

**INTERNATIONAL AFFAIRS- BILATERAL, GROUPINGS, ORGANISATIONS****Eastward course**

It is tempting to see Prime Minister Narendra Modi's invitation to the leaders of a Bay of Bengal forum for the inauguration of his second term, as a "snub to Pakistan".

**Rational behind Marginalising SAARC**

- But the talk of a snub misses the story of the larger regional dynamic that has emerged over the last few years.
- When he travelled to the Kathmandu summit of the South Asian Association for Regional Cooperation in Kathmandu at the end of 2014, PM Modi may have figured out that the future of SAARC was bleak.
- At the summit, Nawaz Sharif pulled out of regional connectivity agreements that were ready for signature.
- Officials from Islamabad were very much part of the prolonged and painful negotiations to finalise the agreements.
- Quite clearly, the Pakistan Army in Rawalpindi had pulled the plug at the very last minute.

**Shift to Bay of Bengal**

- The fiasco at Kathmandu evidently led the PM to shift the focus to India's sub-regional cooperation within South Asia with Bangladesh, Bhutan, Nepal.
- Instead of holding the rest of the region hostage, India chose to expand regionalism with the BBIN forum.
- The PM also looked beyond SAARC to revive the moribund BIMSTEC regional forum that brings together five South Asian countries (Bangladesh, Bhutan, India, Nepal, Sri Lanka) and two South East Asian countries (Myanmar and Thailand).

**Pakistan still holds importance**

- That it is not invited to the PM's oath-taking ceremony on Thursday does not mean Pakistan will disappear from India's foreign policy agenda.
- During the last few years, Modi has demonstrated his political will for either peace or war with Pakistan.
- If he travelled to Lahore on short notice at the end of 2015, he was ready to attack a terror camp at Balakot in February 2018. Modi will have an opportunity to engage Pakistan Prime Minister Imran Khan at a Central Asian summit in Bishkek, Kyrgyzstan next month.
- Any productive meeting with the Pakistani leadership needs significant preparation and hopefully, there are back channel conversations underway.

**Conclusion**

- While Pakistan to the west is a big challenge that needs to be carefully managed, the east is full of opportunities — marked by the economic resurgence of Bangladesh and Myanmar that form a bridge to the dynamic region of East Asia.
- Modi has talked the talk on BIMSTEC in the first term. He must now walk the walk, by committing substantive resources for the strengthening of BIMSTEC and removing the multiple obstacles within India for the rapid economic integration of the Bay of Bengal littoral.

**US has removed India from its currency monitoring watchlist**

The US administration under Trump has removed India from its currency monitoring watchlist.

**Countries in the list**

- India, alongside China, Japan, Germany, Switzerland and South Korea, was placed in the bi-annual currency watch list in October last year.
- While India and Switzerland have not been mentioned in the latest list, the US has added Ireland, Italy, Malaysia, Singapore and Vietnam to the list, with China continuing to figure in it.
- While the designation of a country as a currency manipulator does not immediately attract any penalties, it tends to dent the confidence about a country in the global financial markets.

The criterion

- Countries with a current-account surplus equivalent to 2 per cent of gross-domestic product are eligible for the list, according to modifications made in the new list, down from 3 per cent earlier.
- Other thresholds include repeated intervention in the currency markets and a trade surplus with the US of at least \$20 billion

Why is this significant?

- Tweaks in currency policy has been used by the Trump administration to browbeat countries that, from Washington's perspective, have hurt American businesses and consumers.
- For India, this comes amid the ongoing trade spat between Washington and New Delhi.
- Trump has repeatedly claimed that India is a "tariff king" and imposes "tremendously high" tariffs on American products.

UN Habitat

India has been elected to the Executive Board of the first UN-Habitat Assembly.

About UN Habitat:

- The United Nations Human Settlements Programme (UN-Habitat) is the United Nations agency for human settlements and sustainable urban development.
- It was established in 1978 as an outcome of the First UN Conference on Human Settlements and Sustainable Urban Development (Habitat I) held in Vancouver, Canada in 1976.
- It is mandated by the United Nations General Assembly to promote socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all. It is a member of the United Nations Development Group.
- The mandate of UN-Habitat derives from the Habitat Agenda, adopted by the United Nations Conference on Human Settlements (Habitat II) in Istanbul, Turkey, in 1996.
- The twin goals of the Habitat Agenda are adequate shelter for all and the development of sustainable human settlements in an urbanizing world.
- As an inter-governmental policy making and decision making body, the Governing Council of UN-Habitat seeks to promote integral and comprehensive approach to human settlements, assist the countries and regions in addressing human settlement problems and strengthen cooperation among all countries on human settlement issue.
- UN-Habitat reports to the United Nations General Assembly.

**INDIAN ECONOMY**Government's key agenda must be to accelerate growth

Accelerating economic growth must be on top of the agenda of the new government. It is only a fast-growing economy that will generate the surpluses which are necessary to address many of our socio-economic problems and to provide social safety nets.

The decline in the investment rate

In current prices, the ratio of Gross Fixed Capital Formation to Gross Domestic Product has stayed low at 28.5% between 2015-16 and 2017-18. In 2018-19 it is estimated at 28.9%. In 2007-08, it was as high as 35.8%. In constant prices, the ratio, has, however, shown a smaller decline from the peak.

Reviving investment

- The bulk of public investment comes from public sector enterprises, including the Railways.
- What is needed is for the government to interact with all public sector units and prepare a programme of public investment for 2019-20.

Long term view of Public Sector –

- Public sector units can take a longer-term view than the private sector. A strong public investment programme can be a catalyst of private investment. In a situation such as the present one, it can crowd in private investment.

Industry government participation –

- Second, there have to be sector- or industry-wise discussions between the government and industrialists to understand the bottlenecks that each industry faces in making investment and take actions to remove them.

NPA issue –

- Banks are under stress and the ratio of non-performing assets (NPAs) has risen.
- We need to resolve this issue as early as possible so that banks can get back to lending at a significant pace. In the absence of term lending financial institutions, banks provide both working capital and long-term loans.
- That is why resolving the issue of NPAs is critically important for larger flow of long-term funds.

Jobs and growth

- The answer to the problem of jobs is only growth. It is faster growth and faster investment which will generate employment.
- Sectors such as IT and the financial system, which provided attractive employment to young educated entrants to the labour market in the past, have their own problems.
- But an improvement in the financial system may trigger some new jobs. Ultimately, it is overall growth which is key to more employment.

Rural Demand –

- The main concern is the slowdown in rural demand, which can affect the off-take of consumer goods.
- Agrarian distress, which is the cause of the slowdown in demand, needs to be tackled on a priority.
- Where distress is due to a fall in prices, the best course of action is to resort to limited procurement so that the excess over normal is procured by the government.

Increase in agricultural output –

- As far as increase in agricultural output in the short run is concerned, the monsoon is a big question mark.
- Nothing can be done about it except changing the cropping pattern depending on rainfall.
- Over the medium term, more attention must be paid to increasing agricultural productivity through consolidation of land holdings and spreading better techniques of cultivation.

Goods and services act

- The government should get tax authorities, industrialists, traders and, particularly, exporters to sort out the issues together.
- The Insolvency and Bankruptcy Code was another significant step taken in the last few years.
- Even here there are some bottlenecks and the government must address them.

Land Reforms –

- Compulsory acquisition of land is the antithesis of competition and should be resorted to only in limited cases where the public interest is involved.
- Labour Reforms –
- Labour reforms should wait until the economy has picked up steam and moved to a higher growth path.
- Only in these circumstances will there be less resistance.

Conclusion: To conclude, besides economic factors, non-economic factors are also critically important to revive what are often described as ‘animal spirits’. Investment today is based on expectations of future earnings. Thus it is an act of faith in the future. For this to happen, there must be social and political tranquillity.

**Regulatory Sandbox for fintech testing**

The SEBI has released a discussion paper on a framework for a ‘regulatory sandbox,’ wherein companies dealing with financial technologies can test new technologies and products in a live market environment.

What is Regulatory Sandbox?

- A sandbox approach provides a secure environment for fintech firms to experiment with products under supervision of a regulator.

- The concept of a regulatory sandbox or innovation hub for fintech firms was mooted by a committee headed by then RBI executive director Sudarshan Sen.
- The panel, which submitted its report in November 2017, had called for a regulatory sandbox to help firms experiment with fintech solutions, where the consequences of failure can be contained and reasons for failure analysed.
- If the product appears to have the potential to be successful, it might be authorised and brought to the broader market more quickly.
- The sandbox will enable fintech companies to conduct live or virtual testing of their new products and services.

#### Why such move?

- Fintech or financial technology companies use technology to provide financial services such as payments, peer-to-peer lending and crowdfunding, among others.
- According to NITI Aayog, India is one of the fastest growing fintech markets globally, and industry research has projected that \$1 trillion, or 60% of retail and SME credit, will be digitally disbursed by 2029.
- The Indian fintech ecosystem is the third largest in the world, attracting nearly \$6 billion in investments since 2014, the think tank said.
- A global survey ranked India, with 1,218 fintech firms, second in terms of fintech adoption, with an adoption rate of 52 per cent.

#### Issue of Data Privacy

- The risks for fintech products may arise from cross-border legal and regulatory issues where confidentiality and customer protection are major areas that needed to be addressed.
- The proposed Personal Data Protection Bill, 2018, had categorised all financial data as “sensitive personal data”, which is not the case for many European countries.

### **ENVIRONMENT- CONSERVATION, BIO-DIVERSITY AND ISSUES**

#### **Kappaphycus alvarezii**

It is an invasive, which smothers and kills coral reefs.

#### Concerns:

- It has spread its wings to coral reef areas in Valai island in the Gulf of Mannar (GoM) and set to invade new coral colonies in the marine national park. It has already invaded Shingle, Kurusadai and Mulli islands in Mandapam cluster of the GoM, the red algae invaded Valai island along Kilakarai coast following its cultivation in south Palk Bay.

#### Regulation:

- A 2005 Government Order had restricted cultivation of the exotic seaweed only to the seawaters north of the Palk Bay and South of Thoothukudi coast.

### **QUOTE OF THE DAY**

**Failure is the condiment that gives success its flavor**