consumer Activity: Data from the Society of Indian Automobile Manufacturers show that the industry produced more vehicles in July than a year ago, with the increase led by commercial vehicles and two-wheelers. Total sales were up 8 percent in the latest indicator, underpinning a view that domestic demand is holding up well.

With more consumption comes more demand for loans. Bank credit rose 12.7 percent in August from a year ago, with most of the loans being made to the services sector. Commercial paper issuances are also on the rise.

Economic Activity: Foreign direct investments fell to their lowest since January, and that could weigh on India's balance of payments. Already, the current account deficit is expected to widen due to higher oil prices and slowing inflows into the capital markets. With a general election due in early 2019, concerns about policy paralysis and whether Modi will manage to repeat his 2014 landslide-win may keep many investors on the sidelines.

Industrial Activity: The risks notwithstanding, output of infrastructure industries -- which contribute 40 percent to the industrial production index -- lend hope. The 6.7 percent pace of expansion in June from a year earlier was the strongest in seven months.

**INDIA MAY BREACH 3.3% FISCAL DEFICIT TARGET: MOODY'S**

Credit rating agency Moody's Investors Service Wednesday said there are risks of India breaching the 3.3 per cent fiscal deficit target for the current financial year as higher oil prices will add to short-term fiscal pressures. According to the US-based agency, the current account deficit...
(CAD), which is the difference between inflow and outflow of foreign currency, will widen but will not jeopardise India’s external position; and the gap will remain significantly narrower than five years ago.

The government has budgeted fiscal deficit to be at 3.3 per cent of gross domestic product (GDP) in the current fiscal ending March 2019. Fiscal deficit during April-June quarter of current fiscal had touched 68.7 per cent of Budget estimates.

Also driven by higher oil prices and robust non-oil import demand, Moody’s expects the current account deficit to widen to 2.5 per cent of GDP in the fiscal year ending March 2019, from 1.5 per cent in fiscal 2018.

Moody’s Vice President and Senior Analyst Joy Rankothge said, higher oil prices and interest rates will put pressure on the government’s budget and the current account. However, growth prospects remain in line with the economy’s potential, around 7.5 per cent this year and next.

“This robust growth, large foreign exchange reserves, a predominantly domestic funding base, strengthened monetary policy management, and macroprudential regulations on bank lending in foreign currency will broadly contain the credit impact of the higher oil prices and rising interest rates,” Rankothge said.

CAD may be 2.8% in FY19: SBI report: In a separate assessment of a State Bank of India’s research report, India’s current account deficit (CAD) is likely to touch 2.8 per cent of GDP in the current financial year on surge in crude oil prices and moderate growth in exports. The merchandise trade imbalance is also expected to rise to USD 188 billion in FY19, compared with USD 160 billion in FY18, according to Ecowrap.

“Against the backdrop of rising oil price and lukewarm export growth, current account deficit is expected to reach 2.8 per cent of GDP (USD 75 billion) in FY19,” the report said.

The trade deficit jumped to USD 18 billion in July 2018 on account of lukewarm export performance amidst higher import bill, it added.

Oil imports registered an annual growth of 57.4 per cent to USD 12.4 billion, from USD 7.8 billion in July 2017, and the report attributed the rise in the import bill to increase in oil price and rise in quantity of oil imported.

Amidst the recent devaluation of the Chinese Yuan, the country’s imports from China increased in May and June this year, after witnessing a decline in April.

The trend of the manufacturing goods imports remains the same and within manufacturing, imports of electronic goods have declined on annual basis so far this fiscal year, according to the report.

“Thus, the argument that depreciation of the Chinese currency is responsible for increased imports from the country does not seem appropriate,” it said.

The huge increase in trade deficit is more linked to the average export performance so far in FY19, it said.

The CAD is still expected to be maj orly financed by non-debt creating (FDI and FPI) capital inflows, according to the report, which constitute around 44 per cent of the total capital flows.

The debt creating inflows which increased in the last fiscal year are expected to remain on the higher side this year as well, which will imply pressures on rupee in case there is a sudden reversal of capital flows, it said.

The financial account surplus is expected to come around USD 59 billion, lower than the previous fiscal (USD 91.4 billion) due to foreign portfolio outflows which have already amounted to USD 9.3 billion till June 2018, it added.

Portfolio outflows have happened this year since the US economy and dollar started strengthening.

“This is expected to turn the country’s overall balance of payment into deficit mode after six years, thereby implying forex reserves depletion of USD 16 billion (0.6 per cent of GDP) in FY19,” the report said.

RUPEE TO AVERAGE AT 69 PER USD THIS FISCAL: REPORT

The rupee is likely to average at 69 per USD dollar this financial year, largely driven by stronger domestic macro fundamentals and foreign fund flows, according to a Bank of Baroda research report. The report says India’s twin deficit and inflation are at a “far more comfortable position” than in 2013. Besides recent fall in oil prices and strong foreign portfolio investors (FPI) inflows will also support the domestic currency.

“While near-term volatility cannot be ruled out as the rupee is highly correlated with other Asian emerging market (EM) currencies, we believe the rupee should stabilise sooner than later,” Sameer Narang, chief economist at Bank of Baroda said in a research note. He further said, “For FY19, we expect it to average at 69/USD”.

The rupee has fallen 8.9 per cent this year, higher than the 4.6 per cent fall in Asian emerging market currencies amid global uncertainties and concerns over inflation.

According to the report, the policy divergence between the US Fed, the European Central Bank (ECB) and Bank of Japan (BoJ), coupled with an improving US economy, has resulted in widening interest rate differentials between the US and other currencies. But going forward, other central banks are looking at normalising their monetary policies and this will narrow the interest rate differential and put a lid on further appreciation of the US dollar, the report said.

The recent decline in oil prices is positive for the rupee. In addition, FPI inflows have also resumed and should put an end to the USD 24.6 billion intervention by the Reserve Bank of India (RBI). Some of the key risks to the rupee include a contagion in emerging market currencies, any geo-political risks to oil prices and prospects of trade wars driving global growth lower, the report added.
SUSTAINABLE WAY TO PREVENT THE RUPEE FROM FALLING

The rupee has crossed the 70 mark against the US dollar, and though it has pulled back there is widespread concern continues. Very correctly, writes RK Pattnaik (former central banker, a faculty member at SPJIMR), the RBI has taken action in the spot as well as the forward market, keeping in view its mandate to maintain orderly conditions by containing excessive volatility in the exchange rate without reference to any predetermined level or band.

Analysing the situation, Pattnaik writes it is important to note that episodes of volatility are not a new phenomenon in India and this isn’t the worst of what has been seen in terms of volatility.

According to some analysts, the rupee depreciation has been contributed by the depreciation in the Turkish Lira with a contagion effect. Pattnaik says “this view is erroneous as India’s trade with Turkey in terms of exports and imports is minuscule.

“Essentially, the depreciation of rupee could be linked to the current account deficit because of higher trade deficit contributed by higher import bills. According to latest available data, overall trade deficit (goods and services) during April-July 2018-19 was $43.77 billion as compared with $34.07 billion in the previous year.

“Oil imports during April-July 2018-19 amounted to $46.98 billion, which was 51.5 per cent higher than in the corresponding period of the previous year. In addition, there were outflows of speculative capital from India due to higher interest rates in the US as the Fed increased the Fund Rate, record US GDP growth of 4 per cent in Q2, and lowest unemployment rate in the US in the past 60 years. Further, as we have significant trade dependency with the US the strength of the dollar also has a marked effect on the rupee.”

The moot question is: Will the rupee move, the report explained.

Fall in rural wage growth was not limited to major agricultural occupations. Even nominal wage growth rates for animal husbandry, which were robust earlier, fell from 21.48%-34.77% in FY13-15 to 7% FY17-18. Notably, India suffered two consecutive drought years in 2014-15 and 2015-16, which also led to farmers’ distress.

However, the largest chunk of the rural population is made of daily wage earners, not farmers, the report said, adding that an equal focus on both rural wages and farm income is vital to relieve rural distress. On the decision to hike minimum support price for the Kharif season, India Ratings said that it will provide only ‘notional comfort’. “It requires a far more concerted effort including a strategy to augment rural infrastructure,” the report said.

INDIA’S GROWTH NOT ENOUGH TO CREATE NEW JOBS

Taking a macro view, Bloomberg writes that even at its current pace of growth, India is having trouble creating enough new jobs for its massive workforce or enough wealth to broaden its middle class.

With its demographic tailwind and massive developmental needs, India should be growing at double-digit rates. Holding India back are glacial economic reforms, a fragile banking sector, rigid labor laws and a spotty educational system that impairs limited skills to the 12 million young people who enter the job market each year.

Although the government is trying to address these challenges, yet analysts generally agree that more needs to be done to open up the economy, attract foreign capital and generate the kind of wealth and business opportunities that has broadened the middle class in China, whose $12.2 trillion economy is more than four times as big as India’s ($2.6 trillion).

“It hasn’t embraced global trade and foreign direct investments in the way...
China aggressively succeeded,” said Jim O’Neill, a former Goldman Sachs Asset Management chair and ex-commercial secretary to the UK Treasury and who coined the acronym BRIC in 2001 to describe Brazil, Russia, India and China as a group.

“India has created big wealth for a limited number of people at the highest income levels, but it hasn’t created a massive pool of consumers by creating hundreds of millions of middle income class,” he said.

Jobs Challenge: With more than 90 percent of India’s labor force employed in the nation’s informal economy, the government has struggled to produce reliable jobs data to even get an accurate read on the level of joblessness in India. A glimpse into just how dire the job market is came in March, when the government announced 90,000 vacancies at the state-run Indian Railways, the nation’s biggest civilian employer, and a staggering 28 million people applied.

The rail jobs pay a minimum of 216,000 rupees ($3,085) per year — a princely amount in a country where per capita income is about $1,800, versus more than $8,800 in China.

India should be enjoying a demographically powered economic dividend at this stage of its development. It’s one of the youngest countries in the world with a median age of 28, compared to China’s 37 and 47 in Japan.

Yet economic gains from favorable demographics aren’t automatic. A lot depends on whether the government can harness that dividend and overcome the population’s skill shortage. And time is ticking — in 2040 the share of the population that’s of working-age is set to start declining.

According to Ejaz Ghani, a World Bank senior economist and India expert, there’s concern that India’s job challenge will remain long into its future. One worry is that India will join the global trend toward more protectionism, limiting its manufacturing and technological progress. Another challenge is that the growing use of digital technologies would create more skilled and productive jobs while displacing less-skillsful and labor intensive positions.

“Growth, education, home ownership, better economic security, and a desire for more durable goods are the cause and consequence of young demographics. But demographic dividend can also transform into a curse,” he wrote earlier this year.

Bloomberg Economists say... A massive, young, rural workforce could turbocharge growth, or torpedo political stability. China solved the problem by going from farm to factory. For India, entrenched global supply chains and domestic policy failures mean that path will be difficult to follow. Another is more accessible. India is going from the farm to services. Abhishek Gupta, India economist, Bloomberg Economics.

POLICY INITIATIVES ELECTRIC VEHICLES TO GET CHEAPER, HYBRIDS TO MISS OUT

The Financial Express reports that India has been bullish in promoting alternate source powered vehicle in India and had launched Faster Adoption and manufacturing of Electric (& hybrid) vehicles in India called as the FAME scheme a few years back and now this initiative by the government is all set to undergo a massive upgrade as the Modi led government will outlay the plan of FAME II that will see an investment of Rs 5,500 crore.

Prime Minister Modi will announce and launch the FAME II incentive scheme for electric vehicles on September 7 and an inter-ministerial panel has approved this scheme already. Once approved by the Union Cabinet, the scheme will be made official at the ‘MOVE’ a global mobility summit. Earlier, the FAME scheme in India had got an extension by six months that ends in September ahead of initiation of phase II. The second phase is likely to be announced for a period of five years and subsidies to all classes of electric vehicles including, two-wheelers, three-wheelers, passenger cars, taxis and e-buses used in mass transportation will be eligible for incentives.

This, writes the Financial Express, will see state-run transportation authorities adapting to electric vehicles and will help in overall reduction of pollution. This will also further boost the setting up of mass charging infrastructure to support electric vehicles. However, strong hybrid vehicles will not be entitled for any incentives under this government plan.

Financial Express also expect R&D towards making electric vehicles, manufacturing, battery technology and installation of charging infrastructure to get a big boost towards setting up a proper ecosystem for EVs.

Experts do believe that hybrid will play an important role for India’s shift towards electric mobility but government has decided to oversee hybrids once again. Under FAME II, depending on technology, battery-operated scooters and motorcycles are eligible for incentives ranging from Rs 1,800 to Rs 29,000, while in three-wheelers it is between Rs 3,300 and Rs 61,000. Electric cars and SUVs are likely to get cheaper by Rs 80,000 - 1 lakh. Automotive manufacturers claim the incentive from the government at the end of each month.

NEW CAR SCRAPPAGE POLICY

The Delhi Government announced Friday, that scrapping of private vehicles would conform to new Guidelines. The notification titled ‘Guidelines for Scrapping of Motor Vehicles in Delhi, 2018’; state that petrol-powered vehicles above the 15-year limit and diesel-powered vehicles that are more than 10 years old, can now be scrapped at government licensed scrapping centres. Through these new guidelines, the government hopes to ensure that a vehicle owner can go to a trustworthy place to get end their vehicles
live, so to speak. Further ensuring that scrap-yard owner conforms to scrappage policies as well as environmental norms in responsibly disposing of the vehicles and their component. This will also ensure a unified rate for scrapping vehicles of different sizes ensuring further transparency in the process.

Furthermore, the guidelines set by the Delhi government also accounts for the plethora of diesel and petrol vehicles that are found lying by the side of the road. Now, these vehicles can be handed over to the closest licensed authority to be disposed of in an environmentally friendly manner. Interestingly, the guidelines also hardline for diesel above 15 years of age saying that those found on the road or parked in public place or even junked and impounded by enforcement agency, will not be released to the owner and would be handed over to the licensed authorised scraper of the transport department. Once again, the scrap value of the vehicle will be lawfully handed over to its rightful owner.

Interestingly, the hardline gets a little softer on petrol and CNG cars, where, the guidelines seem to stipulate, that seized vehicles that supercede the 15-year age limit will be returned to their owner, under the promissory that the owner will either ply the vehicle nor park it at any public place, along with furnishing adequate proof of parking it in private premises.

**NO 49% FDI PLAN IN INVENTORY MODEL**

The Department of Industrial Policy and Promotion (DIPP) has ruled out foreign direct investment (FDI) in inventory-based commerce. The department of commerce had in its recent draft ecommerce policy framed the policy and some of the provisions, particularly the one allowing FDI in inventory-based commerce. The Prime Minister’s Office had convened a discussion of the policy about two weeks ago and a revised version, expected soon, is likely to drop the FDI clause, according to people with knowledge of the matter.

“When there are no plans to introduce FDI in the regular retail sector, there are no plans to allow FDI for the sale of products in the ecommerce space as well,” DIPP secretary Ramesh Abhishek said. “We know that allowing FDI in made in India products, would be equal to allowing FDI in the retail sector.” He acknowledged that there were differences on the ecommerce policy.

**INDUSTRY ANALYSES OF THE DRAFT MANUFACTURING POLICY**

The industrial policy of 1991 is considered a watershed development. The Modi government has a year ago, now placed a new draft version of the industrial policy in the public domain.

The draft rightly identifies core concerns — infrastructure, labour market constraints, slow technology adoption, inadequate R&D spending and fallouts of free trade pacts. The policy aims at creating global brands and raising FDI inflows to $100 billion annually (from $60 billion levels at present). Having moved up several ranks in the ease of doing business index, the idea is to become a key player in the global digital scene. The creation of jobs in a scenario of automation remains an abiding challenge.

As an overall strategy, according to the Business Line, “the proposed draft marks a continuation of the process that began in 1991. India has progressively reduced both its trade and financial barriers, which infused the business ecosystem with a new energy. The phased manufacturing programme (PMP), which mandated a level of local sourcing as a condition for exports, was a cornerstone of a liberalised investment regime of the 1990s; it helped in the creation of indigenous capacities in auto and telecom.”

Assessing the impact of the policy, the Business Line says “the reforms impetus was two-pronged: first, a reduction in tariffs on capital and intermediate goods was expected to make domestic industry competitive; and, second, FDI flows were expected to improve technology and efficiency levels, besides creating jobs. FDI flows have picked up, but there is little evidence to suggest that these have gone substantially into greenfield investments in manufacturing. Such flows find their way into acquiring domestic facilities, in the process not creating jobs. Similarly, it cannot be said that the gradual withdrawal of tariff protection has lifted efficiency and capabilities as a whole. The pharma sector no longer produces bulk drugs, while technology absorption in hardware and telecom has not taken place. ‘The mismatch between the growth of the software and hardware sectors reflects a policy failure....’”

Lobbying for a new system of incentives, the Business Line suggests “Strategic industries should be protected (the Centre needs to identify them) on the condition that R&D spends increase. Unlike the PMP, this will not run foul of the WTO. Taking a leaf out of China, the government should create clusters so that overheads are reduced. Logistics needs a major boost. The Centre could direct resources away from export subsidies into such priorities. A balance between returns on finance and on physical investment needs to be maintained. The draft policy is sketchy in these respects.”
AUTOMOBILES
SLUGGISH GROWTH IN AUGUST: NOMURA

Indian auto firms are likely to see sluggish growth due to floods, and delayed festive season. Automotive volume growth in August will remain subdued due to a delayed festive season, Nomura says in a note, with Maruti Suzuki India as the brokerage’s long-term top pick.

It says that passenger vehicles will see flat sales due to delayed festival season (Diwali festival is in November this year). Growth in two-wheeler industry will remain flat due to floods in Kerala and disruption in West Bengal due to licences being made mandatory to buy two-wheelers.

Rural demand momentum is healthy, Nomura says, and has maintained an estimate of about 10 per cent industry growth in two-wheelers in FY19. Maruti and Eicher Motors’ Royal Enfield are expected to be hit the worst due to high exposure to Kerala.

The brokerage expects medium and heavy commercial vehicles sales to rise about 8 per cent, while Tata Motors Ltd is likely to see a fall in sales due to an adverse base.

RURAL MARKETS NEXT GROWTH ENGINE FOR CARMAKERS

India recently overtook Germany to become the 4th largest carmaker in the world. Carmakers in India have already sold over 8.73 lakh cars in India this financial year and the car market in India is booming at a growth of about 18%. However, the contribution to this massive growth has come from Tier-2, Tier-3 cities and less from metro cities. Experts believe that there huge untapped market of rural millennials that’s on the rise which has contributed to increased car sales. Indian rural economy is on the rise and above average monsoon has boosted buying sentiments in upcoming cities. The government has also increased the minimum selling price of crops to boost the rural economy.

NEW POLLUTION NORMS TO HIT AUTO COSTS

After years of deliberation, and pollution levels souring the government is likely to finally announce a new comprehensive policy to combat the rising threat of pollution in the country. The upcoming policy is likely to look to shared mobility, electric vehicles and zero-emission mobility. CEO of the NITI Aayog think tank Amitabh Kant said that the think tank will be bringing out this policy soon, probably referring to the MOVE Summit on September 7th. The MOVE global mobility summit is a first of its kind summit in the country, being organised by the NITI Aayog under the aegis of various ministry offices that hold a stake in the Industry, including the Ministry of Road Transport and Highways MoRTH.

The summit is expected to see over 1,200 participants from across the globe. These will span government agencies as well as industry leaders, research organisations, academia, government & Independent think tanks and civil society organisation.

The switch from BS3 or BS4 is estimated to have cost the automotive industry over Rs 20,000 crore. The Delhi Diesel ban cost cars makers another estimated 4,000 crores, with the most affected being luxury cars makers like Mercedes-Benz and Toyota. With a switch to BS6 on the horizons, and electric mobility required in the future one can only imagine the kind of pressure the industry will go through.

The Summit will be a platform to launch the government’s FAME 2 (Faster Adoption & Manufacture of Electric Vehicles) scheme that will look to accelerate the shift to EVs with special incentives for EV users that is expected to include free public charging. Through the summit, the government intends to harness the summation of global intelligence of top automotive companies, both from in India and abroad, to decide on a concrete roadmap to clean and green mobility in India.

UBER FLYING CABS FOR DELHI, MUMBAI?

Uber Thursday selected India as one of the first five shortlisted finalist countries that could be home to the first international Uber Air City within the next five years. After evaluating countries across the globe, Uber Elevate -- the ride-hailing platform’s aerial taxi arm -- announced Japan, India, Australia, Brazil and France as shortlisted countries at the first “Uber Elevate Asia Pacific Expo” in Tokyo.

Uber will choose one of the cities from these 5 shortlisted countries as its third launch city for flying taxis -- after Dallas and Los Angeles in the US.

“Mumbai, Delhi, and Bengaluru are some of the most congested cities in the world, where travelling even a few kilometers can take over an hour. Uber Air offers tremendous potential to help create a transportation option that goes over congestion, instead of adding to it,” the company said in a statement.

AGRICULTURE
FOODGRAIN OUTPUT AT RECORD 285 MT

Riding on a near normal monsoon, output of most food crops is projected to hit record levels in 2017-18 to give an all-time high foodgrain harvest of 284.83 million tonnes, 3.5 per cent higher than that of the previous year, according to the 4th advance estimates released Tuesday.

Rice production is expected to touch a peak of 112.91 mt, 3 per cent more than last year's, while wheat will just fall shy of the 100-mt mark, the data released by the Agriculture Ministry showed.

Pulses production, on the other hand, is seen crossing 25 mt.

Despite an anticipated 17 per cent drop in soybean output to 10.98 mt,
total oilseeds production is projected to be similar to that of the previous year, at 31.31 mt, thanks to an impressive recovery expected in groundnut output at 9.18 mt, nearly 23 per cent higher than the 7.46 mt in 2016-17.

The production of coarse cereals too is expected to climb to a new high of 46.99 mt, up 3.22 mt from 2016-17, despite bajra yields being projected to slide 5 per cent.

A record 20 per cent increase in sugarcane production in 2017-18 to 376.9 mt has already precipitated a severe crisis in the sugar sector, requiring the government to intervene so that the sugarcane farmers, whose dues from sugar mills have mounted, get some reprieve.

Cotton output, too, is projected to go up by more than 2 million bales (of 170 kg each) to 34.89 million bales, according to the official data.

The estimated maize output will be 28.72 mt, which is nearly 3 mt more than the final production in 2016-17.

**INFORMATION TECHNOLOGY**

**FUTURE OF BLOCKCHAIN TECHNOLOGY IN INDIA**

Blockchain has become important with many sectors adopting it to ensure secure transactions. For instance, recently Telecom Regulatory of India announced that it would use blockchain technology to curb pesky calls. Banks too are adapting blockchain technology for services such as crossborder remittances. However, quoting industry players, Business Line writes there is a lot more that needs to be done to keep up with the pace at which the technology is growing.

Lack of quality resources and policy is hindering the development of blockchain ecosystem in India according to Navin Gupta, Country Head, Ripple India. “This needs to develop as only when the ecosystem grow the market will grow,” he said.

According to a recent research report, Indian blockchain technology market is projected to grow at a CAGR of 58 per cent between 2018 and 2024. The report said this would be dependent on increasing growth of digital payment solution such as digital wallets and Unified Payment Interface (UPI) that is projected $500 billion by 2020 as compared to around $50 billion in 2017. The report said that it would give the desired push for the integration of blockchain technology for secured transactions.

Fintech professional Abhishant Pant agrees that while the potential is huge, action should start from State governments by giving startups opportunity. There are about 700 fintech start-ups in India, of which 40 of them are in the blockchain space. However, most of them are working for overseas clients due to lack of growth prospects here. This has to change, Pant said.

**CIVIL AVIATION**

**INDIA’S FIRST BIOJET FUEL FLIGHT**

India’s first ever biojet-fuel run flight landed in Delhi Monday. An official statement said the flight was operated by SpiceJet from Dehradun to Delhi with Bombardier Q400 plane. Officials from regulatory agencies, including the Directorate General of Civil Aviation (DGCA), were on board this flight.

A SpiceJet statement said the company intends to undertake operations using a blend of 75 per cent aviation turbine fuel and 25 per cent of biojet fuel.

The biojet fuel was made of jatropha crop and developed by the CSIR-Indian Institute of Petroleum. This has the potential to reduce carbon footprint by 15 per cent, the statement added.

**MONEY AND BANKING**

**RBI’S NPA DEADLINE ENDS: 70 COMPANIES IN TROUBLE**

About 70 companies with a combined debt of approximately ₹3.6-lakh crore face insolvency proceedings, with the deadline imposed by the Reserve Bank of India ending Monday. These companies did not get any legal relief as the Allahabad High Court declined to stay the RBI’s February circular instructing banks to take all large accounts above ₹2,000 crore into bankruptcy if a resolution plan is not agreed upon in 180 days.

According to the Business Line, the companies, mostly from the power sector, will now be hoping that the government invokes a special provision to intervene and direct the RBI to dilute the order. Of the 70 stressed assets, 34 firms from the power sector accounted for debt of about ₹1.70-lakh crore.

Companies that are part of Independent Power Producers Association of India, which had filed the plea with the Allahabad High Court, can also pursue legal recourse independently. The other option would be to try and cobble together a resolution plan in the next two weeks as banks have a 15-day window to resolve the stressed assets.

If there is no resolution in the next two weeks and if the Government does not intervene, insolvency proceedings will commence.

However, Rajkiran Raj G, Managing Director and CEO, Union Bank of India, said the court ruling will not impact the resolution process. “Most of these accounts are classified as NPAs, there is no recognition issue as of now.”

Power sector NPA near resolution: SBI: SBI for example, identified 34 stressed accounts in the power sector, with dues of about 1.8 trillion rupees, according to its managing director Arijit Basu. Of these, 14 have already been referred to insolvency court and for eight “the difficulties have been resolved,” he said. Twelve more have the potential to be
of audits undertaken by banks such as statutory audit, risk-based internal audit, concurrent audit, information systems audit and special audits to be tightened. The RBI said the concurrent audit has to be carried out on a real-time, or near-real-time, basis, and is expected to set the tone for the subsequent internal audit, which happens with a time lag.

“Many instances of repetitive and similar audit findings over the years were seen. Further, internal audit could not detect many frauds, which came to light after accounts turned NPA,” the RBI said. “Fraud detection and reporting, as well as preventive steps, need to be more risk-focused to identify red flags at an incipient stage,” it added.

The central bank observed that the quantum jump in the amount involved in frauds during 2017-18 was on account of a large-value fraud committed in the gems and jewellery sector, mainly affecting one public sector bank (Punjab National Bank).

During 2017-18, public sector banks (PSBs) accounted for 92.9 per cent of the amount involved in frauds of more than ₹1 lakh, as reported to the Reserve Bank; private sector banks accounted for 6 per cent.

PSBs also accounted for about 85 per cent of the cumulative amount involved in frauds till March 31; private sector banks accounted for a little over 10 per cent.

At the system level, frauds in loans, by amount, accounted for more than 75 per cent of frauds involving amounts of ₹1 lakh and above, while frauds in deposit accounts were at just over 3 per cent.

Within the loan category of frauds, PSBs accounted for a major share (87 per cent) followed by the private sector banks (11 per cent).

The RBI said the share of PSBs in frauds relating to ‘off-balance sheet items’ such as Letter of Credit, Letter of Undertaking, and Letter of Acceptance was higher, at 96 per cent.

Cheating & forgery: Of the seven classifications of frauds in alignment with the Indian Penal Code, ‘cheating and forgery’ was the major component, followed by ‘misappropriation and criminal breach of trust.’

In ‘cheating and forgery’ cases, the most common modus operandi was multiple mortgage and forged documents. Mumbai (Greater Mumbai), Kolkata and Delhi were the top three cities in reporting of bank frauds through ‘cheating and forgery’.

In respect of staff involvement in frauds, banks reported that it was prominent in the categories ‘cash’ and ‘deposits’, which had a much smaller share in the overall number of fraud incidents and the amount involved.

MERGER OF BANKS ON THE CARDS

It is understood that India has asked its central bank to prepare a list of candidates for merger among 21 government-controlled lenders as it seeks to strengthen a banking system laden with bad debt.

In a meeting this month, Finance Ministry officials also asked the Reserve Bank of India to suggest a time frame for the consolidation. The move is aimed at creating fewer, better-capitalized lenders and improving regulatory oversight, according to officials.

The Economic Times notes India has been battling for years to clean up its banks, which have the highest bad-loan ratio after Italy among the world’s 10 largest economies. Government-controlled lenders are estimated to hold 90 percent of non-performing loans, and 11 of the 21 are operating under an emergency program, supervised by the RBI, which restricts new lending.

State-backed lenders need to consolidate to avoid losing more market share to peers in the private sector, the outgoing chairman of Bank of Baroda Ravi Venkatesan said last month.

Almost 70 percent of new deposits went to private banks in the latest fiscal year. Almost 70 percent of new deposits went to private banks in the latest fiscal year.
year and they’re estimated to have cornered nearly 80 percent of incremental loans through 2020 as mounting bad debt erodes capital and constrains lending at state banks. Weak balance sheets and laws that require the state to hold at least 51 percent of their shares have left public lenders dependent on the government for new capital.

**TRADE**

**US - CHINA TRADE WAR: INDIA DRAWS LIST OF 40 GOODS IT CAN EXPORT TO CHINA**

Bloomberg reports that India has drawn a list of goods it can export to China, replacing U.S. exports that have become costlier in light of the trade spat between the world’s two biggest economies, according to a person with knowledge of the matter. India has identified more than 40 products, including fresh grapes, cotton linters, flue-cured tobacco and alloy steel seamless boiler, where it’s in a position of advantage to replace or capture U.S. trade market share with China, the person said asking not to be identified as discussions are internal.

Boosting exports will help India reduce a $63 billion trade deficit it runs with China, which is also New Delhi’s largest commercial partner.

A study found that India is strong in its capability to export about 20 products such as frozen bovine meat and almonds, but it faces market-access issues in China.

The Indian study shows at least 80 more items have potential for exports to China. The government has instructed its departments and industry bodies to work out strategies to ramp up production in sectors where India has a clear advantage.

The commerce ministry has asked the embassy in China to be an enabler, while offering business-to-business meetings for Indian exporters interested in that market, the person said.

“One of the major impact of the trade war would be that there will be a lot of re-organisation and reconfiguration of supply chains,” Amitendu Palit, a senior research fellow at the Institute of South Asian Studies, National University of Singapore, said by phone. “There is a possibility that India may become part of some production chains,” he said.

It is still too early, however, to say that India will have immediate gains due to the trade war, Palit said.

**ANTI-DUMPING PROBE ON CERTAIN TYPE OF STEEL FROM THREE COUNTRIES**

The Business Line reports that India has initiated probe into alleged dumping of a certain type of steel imported from Brazil, China and Germany following a complaint by a domestic player.

The commerce ministry’s investigation arm, the Directorate General of Trade Remedies (DGTR), has stated that there is an evidence of injury to the domestic industry caused by dumped “High Speed Steel of Non Cobalt Grade” from these three countries.

Graphite India Ltd has filed an application before the DGTR for imposition of anti-dumping duty on imports of the product from Brazil, China and Germany. This steel is used for making high speed steel cutting tools.

“There is prima facie evidence of injury to the domestic industry caused by dumped imports from subject countries to justify initiation of an anti-dumping investigation,” DGTR has said in a notification.

In the probe, the directorate would determine the existence, degree and effect of any alleged dumping. If established that dumping has caused material injury to domestic players, the directorate would recommend imposition of anti-dumping duty on the imports of the chemical from these nations.

The period of investigation covers 2017-18. However, for the purpose of injury investigation, the period will also cover the data of 2014-17.

Anti-dumping duties are levied to provide a level playing field to local industry by guarding against cheap below-cost imports. Imposition of anti-dumping duty is permissible under the World Trade Organisation (WTO) regime. Both India and China are members of the Geneva-based body. The duty is aimed at ensuring fair trading practices and creating a level-playing field for domestic producers vis-a-vis foreign producers and exporters.

**RCEP NEGOTIATIONS: INDIA’S CONCERNS AND INTERESTS**

The RCEP is an ambitious proposal which intends to bring in the three largest economies of Asia — China, India and Japan — into a regional trading bloc, along with ASEAN member-countries, Australia, South Korea and New Zealand. The trade area will be the largest in terms of population (3.4 billion or 49 per cent of world population), with a combined GDP of around $22 trillion and a trade share of 30 per cent. When fully established, it will become the largest trade bloc in the world.

Rakesh Bharti Mittal, President, Confederation of Indian Industry says India’s “participation in RCEP is an imperative. However, legitimate concerns of Indian trade and commerce have to be addressed with a progressive look.

“The strategy is also aligned to India’s Act East Policy which builds on the Look East Policy for closer partnership with the Asian region. Changing geopolitics and growing focus on the Asia-Pacific region influenced India’s decision to join RCEP. However, the biggest challenge India is facing in RCEP arises from its trade deficit with ten of the RCEP countries, particularly with China with whom India has a huge trade imbalance.”

Indian industry has been somewhat apprehensive about tariff reductions in RCEP, which would further open its markets to Asian goods, especially
from China. Another area where India can be particularly vulnerable is agri products. The huge concessions being sought by Australia in agri products can be an extremely sensitive issue for India’s farmers. Indian farmers need support from the government in view of their low productivity and low income levels.

Since the start of the negotiations, the Indian government, supported by industry, has emphasised the need for a balanced agreement through access to services market and investments. Services, writes Mittal, are India’s major trade strength, and it enjoys a 3 per cent share in global services exports, compared to 1.6 per cent in merchandise exports.

The RCEP negotiations seem to have entered a crucial phase as the 23rd round of negotiations was completed in July 2018. Members are in the process of making their revised/final tariff reduction offer. Indian industry has raised its concerns about tariff concession to China. In services, the discussions have not concerned about tariff concession to China. In services, the discussions have not.

That comes at a time when India’s perennial problem of higher inflation is reappearing due to rising oil prices and also as global monetary policy is shifting to a tightening bias. Despite those concerns and increasing uncertainty ahead of national elections next year, Indian stocks have scaled several fresh highs and are forecast to continue that uptrend. The BSE Sensex is forecast to rise another 2 per cent and hit a new high of 39,500 by end-December from Wednesday’s close, according to the poll of around 50 strategists taken August 23-30. It is expected to gain a further 4 percent next year.

The latest bullish consensus was an upgrade from predictions in a May poll as the index has already breached the end-2018 level forecast back then, largely driven by expectations for strong corporate earnings. Indeed, all 15 strategists who answered an extra question said company earnings growth has yet to peak in India. “Strong macro-economic factors overall will push the index further up. Tax growth, good monsoon rains, rising consumption in the core industries and recovering corporate earnings will support,” said SP Tulsian, an independent investment adviser.

The price-to-earnings or PE ratio – a widely used measure for stock valuation – for the BSE Sensex is well above its long-term average and just a touch below a 10-year high. “Valuations clearly suggest Indian stocks are very expensive at the moment. I have never seen such levels of PE multiples sustaining for a longer period of time,” said CA Rudramurthy, managing director at Vachana Investments.

TOP 5 STATES ACCOUNT FOR 70% OF MF ASSETS

The assets of the mutual fund under management (AUM) have increased about ?11 lakh-crore in July 2014 to nearly 124 lakh-crore in July 2018. Anand Kalyanaraman, BL Research Bureau however points out that a few States and cities continue to dominate.

Of the 36 States and Union Territories (UTs), just five — Maharashtra, Delhi, Karnataka, Gujarat and West Bengal— account for more than 70 per cent of the total AUM of the MF industry as of July 2018. In July 2014, their share had been about 73 per cent.

Add three more — Haryana, Tamil Nadu and Uttar Pradesh — to the equation, and the top eight States account for close to 84 per cent of the AUM as of July 2018, not very different from their nearly 85 per cent share in July 2014.

In sharp contrast, the bottom 20 contributing States and UTs — including the North-Eastern States, Jammu & Kashmir, Bihar, Chhattisgarh, Uttarakhand, Himachal Pradesh and most UTs — account for about 3.5 per cent of the July 2018 AUM.

Maharashtra remains the top contributor to the industry’s AUM with a close to 42 per cent share in July 2018.

Delhi-NCR has a nearly 16 per cent share in the industry’s AUM. Karnataka’s position in the top three States with an about 7 per cent share is primarily driven by software hub Bengaluru (6 per cent). Similarly, the cities of Ahmedabad, Kolkata and Chennai account for the chunk of the share of Gujarat, West Bengal and Tamil Nadu respectively.

In effect, the top seven cities and surrounding areas account for nearly 70 per cent of the total AUM of ?23.6 lakh crore as of June 2018.

Meanwhile, points out Kalyanaraman, aided by awareness campaigns and more incentives to distributors, the share of assets from the beyond-the-top-15 (B15) cities in the total AUM pie has also gone up. It increased from 16 per cent as of March 2014 to 19 per cent as of March 2018, shows the AMFI CRISIL Factbook 2018.
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