



AsiaPacific WATCH

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QUAD, India
and the Emerging
Indo-Pacific Calculus



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Preface

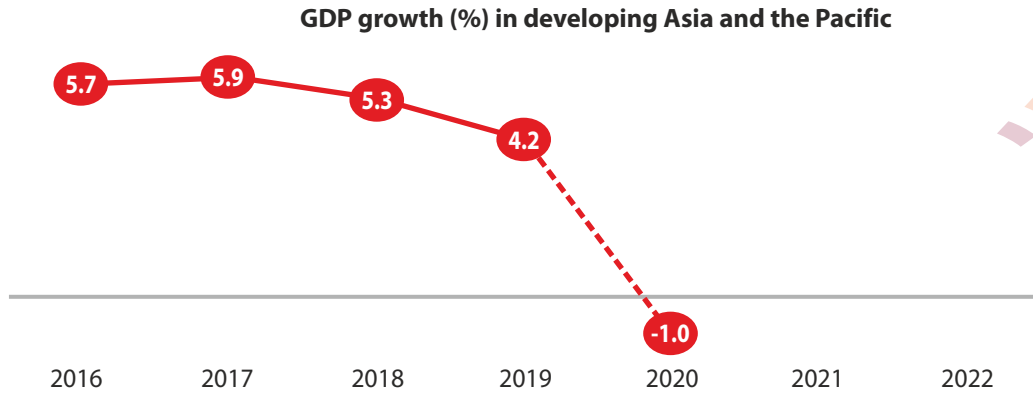
The newly elected Biden-Harris administration in United States has so far spent only four months in the office. But, within this brief stretch of time it has been able to make few significant moves, which are indicative of the direction towards which the geopolitical dynamics of the Indo-Pacific Region will move on in near future. The most significant move in this regard has probably been the active role that Biden administration played in rejuvenating the QUAD. To counter China's aggressive foreign policy and to keep the critical sea routes in the Indo-Pacific free of any influence, especially Beijing's, four countries - Japan, the US, Australia and India jointly formed The Quadrilateral Security Dialogue (QUAD) in 2007 with the initiative coming from Japanese PM Shinzo Abe. The aim of the QUAD was to support a "free, open and prosperous" Indo-Pacific region that China seeks to threaten. Officially, the Quad was conceived as a space to cooperate for safeguarding shared security and other interests in the Indo-Pacific region. But as fallout of a few untoward incidents created mainly because of over-aggressive foreign policy of China in the Indo-Pacific region, the QUAD forum has been geared to counter China's military and economic rise.

The first Quad leaders' summit, which was held on 12th March, 2021 provided an opportunity for all four members to exchange views on contemporary challenges such as emerging and critical technologies, maritime security and climate change. The meeting sent a not-so-subtle message that the U.S. will intensify the use of alliances as a force multiplier against China. Sheila Smith, senior fellow at the Council on Foreign Relations, USA, clearly spelt out that "There's a rallying-the-crowd effort to tell China, 'You can't split the team anymore.' There's a new level of coordination and a sophisticated use of levers." China is obviously not happy about this new development, accusing the U.S. of trying to form a clique in the region.

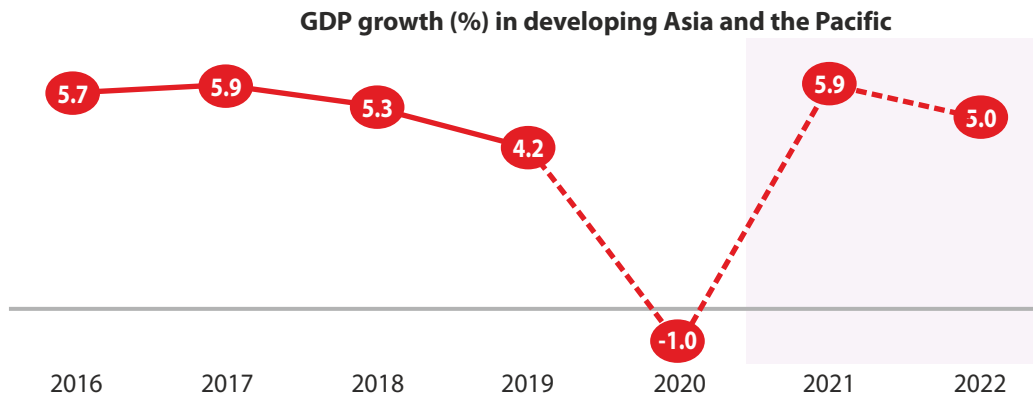
From India's perspective, formation of QUAD was important because the forum has been able to showcase its ability to pool capabilities of four powerful countries and build habits of cooperation to address some of the common challenges. The renewed focus in coming together against China reflects the shifting balance of power. The Quad acting as a collective could threaten China — if its members can stick together. For bringing the required balance in the geopolitical scenario of Asia Pacific Region, this collective forum can emerge as an important factor in future.

ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 2021 – Towards post-COVID-19 resilient economies

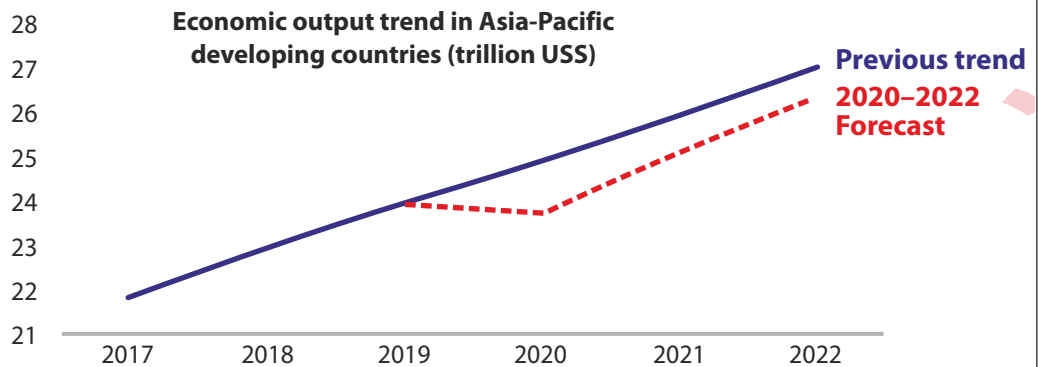
Asia-Pacific region experienced its **worst economic performance** in recent history ...



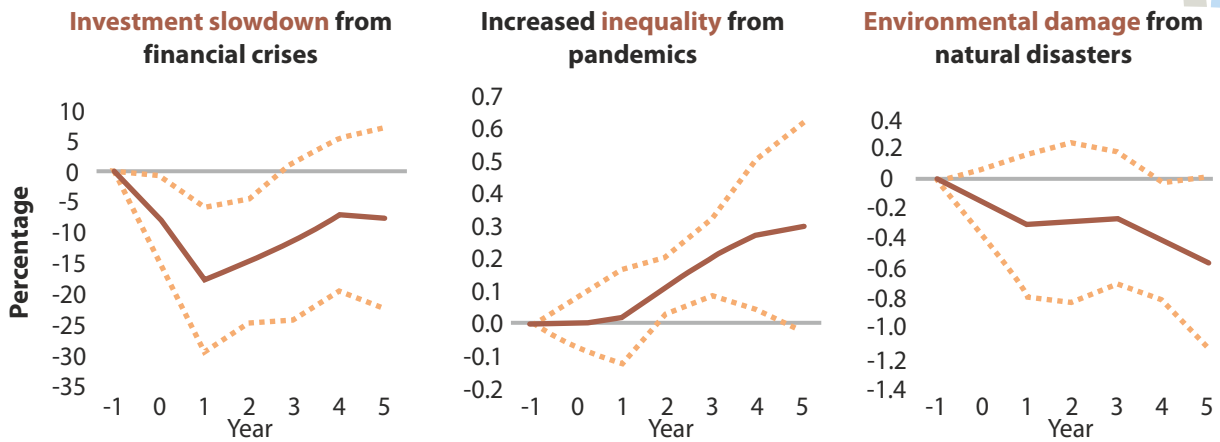
Given considerable uncertainty, economic **outlook is cautiously optimistic** for 2021–22



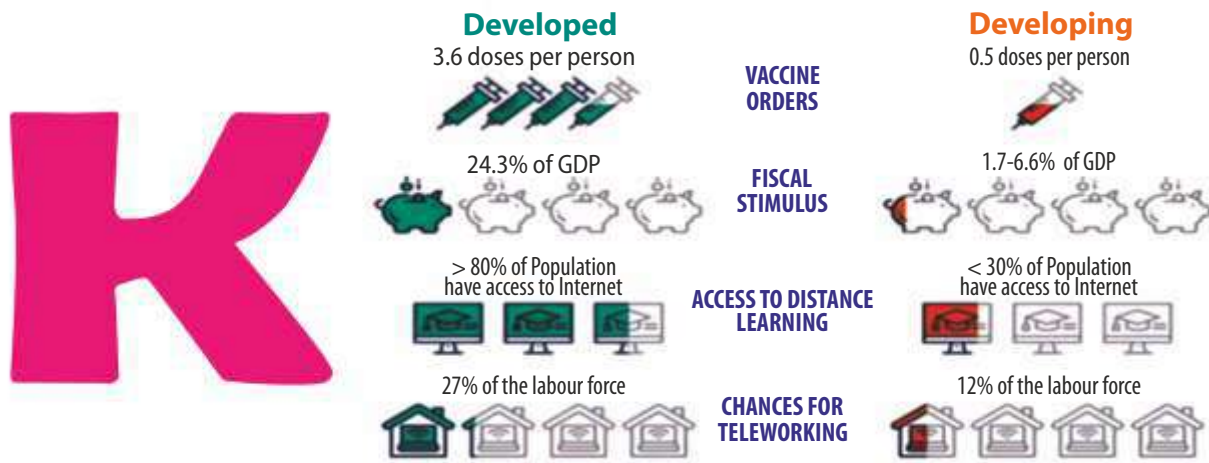
... with expected **permanent losses in output** ...



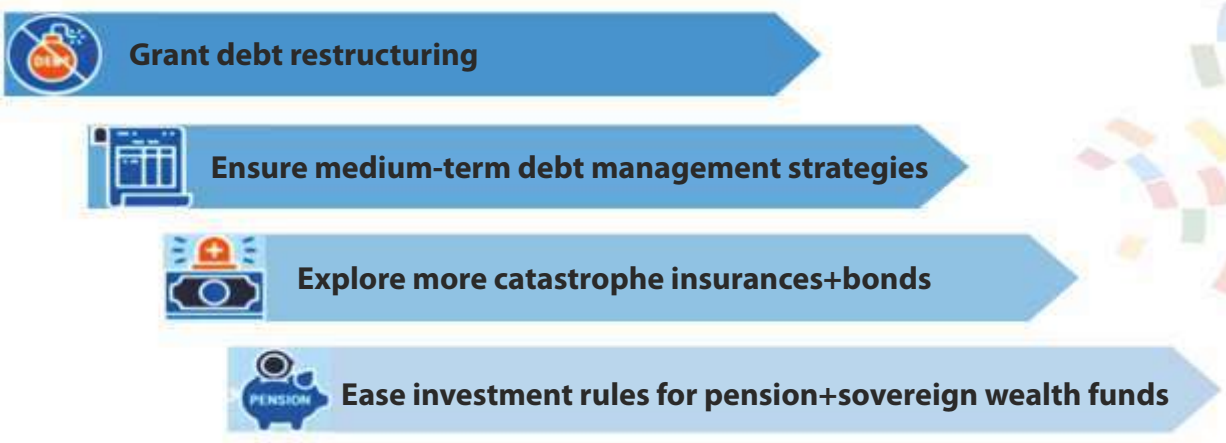
... where adverse **shocks** leave **long-term scars**.



... and a likely **"K-shaped" recovery** in the region



Policy options to address fiscal and financing challenges in **emerging economies**



Source: UNESCAP, March 2021



NEFT, RTGS money transfer services extended beyond banks: RBI Governor Shaktikanta Das

The Reserve Bank of India (RBI) on extended National Electronic Funds Transfer (NEFT) and Real-Time Gross Settlement (RTGS) facilities beyond banks. RBI Governor Shaktikanta Das announced that the services can now be used by non-bank payment operators as well. So far, only banks were allowed to use these (RTGS and NEFT) payments facilities. Now, the issuers of Prepaid Payment Instrument (PPI), card networks, White label ATM operators and Trade Receivables Discounting System (TReDS) platforms can use these two modes. As mentioned, this change has been made in order to encourage participation of non-banks across payment systems.

Source: India TV News Desk; 07 April 2021

Factory output contracts for second straight month; retail inflation inches up

India's factory output contracted for the second consecutive month in February, shrinking by 3.6 per cent on the back of lower production in mining and manufacturing sectors, according to government data released on 13th April, 2021. Retail inflation in March, meanwhile, rose to a four-month high of 5.52 per cent on the back of higher food and fuel prices. The output of the manufacturing sector — accounting for 77.6 per cent of the Index of Industrial Production (IIP) — fell 3.7



per cent in February, while the output of the mining sector, accounting for 14.4 per cent of the IIP, fell by 5.5 per cent in February. The industrial output had registered a decline of 0.9 per cent in January. Experts said that five of the six use-based segments saw a contraction in output in February as against a contraction in only three in January. They did, however, say that February's contraction could be attributed in part to an adverse base effect as output in February 2020 was at a 16-month high. Inflation, as measured by the Consumer Price Index (CPI), rose to 5.52 per cent in March from 5.03 per cent in February, bringing total retail inflation for 2020-21 to the highest level in seven years, according to data released by the National Statistical Office. Core inflation, exclusive of food and fuel inflation, rose to a 29-month high of 5.96 per cent. Food inflation rose to 5.2 per cent despite a month-on-month decline in prices of vegetable, cereals, spices, eggs and sugar due to a low base effect, and is likely to fall to 2-2.5 per cent in April as the base effect reverses, as per experts.

Source: The Indian Express; 13 April 2021

Lockdowns to shave \$1.25 billion a week of economy; 140 bps from Q1 GDP: Report

Amid surging pandemic cases forcing many states of India to curb mobility and businesses, a report has said these localised



lockdowns in key economic hubs can cost the economy an average of USD 1.25 billion each week and may shave 140 bps from the Q1 nominal GDP. If the current restrictions remain in place until May-end, the cumulative loss of economic and commercial activity could be around USD 10.5 billion or around 34 bps of nominal GDP, British brokerage Barclays said.

Source: The Economic Times; 13 April 2021

India's WPI inflation rises to over 8-year high of 7.39% in March

The wholesale inflation across the country rose over an 8-year high of 7.39 per cent in March, data released by the Ministry of Commerce & Industry showed. The wholesale price index (WPI) grew 4.17 per cent during the month of February, while the WPI for January was revised to 2.51 per cent from 2.03 per cent, the data showed. The WPI in March 2020 was at 0.42 per cent.

"The prices of crude oil, petroleum products and basic metal substantially increased in March 2021 as compared to the corresponding month of last year. Also, due to nationwide lockdown, the WPI index for the

month of March 2020 (120.4) was computed with relatively low response rate," the ministry statement said.

Source: The Indian Express; 15 April 2021

India Inc's outward FDI halves to \$1.93 billion in March

India Inc's outward foreign direct investment in March 2021 nearly halved to USD 1.93 billion (around Rs 14,495 crore), according to the RBI data. Domestic firms had invested USD 3.86 billion as outward foreign direct investment (OFDI) in the year-ago month of March 2020. In the preceding month (February 2021), the OFDI stood nearly the same at USD 1.95 billion. Of the total investment committed by the Indian investors in their foreign joint ventures/wholly owned subsidiaries in March this year, USD 1.15 billion was in the form of issuance of guarantees. Rest of USD 413.25 million was in the form of loan and USD 363.54 million was through equity capital, the data showed.

Source: The Economic Times; 15 April 2021



Guest Editor

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QUAD, India and the Emerging Indo-Pacific Calculus

The Quadrilateral Security Dialogue (QUAD) has gained critical strategic momentum amid growing US-China power rivalry fueled by an increasingly assertive China. To this effect, the inaugural virtual Quad Leadership Summit (hereon, QLS) held on March 12 has opened a new chapter for the Indo-Pacific, upgrading the Quad as a cohesive political statement vis-à-vis China. While such a summit strengthens the American alliance exercises in Indo-Pacific, what does it mean for non-alliance partners such as India who frame its foreign policy between the lines of strategic autonomy, non-alignment and multi-alignment? Furthermore, how will the QLS figure in New Delhi's geopolitical calculations as it seeks to balance regional diplomacy with its national interest in sustaining delicate peace with China?

To India, a post pandemic geo-political calculus would heavily shape its perception towards the QLS. Instead of uniting nations to coordinate a response to COVID-19, the pandemic has pushed US and China closer to a limited conflict in the Indo-Pacific. Hints of a

new type of enduring conflict are only throwing both powers into a Thucydides Trap, wherein the incumbent (US) and insurgent (China) powers are set to collide, making strategic rivalry an enduring and long-drawn one. New Delhi has time and again affirmed that it would not indulge in any alliance-making exercise. Unlike Japan and Australia, India remains the only Quad partner not part of the US' traditional security alliance systems. It must therefore delicately steer the precarious geopolitical waters to escape being caught in the middle; imaginative statecraft that upholds India's commitment to its strategic autonomy, while gaining a geopolitical advantage, will be critical. Pluralism, being a pivotal factor shaping Indian foreign policy, factors heavily in India's adherence to the Quad; India wants to protect its national and maritime interests while promoting bilateral ties with Beijing. India's support for the QLS will hence also draw on its national security interests, the consensus that emerges around the QLS mechanism and the contours that it assumes.



Similar to India's outlook on the 'Asian NATO' which is a far-fledged proposition; it will be unlikely to endorse a proposition that appears blatantly anti-China. The previous Trump administration in the United States actively promoted the Quad as an anti-China collaboration. Yet, India (alongside Japan and Australia) has remained hesitant to imbibe the Quad with such connotations. Fundamental differences between the Quad members nonetheless persist as seen in Japan's reluctance to expand G7 and stagnation in the evolution of 'Quad Plus'. Considering such persisting divisions, and India's desire to balance between US and China amid a new security landscape, India's long-term QLS outlook will be measured. Nonetheless, India's acceptance of participation in the Summit highlights a major foreign policy directive away from Beijing, even as New Delhi tries to balance ties with China.

India, in principle, is not opposed to sustained participation in the QLS, with hopes of an in-person summit at the end of 2021 being on the table. Prime Minister Narendra Modi has stated that cooperation in areas such as

vaccines, climate change and technologies make the Quad process a "force for global good". However, in practice, as it navigates a rather delicate regional security environment vis-à-vis China, New Delhi needs to chart clearly whether the QLS is defined as a political affirmation or an alliance-based coalition.

Importantly, New Delhi has begun to more actively engage with regional partners US, Japan and Australia under Indo-Pacific focused frameworks. Recently, perturbed by Beijing's rise, India's foreign policy has undergone a pragmatic makeover to a pointed alignment strategy. New Delhi inked the Acquisition and Cross-Servicing Agreement (ACSA) with Japan, upgraded ties with Australia to a Comprehensive Strategic Partnership and signed its fourth foundational pact with the US, Basic Exchange and Cooperation Agreement (BECA). Furthermore, the inclusion of Australia in the US-Japan-India joint maritime Malabar exercise has boosted the Quad's maritime synergy.

The first QLS meeting revolved around issues of pandemic recovery, building supply chain

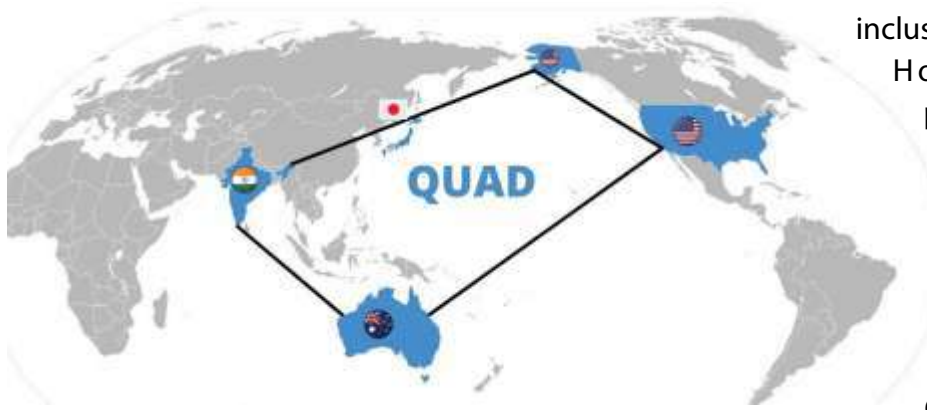
resiliency, maritime security, development and standard setting of emerging technologies, building quality infrastructure, supporting ASEAN centrality and climate change response. COVID-19 vaccine production and distribution in the Indo-Pacific, through the establishment of a Quad vaccine expert group, was also a matter of key concern. The aim will be to deliver “vaccines developed in the US, manufactured in India, financed by Japan and supported by Australia”, thereby bolstering India's manufacturing objectives. It also marks a concrete move by the Quad to engage collectively in regional vaccine diplomacy, unofficially responding to China's Health Silk Road (HSR). Perhaps most critically, for the first time since the Quad's revival, the QLS concluded with a landmark joint statement (albeit still not explicitly mentioning China) that lists the grouping's priorities and pledge to advance said goals.

Nevertheless, the QLS, in its current conceptualization is primarily a political statement. As Modi's remarks at the virtual

summit indicated, QLS allowed leaders to reaffirm commitment to a “free, open and inclusive” Indo-Pacific. At present, the QLS is a symbol of US' welcome “re-engagement” in the Indo-Pacific under President Joe Biden; it is Biden's first plurilateral engagement apart from a G7 meeting.

As a nascent body, QLS at present need more rounds of meetings. It must ultimately fill a gap in the Quad narrative and not run the same circles around existing convergences by contributing to actionable leadership. In this regard, India would like to engage in constructive discussions with the US, Japan and Australia in times to come, promoting a strategic consonance among its bilateral connect to the trilateral connect with the Quad countries. Besides, New Delhi will aim to see the Quad framework on an uptick post the QLS; this could come about through a Quad backing of national initiatives like India's Security and Growth for All in the Region (SAGAR) or Japan's Expanded Partnership for Quality Infrastructure (EPQI), or having a closer network with these initiatives.





Amidst widespread speculation in China that the US is increasingly pondering an Indo-Pacific NATO, the Quad's actions can become politically sensitized. Quad's elevation will further Beijing's disapproval of the Quad, which it already views as an "exclusive" clique targeting third countries like China and a precursor to the creation of an 'Asian NATO' as Beijing predicted long-back in 2003. China observes the developments concerning the Quad carefully, and its state-sponsored media outlets have painted it as an "anti-China chariot". More importantly, Beijing has framed India's engagement with the QLS as a diversion tactic from economic woes and "domestic contradictions". Importantly, the QLS may prompt China to further its own 'Himalayan Quad' – with Nepal, Pakistan and Afghanistan – as a rival, potentially securitized grouping in India's backyard.

Lack of clarity and inclusivity previously resulted in the failure of the security alliance Southeast Asia Treaty Organization's (SEATO). New Delhi's involvement with the Quad and QLS, alongside middle power partners such as Japan and Australia, will therefore be critical. Here, India's participation in regional multilateral framework highlight New Delhi's interest in assuming a regional (and limited global) leadership role while promoting

inclusivity in a pluralistic order.

However, India's QLS participation has been viewed in China as making New Delhi a "negative asset" of BRICS and SCO, stating that India is taking China "for granted".

Quad states' focus on shared values as "political democracies, market economies and pluralistic societies"

denote that the grouping's future will be shaped by domestic public opinion. Japan's upcoming general elections, India's self-reliance push driven by a nationalistic fervor post-Galwan, Australia's attempts to manage ruptured diplomatic ties with its leading trade partner and US' effort to reassert itself under Biden only highlight how Quad leaders must juggle foreign policies with domestic, populist narratives and approval ratings.

The QLS can provide a leadership avenue for smaller littoral states in a contested Indo-Pacific. With a joint statement, the QLS must now act as a pathway for Quad's institutionalization as an Indo-Pacific focused dialogue governed by norms. Moreover, the QLS should not be a gateway for US hegemony in Asia, but instead represent an Indo-Pacific partnership wherein the US collaborates as a vital stakeholder in the Asian democracies' map for the region's future. For India, sustained participation will be drawn on such features.



The views expressed herein are personal

Emerging Growth Narratives

CHANGING FACE OF ASIA-PACIFIC



The startups shaking up Southeast Asia's logistics scene

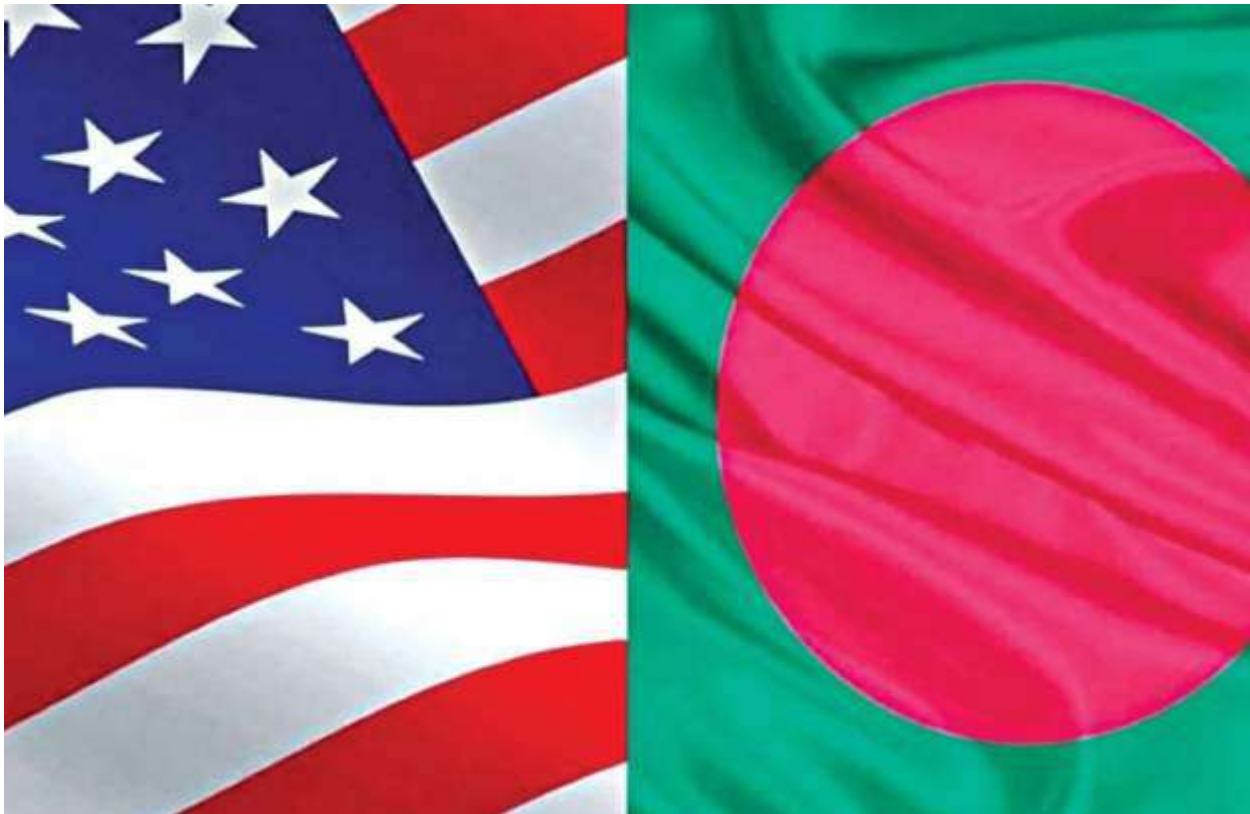
Startups in Southeast Asia banked US\$8.2 billion in investment during 2020 – almost the same amount raised in 2019 – despite the pandemic's economic impact. Ecommerce is also on the up and up in the region bringing in huge opportunities for logistics services providers and ecommerce enablers because they are prospering amid this boom. The expected market size of the region's logistics space is currently over US\$55 billion. The boom has already captured investors' attentions, who have been pouring large amounts of funds into regional logistics startups at a time when investors were more careful with their spending. Heavyweights like Grab, Gojek, Bukalapak, and Traveloka played a huge part in bumping up total funding for Southeast Asia's startups in 2020. However, smaller players also contributed significantly in this surge. The total volume saw a 26% increase compared to 2019. About 70% of the smaller startups that have raised funds this year are from Singapore and Indonesia. There's Indonesia's J&T Express recently banking US\$2 billion in investment, as well as Lalamove's US\$1.5 billion series F round,

which it's close to sealing. According to the funding activities, the total deal value of investments in the region is more than tripled between 2020 and this year, as on date.

Source: Tech in Asia Newsletter; 07 April 2021

US-Bangladesh Business Council launched

The US Chambers of Commerce has launched the US-Bangladesh Business Council with an aim to strengthen trade and investment ties between the two countries. The council, to be led by Nisha Biswal, President of the US Bangladesh Business Council and US Chamber of Commerce Senior Vice President for South Asia, will focus on advocacy and engagement to strengthen the bilateral commercial partnership. "Under the leadership of Bangladesh Prime Minister Her Excellency Sheikh Hasina, Bangladesh has seen tremendous growth and so too has its partnership with the United States," said Biswal, who served as Assistant Secretary of State for South and Central Asian Affairs under President Barack Obama. "The US-Bangladesh Business Council will work to strengthen trade and investment between our two countries, promote transparency, inclusion and market-based reforms so that we can ensure that the coming decades continue to build prosperity and opportunity for the people of Bangladesh," she said. Observing that the US is one of Bangladesh's most important trading partners, Myron Brilliant, executive vice president and Head of International Affairs for the US Chamber of Commerce, said that the launch of the council



reflects the US Chamber of Commerce's commitment to advance efforts to deepen trade and investment ties between the two countries.

The US-Bangladesh Business Council is a reflection for the need of a dedicated platform to understand and partner with the Bangladesh of the Future, said Jay R. Pryor, vice president, Business Development for Chevron and the Inaugural Chair of the Council's Board of Directors.

Reflecting on Bangladesh's growth, Pryor noted its future will be "one that is sustainable, helps Bangladesh reach its economic development goals and by doing so, creates a business environment that empowers Bangladeshi women, enables small business growth, and strengthens communities through better access to healthcare, employment, and also energy"

Source: PTI and Outlook, The News Scroll; 07 April 2021

India's exports surge 60% in March, fall by 7.2% in FY21

India's exports grew the fastest in March with total outbound shipments rising 60.29%, far higher than 0.65% growth in February, with March becoming the fourth consecutive month of growth in FY21. For the full year, exports fell by 7.26% versus FY20. However, gold imports surged almost 592% on-year, leading to a 53.7% rise in overall imports and widening the country's trade deficit to \$13.93 billion from \$9.98 billion in the year ago period, provisional data released by the commerce and industry ministry on Thursday showed. India's outbound shipments for March were to \$34.45 billion while imports were \$48.38 billion. All but two categories out of 30 major exports witnessed growth in March including iron ore, electronic goods, carpets, handicraft, gems and jewellery, ceramic products and engineering goods among others. Exports of oil seeds Exports in



the April-March period were \$290.63 billion, 7.26% lower than \$313.36 billion in the corresponding period last year. For FY21, the trade deficit narrowed to \$98.56 billion, from \$161.35 billion in FY20. Trade watchers attributed the expansion in exports to combination of factors such as a muted base, rising commodity prices reflecting post-vaccine optimism and surge in volumes at the end of the year. Trade deficit widened in March owing to on account of a spike in net imports of precious metals, precious and semi-precious stones and gems of jewellery by \$6.7 billion, ratings agency ICRA noted.

Government data said that petroleum and crude oil imports rose by 2.23% in March on-year to \$10.2 billion, but declined sharply by 37% to \$82.3 billion during the April-March FY21 period. Besides gold and electronic goods, imports of pearls, precious and semi-precious stones, electrical and non-electrical machinery, iron and steel also increased in March. However, the import of transport equipment and project goods declined. Non-oil non-gold imports, an indicator of the

strength of domestic demand, rose 46.66% in March. "With the rise in commodity prices and surge in gold imports, we expect the current account deficit to widen to US\$ 5-7 billion in Q4 FY2021, limiting the size of the annual current account surplus to US\$26-28 billion in FY2021 as a whole," said Aditi Nayar, principal economist at ICRA.

Several states have imposed weekend and night curfews to curb the rising number of Covid 19 cases as India reels under the second wave of the pandemic. For FY22, Nayar expects India's current account deficit to be \$22-27 billion as some demand may get shifted from Q1 FY22 to the later part of the year due to the surge in infections, which may temporarily dampen imports.

Source: The Economic Times; 15 April 2021

Global minimum corporation tax may help fund infra spending

The US government has proposed to impose a global minimum tax on large companies. The objective behind the tax is to make offshore investments less attractive and prevent flight



of capital. With this plan, the US government wants to raise additional USD 2 trillion tax revenue over the next 15 years to fund its massive expenditure on Covid-relief measures and infrastructure development. The tax proposed by the US government has so far received support from the IMF and a few developed countries such as France and Germany. However, if a global minimum tax comes into force, developing countries will lose their competitive edge in attracting investments in the absence of other incentives such as world-class infrastructure and innovation capabilities to woo foreign investors. IMF Chief Economist Ms. Gita Gopinath, has recently said that current disparities in national corporation tax rates had triggered a large amount of tax shifting and tax avoidance. This reduced the tax base on which governments could collect revenues to fund economic and social spending.

India may not be in favour of a high global minimum tax rate as it can hurt business sentiments at a time when the economy is undergoing a Covid-induced slowdown. However, India has one of the highest public debts and weakest debt affordability, according to global rating agency Moody's. India's public debt, as a percentage of GDP, has risen from 72 per cent in FY20 to 89 per cent in FY21. Among global Emerging Markets, India will have the third-highest public debt to GDP ratio, after Argentina and Brazil, in 2021. Thus, a global minimum corporation tax may help the Indian government shore up its revenues

and reduce debt to fuel its infrastructure spending, for long-term economic sustainability.

Source: Newsletter of MVIRDC World Trade Center, Mumbai, 16 April 2021

Facebook hits net-zero emissions, and keeps on going

Powered by more than 6 GW of wind and solar, Facebook achieved net-zero emissions across its operations last year. However, the tech giant is still on the hunt for renewables worldwide. Most recently, Facebook made its first foray into India's renewable energy market by agreeing to procure power from a 32-megawatt wind farm.

Source: Renewable Energy SmartBrief, 15 April 2021



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