Australia pitches for trilateral cooperation with India, Indonesia

We should build on last year’s successful trilateral maritime security workshop with Indonesia to identify new ways that our three countries can collaborate to be the best possible custodians of the Indian Ocean, says Barry O’Farrell, Australian High Commissioner-designate.

• India and Australia will face common challenges in the Indo-Pacific as the COVID-19 pandemic is stretching much of the world’s governmental capacity, said Barry O’Farrell, Australian High Commissioner-designate, in an address to the National Defence College (NDC) while calling for greater cooperation especially stressing on trilateral cooperation between India, Australia and Indonesia.

• In this regard, observing that cooperation between India and Australia in Southeast Asia was a natural fit, he said in the address through videoconference, “As a starting point, we should build on last year’s successful trilateral maritime security workshop with Indonesia to identify new ways that our three countries can collaborate to be the best possible custodians of the Indian Ocean.”

• In a separate development, the Australian High Commission, in coordination with the Ministry of External Affairs (MEA), gave a ride to India’s Ambassador to Indonesia Pradeep Rawat and his family in one of the repatriation flights to Australia that had a stopover at Denpasar in Indonesia, official sources said.

• “Australia was very happy and keen to help two of our strongest Indo-Pacific partners, India and Indonesia, in this matter,” diplomatic sources said adding the trilateral cooperation had been growing.
Interoperability

• Stating that COVID-19 would not necessarily change the nature of threats faced but would hasten the pace at which they were developing, Mr. O’Farrell said even allowing for COVID, the Indo-Pacific would continue to be the engine of the global economy in the decades to come.

• On the likely impact of the pandemic on the global and regional dynamics, he said it would take time to play out. “But I see a U.S. far more cautious about exercising global leadership than in the past. I see even faster shifts in the Indo-Pacific power balance, with an associated sharpening of strategic competition. And an even more factious multilateral system,” he stated.

• On enhancing bilateral cooperation, he said there were many ways the two could reinforce each other’s efforts and one of the ways was “we can make defence facilities available to each other to expand our militaries’ respective operational reach.” This was already an evolving area with a logistics support agreement in the final stages of being concluded.

• The High Commissioner designate also referred to the Indian Navy’s Information Fusion Centre – Indian Ocean Region which is emerging as a regional hub for monitoring maritime movements and cooperation. “We’re glad to be contributing a Liaison Officer to it in due course,” he stated.

• He also noted the increasingly common platforms operated by the two militaries acquired from the U.S., the P-8 maritime patrol aircraft, C-17 and C-130 transport aircraft, and India’s soon-to-be-acquired MH-60 Romeo multi-role helicopters.

Repo auction gets poor response

May indicate a reluctance on the part of banks to lend to NBFCs

• The first auction of the second tranche of Reserve Bank of India’s (RBI) targeted long term repo operations (TLTRO 2.0), which were meant for liquidity support to non-banking financial companies, (NBFCs), received poor response as total value of bids received from banks was almost 50% less than the notified amount.

• The RBI received 14 bids worth ₹12,850 crore in the auction that was conducted on Thursday, against a notified amount of ₹25,000 crore, of three-year tenor.

• “The total bids that were received amounted to ₹12,850 crore, implying a bid to cover ratio (i.e., the amount of bids received relative to the notified amount) of 0.5,” the RBI said.
“Will review the auction results and take a view in the matter,” the RBI added.

While announcing the auction, the RBI had said that the funds availed from Thursday’s auction should be deployed in investment grade bonds, commercial paper (CPs) and non-convertible debentures (NCDs) of NBFCs. At least 50% of the total funds availed of by the banks was mandated to be deployed in small and mid-sized NBFCs.

“Limited participation by banks in the TLTRO 2.0 clearly highlights the banks’ reluctance to lend to mid-size and small NBFCs and MFIs in the current situation,” said Vydianathan Ramaswamy, director and head, financial sector ratings, Brickwork Ratings.

“Given the lack of risk appetite in banks, a structure with partial credit guarantee by the GoI, similar to the PCG [partial credit guarantee] scheme launched last year for securitisation, may be the only viable option to ease liquidity challenges of NBFCs,” he said.

NBFCs, including housing finance companies and MFIs, are facing stretched liquidity conditions as banks turned risk-averse and choked lending. Adding to the woes, banks have not extended the three-month repayment moratorium to the NBFCs. NBFCs, however, extended such a moratorium to their customers. As a result, fund inflow for NBFCs has been severely hit.

A Crisil report estimated that NBFCs rated by it will see debt obligation worth ₹1.75 lakh crore maturing by the end of June.

RBI to restart Operation Twist to manage yields

To sell, buy ₹10,000-cr. bonds each

The Reserve Bank of India (RBI) has announced simultaneous purchase and sale of government bonds in a bid to soften long-term yields. The central bank will buy ₹10,000 crore of bonds maturing between 2026 and 2030 and sell the same amount of T-bills.

“On a review of current and evolving liquidity and market conditions, the Reserve Bank has decided to conduct simultaneous purchase and sale of government securities under open market operations (OMO) for ₹10,000 crore each on April 27, 2020,” the RBI said on Thursday.

Such open market operations are known as ‘Operation Twist,’ which was used by the RBI in December last year for the first time.

Following the announcement, the yields on the 10-year bonds dropped by 20 basis points (bps).
The move will also aid monetary transmission by prompting banks to pass on interest rate cut benefits to their customers. The RBI had reduced key policy rate or the repo rate by 75 bps to 4.4% in the monetary policy review, announced in the last week of March.

The COVID-19 paradox in South Asia

It is surprising that South Asia has far fewer infections and deaths compared with North America and Western Europe

The oldest and largest democracies in the world are often compared. This time is different. The first person tested positive for COVID-19 on January 21 in the United States and on January 30 in India. Roughly three months later, on April 20, the total number of infections was 7,23,605 in the U.S. and 17,265 in India, accounting for 31.2% and 0.75% of the world total, while the number of COVID-19 deaths was 34,203 in the U.S. and 543 in India, making up 21.7% and 0.33% of the world total. The share of the two countries in world population, by contrast, is about 4% and 18%, respectively.

A puzzling situation

It is even more surprising that a comparison with South Asia — Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka — yields similar results. In Nepal too, it was in late January that the first person tested positive for COVID-19, though it was end-February or early-March in the other countries. On April 20, South Asia, with a share of 23.4% in world population, accounted for 1.25% of infections and 0.5% of COVID-19 deaths in the world.

Before the pandemic, it would have been impossible to predict, let alone imagine, such a reality. Income per capita in South Asia is just 16% that of the world, and a mere 4% of that in industrialised countries. One-third of the world’s poor live in South Asia, so absolute poverty is high and nutrition levels are low. Population density in the subcontinent is among the highest in the world. The poor, who live cheek by jowl in urban slums and in cramped spaces in rural areas, are most susceptible to a virus that is contagious. Public health systems and facilities are perhaps the worst in the world.

The outcome, then, is puzzling, if not paradoxical. Compared with North America, Western Europe and East Asia, or their own population size, the number of infections and deaths in South Asia is far lower. Of course, it is plausible to argue that, unlike those parts of the world, South Asian countries are in the early stages where community transmission has not gathered momentum. An explosive growth in infection numbers could yet surface later, or in a second round. But it is simply not possible to assess probabilities or make predictions. However, evidence available so far does suggest some flattening of the curve in India, Pakistan, Bangladesh, and Sri Lanka. Infection numbers in Maldives and Nepal are in double-digits and Bhutan’s infection numbers are in single digits.

Two possible explanations
• How can we explain this situation in which, so far, South Asia has fared better than many other parts of the world? Past experience of the Spanish influenza in 1918, when India accounted for 18-20 million of the estimated 50 million deaths in the world, or conventional thinking even now, would have led to the opposite conclusion. There are two possible explanations.

• First, the reality might be much worse than the statistics suggest because the total number of infections is almost certainly underestimated, as testing has been nowhere near enough, given the scarcity of testing kits and the massive size of populations. Improved statistics might change the numbers but cannot transform the asymmetry emerging from the above comparisons.

• Second, the lockdowns imposed by governments in India, Bangladesh, Pakistan, Sri Lanka and Nepal, which started in the last week of March and continue until April 27 or longer, have clearly made a difference. The lockdown in India, straddling its vast geography, is perhaps among the most stringent in the world. The common purpose was to break the chain of transmission through physical distancing, which has two dimensions. For one, it confined people to their homes. But this created physical distancing only for the privileged living in homes that have spaces and doors. It was impossible for people in urban slums in mega-cities, where migrant workers lived in cramped spaces, often as many as 10 to a room. For another, it meant that people could not move within cities or across States. Migrant workers could not return to their villages, and citizens or foreigners who might carry the virus could not come from abroad. It did strangle potential chains of community transmission, reducing the geographical spread of the virus through contagion, and flattening the curve compared with what it would have been without a lockdown.

• This obvious explanation is necessary but not sufficient because other countries which have imposed lockdowns, say in Western Europe, with public health systems that are far superior, have not managed to slow down the phenomenal spread in the number of infections as much. The impact of diseases can and does differ across countries, possibly attributable to differences in cultures, immunities, or even climates. I am not an epidemiologist or a virologist. But as a social scientist, it is possible to observe an association of attributes.

A possible hypothesis

• It has been suggested that countries which have mandatory BCG vaccinations against tuberculosis are less susceptible to COVID-19 morbidity and mortality. Compare, for example, the Iberian Peninsula countries, Spain and Portugal. On April 20, the former had around 1,96,000 infections and 20,500 deaths, whereas the latter 20,200 infections and 700 deaths. Is it only a coincidence that BCG vaccinations are mandatory in Portugal but not in Spain, or that the U.S. and Italy, both ravaged by COVID-19, never had universal BCG vaccination programmes? Obviously, it is only scientific investigation that can establish cause and effect.

• But the BCG vaccine seems to have a stimulating effect on the immune system that goes well beyond tuberculosis. For that reason, perhaps, some countries are running trials of BCG against COVID-19, or thinking of it as a means of protecting health workers. Similarly, countries are buying hydroxychloroquine in large quantities from India, as a prophylactic for health workers and for
treatment of COVID-19 patients. In South Asian countries, universal BCG vaccination is mandatory, while immune systems of people have a lifelong exposure to malaria. These could provide possible explanations for the relatively limited spread of COVID-19 in South Asia so far.

Lives and livelihoods

• Obviously, lockdowns have also mitigated the spread. In doing so, they have saved lives, but at the same time, they have also taken away livelihoods. In South Asian countries, almost 90% of the workforce is made up of the self-employed, casual labour on daily wages, and informal workers without any social protection. The lockdowns have meant that hundreds of millions of people who have lost their jobs, hence incomes, have been deprived of their livelihoods, imposing a disproportionate burden on the poor and those who survive just above the poverty line. For them, the trade-off between getting sick and going hungry is no choice. Livelihoods are an imperative for preserving lives.

• The problem will not vanish after lockdowns are lifted. Economies that have been shut down for six weeks or longer will be close to collapse. In the short-run, it will be a matter of survival for households and firms and stabilisation for the economy. Economic growth will be zero or negative this year. In the medium-term, it will be about recovery. That will take time. Rapid economic growth in the past 25 years had enabled South Asian countries to bring about a significant reduction in absolute poverty, even though it was associated with rising inequality. Alas, absolute poverty will increase once again, while economic inequality will rise further.

**Fishing in troubled waters during a pandemic**

As China seeks to restore its credibility, creating tensions in the South China Sea should be the least of its priorities

• Even as several countries struggle to cope with the challenges posed by COVID-19, Beijing’s military moves in the contested South China Sea continue to take place unabated. In recent days, China has conducted military drills and deployed large-scale military assets to the maritime area, while officially celebrating strides made in exploiting disputed energy resources in the sea.

Strategy for expansion

• The Vietnamese Ministry of Foreign Affairs reported early this month that a Chinese Coast Guard vessel “rammed and sunk” a Vietnamese fishing boat carrying eight Vietnamese fishermen in the Paracel Islands in the South China Sea. It maintained that this violates “Vietnam’s sovereignty over the Paracel Islands, causes property losses and endangers the lives, safety and legitimate interests of the Vietnamese fishermen”. It underlined that Chinese actions “also run counter to agreements reached by Hanoi and Beijing’s leaders and the proposed Code of Conduct that would govern all interested parties in the South China Sea dispute.” The Vietnamese government
lodged a diplomatic protest with China’s embassy in Hanoi, requesting the Chinese side to investigate the incident, strictly discipline the officers aboard the Chinese vessel aforementioned, prevent the recurrence of similar actions, and make adequate compensation for the losses of the Vietnamese fishermen.

•There have been incidents involving Chinese fishing vessels and the Chinese Coast Guard with Indonesian fishing vessels in waters around the Natuna Sea as well. In February, Chinese fishing boats flanked by Chinese Coast Guard vessels dropped their trawl nets yet again. China’s illegal fishing near the Natuna Sea carries global consequences, reminding regional governments of Beijing’s expanding claims to the South China Sea through which one-third of the world’s maritime trade flows.

•Besides these incidents, there were satellite images showing a Chinese military plane landing on Kagitingan Reef in the West Philippine Sea in late March. There are also reports that China recently opened a research station on Kagitingan and Zamora Reef, also in the West Philippine Sea, to gather data on the ecology, geology, and environment in the Spratlys.

•It seems as though the COVID-19 outbreak in China did little to diminish the country’s strategy of regional expansion. Routine operations of transport aircraft in the South China Sea indicate that the Chinese military is hardly affected by the country’s health crisis.

•Other claimant countries such as the Philippines have condemned the sinking of the Vietnamese fishing vessel. The Foreign Ministry of the Philippines issued a statement that said, “Such incidents undermine relations between Southeast Asian nations and Beijing.” Meanwhile, the U.S. State Department also published a statement, “We call on the PRC to remain focused on supporting international efforts to combat the global pandemic, and to stop exploiting the distraction or vulnerability of other states to expand its unlawful claims in the South China Sea.” These encroachments and advances by China in the South China Sea not only dampen China’s image globally, and affect its relations with its Southeast Asian neighbours, but also raise questions on why it continues its assertiveness in the disputed waters when most of the claimant states are having to contend with the challenges posed by COVID-19.

Window of opportunity

•While a military policy of expansion in the neighbourhood can be one way of shoring up the credibility of the Chinese Communist Party, which has been bruised by its handling of the COVID-19 outbreak, it is also a response to what many in the party would view as a rare window of opportunity as the U.S. is grappling with the pandemic. American ties with Vietnam have been on an upward trajectory in recent times. Vietnam has been an ardent supporter of the U.S.’s freedom of navigation operations (FONOPS) carried out in the South China Sea. China has always taken a strong stand against these FONOPS of the U.S. It has flexed its muscles to match up to these operations. In that direction, China also recently conducted anti-submarine drills in the disputed areas soon after the Pentagon deployed the U.S.-guided missile destroyer USS McCampbell in a FONOP in the South China Sea before the pandemic hit the U.S. mainland with full force.
• At present, Vietnam is the chair of the ASEAN and will be presiding over the discussions on the Code of Conduct which has been a work in progress for long. Vietnam has always been in favour of non-claimant countries or external players having an active voice and calling out China for its growing assertiveness in these contested waters. Among all the claimant countries, Vietnam has always taken a strong stand against Chinese actions in the South China Sea. Unlike the Philippines, which has changed its stance quite often with respect to Chinese activities in the South China Sea, and Indonesia, which recognised the Chinese threat in the Natuna Sea rather late, Vietnam has held a firm stand against the China. Even with regard to its COVID-19 response, Vietnam was the first country in the ASEAN to suspend all flights to and from China as early as February. Hence, China has always kept a watch on Vietnamese manoeuvres in the South China Sea dispute.

• As China seeks to restore its global credibility, creating tensions in the South China Sea should be the least of its priorities. A more generous China during a global pandemic might go a long way in ensuring its global ascent. But that’s a hope that has been belied many a times in the past and it’s unlikely that the Chinese Communist Party would let go of its regional security agenda of expansion.