

ENVIRONMENT SCAN 01-15 MAY 2018

CHINA (CONTINENTAL)

Brig Rajeev Bhutani (Retd)

China may Pay a High Price for Cutting the Trade Gap with the US. China's current account for the first three months of the year recorded the first quarterly deficit in 17 years and the country is now facing the possibility that it will see its first full-year deficit since 1994 – a process that could be accelerated by Washington's demands.

Economists have warned that China may see unpredictable changes to its exchange rates and capital flows if its long-standing surplus in trade turned into a deficit – a scenario that would become a reality if Washington persuades Beijing to narrow the trade gap by US\$200 billion.

A Chinese delegation will visit the United States next week to continue the discussions on trade.

The government has previously insisted that China is not deliberately pursuing a trade surplus and the current situation reflects its role in the global value chain – if China imports components and assembles them and then re-exports the finished products, it will result in a surplus.

In reality, the so-called twin surplus in both its current and capital accounts has allowed Beijing to accumulate the world's largest foreign exchange stockpile – it peaked in the middle of 2014 at US\$4 trillion – and to print money at home to help growth without causing a sharp depreciation in its currency.

But the situation has started to change as Chinese people buy more foreign products and spend more abroad while speculative capital has retreated from China.

China's current account surplus reached 9.9 per cent of its gross domestic product in 2007, but dropped to 1.3 per cent in 2017, and according to Standard Chartered, the ratio could fall to 1 per cent this year and 0.5 per cent in 2019.

Huang Yiping, a professor at the National School of Development of Peking University, told the *South China Morning Post* on the sidelines of an investor conference in Beijing on Tuesday that there were no short-term fixes to the trade imbalance between China and America, which the US says stood at US\$375 billion last year.

[\(<http://www.scmp.com/news/china/economy/article/2145414/why-china-may-pay-high-price-cutting-trade-gap-us>\)](http://www.scmp.com/news/china/economy/article/2145414/why-china-may-pay-high-price-cutting-trade-gap-us)

China's Foreign Exchange Reserves Dip on US Dollar Rebound. Economists polled by Reuters had forecast China's foreign exchange reserves would drop around US\$10 billion in April to US\$3.133 trillion, with a stronger US dollar versus other currencies expected to depress the value of China's dollar-denominated reserves.

China's foreign exchange reserves in April fell more than expected, to a five-month low, as the US dollar rebounded. Reserves fell US\$17.97 billion in April to US\$3.125 trillion – the lowest since November, compared with a rise of US\$8.34 billion in March.

The escalating trade dispute between China and the United States could hurt exporters on both sides and weigh on their economic growth, while adding to volatility in global financial markets.

In recent weeks, Chinese authorities have announced a series of moves which suggest they are less worried about capital outflows, including allowing local investors to put more money into global financial markets.

At the same time, China has moved to give foreign investors more access to its equity, bond and commodity futures markets, which will help support the yuan and offer greater balance to cross-border flows.

The value of China's gold reserves fell to US\$77.788 billion at the end of April, from US\$78.419 billion at the end of March.

[\(<http://www.scmp.com/news/china/economy/article/2145030/chinas-foreign-exchange-reserves-dip-us-dollar-rebound>\)](http://www.scmp.com/news/china/economy/article/2145030/chinas-foreign-exchange-reserves-dip-us-dollar-rebound)

Chinese Missiles are Transforming Balance of Power in the Skies. In 2017, Chinese defence spending rose by 5.6 per cent in constant US dollar terms, while Russia's fell by 20 per cent, according to the Stockholm International Peace Research Institute. China spent \$228 billion last year and Russia \$66.3 billion, SIPRI said.

Some of China's biggest strides are coming in air-to-air missiles, the weapons that for one or two million dollars can destroy a \$150 million aircraft. That's a cost efficient way of trying to level the playing field with the US. China's defense budget is well over three times as big as Russia's or India's, but still much lower than the \$610 billion the US spends, according to SIPRI.

In March, the US Air Force awarded a half-billion-dollar contract to supply close allies with Raytheon Inc.'s latest long range air-to-air missile, capable of hitting enemy planes from 100 miles (160 kilometers) away. The Meteor, a new European equivalent, may be even more deadly. But China's latest offering, the PL-15, has a greater range than either.

The PL-15 also supports an active electronically-scanned array radar that makes evasion difficult for the most agile of fighter jets. Another Chinese air-to-air weapon in development, provisionally known as PL-XX, would strike slow-moving airborne warning and control systems, the flying neural centers of US air warfare, from as far away as 300 miles. At closer quarters, China's new PL-10 missile is comparable to the best "fire-and-forget" equivalents, meaning any dogfight would likely end with a so-called mutual kill, a significant deterrent.

Chinese and Russian progress in developing carrier-fleet killing hypersonic missiles, are the main cause of worry as the US, as yet, lacks the space-based capacity to detect in time to shoot down. The planes to deliver China's new armory of missiles have also improved dramatically, with new fleets developed from Russian air frames.

Combat modeling by think tank Rand Corp. found that China last year, for the first time, had achieved parity with the US in air superiority for any conflict close to its mainland, including over Taiwan.

To be sure, China still has a long way to achieve conventional -- let alone nuclear -- parity with the US at a global level. Its jet engine technology remains weak and reliant on Russia, while its suite of new weapons is largely untested in combat. So are its pilots, still considered inferior to their Western counterparts in training and tactical skills. The J-20, for example, has poor engines and is thought by aviation experts to be more easily detected from the rear and sides than a US F-22 "Raptor". But it would be hard to spot on approach and has a large weapons bay capable of hiding anti-ship missiles. That makes it a considerable threat.

(<https://timesofindia.indiatimes.com/world/china/chinese-missiles-are-transforming-balance-of-power-in-the-skies/articleshow/64074264.cms>)

China's Y-20 Heavy Military Transport Aircraft has Undergone its First Airborne and Air Delivery Training. The Y-20, which joined the People's Liberation Army Air Force in July 2016 and has a maximum take-off weight of around 200 tonnes, is ideal for transporting cargo and people over long distances in diverse weather conditions, state-run Xinhua news agency reported.

(<https://timesofindia.indiatimes.com/world/china/chinas-heavy-military-transport-aircraft-conducts-first-airborne-training/articleshow/64084059.cms>)

PAKISTAN

Col Arvinder Singh

Pakistan and U.S. Restrict Diplomats' Travel, Adding New Strain on Ties.¹

Pakistan on 11 May 18 placed travel restrictions on United States diplomats based in the country, the latest in a series of retaliatory measures that threaten to plunge already strained relations to their worst level in years. The restrictions in Pakistan were imposed on the same day that the United States barred diplomats working at the Pakistani Embassy in Washington from traveling outside of a 25-mile radius around the city without approval. The United States has long complained that Pakistani police and security officials frequently harass American diplomats and their staff with traffic stops and citations that require considerable time and effort to resolve. Six weeks ago, the State Department threatened to impose a travel restriction on Pakistan's Washington diplomatic corps if the harassment did not end by 11 May 18. On 11 May 18, American officials imposed the restrictions. While the State Department's restrictions apply only to diplomats assigned to the embassy in Washington and their family members, Pakistan's restrictions apply to all American diplomats stationed anywhere in Pakistan. Both sides said they would waive their respective restrictions on a case-by-case basis.

Pakistan also barred US diplomat, an American military attaché from leaving Pakistan on 13 May 18 who was involved in an accident last month when his vehicle struck a motorcycle and killed one of its riders in Islamabad. The development came a day after Islamabad High Court passed a judgment that the US diplomat did not enjoy absolute immunity.

Comments. The issue has further strained the ties between Pakistan and the US which are already at odds over the issue of the Taliban and Afghanistan. In January, the Trump administration announced that it had suspended nearly all of the \$1.3 billion in annual security aid given to Pakistan, an announcement that came just three days after President Trump complained on Twitter that Pakistan had given us nothing but lies & deceit and accused it of providing safe haven to the terrorists we hunt in Afghanistan. The Trump administration has also sought to strengthen ties with India, Pakistan's bitter rival.

Nawaz Sharif Admits Pakistan Role in 26/11 Mumbai Terror Attacks.² In an interview to Dawn newspaper on 11 May 18, the former Prime Minister expressed concern over Islamabad's foreign policy approach. Former Prime Minister Nawaz Sharif has said Pakistan has isolated itself by its support for militant organizations and use of non-state actors as central to its foreign policy. He said that we have isolated ourselves despite making sacrifices and our narrative is not being accepted but Afghanistan's narrative is being accepted. He further said that militant organizations are active and we may call them non-state actors but should we allow them to cross the border and kill 150 people in Mumbai. He questioned the inability of completion of trial of those involved in the 2008 Mumbai attacks. The trial is still at a preliminary stage of investigation after ten years. Citing the military and judiciary establishment, Mr. Sharif said, you can't run a country if you have two or three parallel governments. This has to stop and there can only be one government — the constitutional one.

1 <https://www.nytimes.com>

2 <http://www.thehindu.com/news>

Comments The Mumbai attack case has entered the tenth year but none of the suspects in Pakistan has been punished yet. A number of Pakistani witnesses — both official and civilian — have testified and provided evidence against the seven accused, but the Pakistani authorities have been insisting on questioning Indian witnesses for reaching a verdict in the case. The Nawaz Sharif government and the powerful military have had serious differences over foreign policy. In 2015 a report published in Dawn, referred to as Dawn Leaks, claimed that the government had been telling the military not to support the Haqqani Network. This report led to serious differences between the two institutions. Mr. Sharif has been disqualified for life from holding public office by the Supreme Court in the Panama Papers case.

AFGHANISTAN

Col Arvinder Singh

Taliban Launch Deadly Raid on Afghan Police Base in Northern and Western Afghanistan³. The Taliban killed at least 41 policemen and soldiers after overrunning two police outposts in the western province of Farah on 10 May 18. Security in Farah province has steadily degraded after NATO turned over control of security to Afghan forces in 2014. At least 32 policemen and 9 Afghan soldiers were killed during Taliban assaults on separate police outposts in the district of Bala Buluk in Farah. Taliban militants also attacked a police base in northern Afghanistan, killing or wounding 25 police officers and kidnapping 31 on 07 May 18. The raid took place in Faryab province, where Taliban and Islamic State militants are fighting government forces. The attackers were reportedly armed with machine guns and used artillery. The fighting lasted for five hours and both sides had heavy casualties.

Comments. The Taliban launched what the group calls its spring offensive in early April. Afghanistan has seen a surge in attacks in recent months, with militants often targeting state security forces. Security in Farah, like many other provinces, has progressively worsened since NATO put Afghan security forces in charge and pulled out most of its forces from the country in 2014. The Taliban has capitalized on weak and understaffed Afghan military and police forces, as well as corrupt local governments, and asserted itself in the previously peaceful western provinces. A recent BBC study found that the Taliban now control or threaten much more territory than when foreign combat troops left in 2014. Taliban fighters are openly active in 70% of Afghanistan, the study found.

Indian Engineers Kidnapped in Afghanistan's Baghlan Province⁴. Seven Indian engineers have been kidnapped in Afghanistan along with their Afghan driver on 06 May 18. Gunmen grabbed them from a vehicle on the outskirts of the Baghlan provincial capital, Pul-e Khomri. No group has said it carried out the kidnapping. However, the Afghan officials have said that the Taliban was responsible. The group had ignored warnings to take a police escort through an area largely controlled by the Taliban. The Indian engineers of KEC International, an RPG group company, were working on a project for construction of a power sub-station in the country. The ministry of external affairs is in touch with relevant people and authorities in Afghanistan to secure the

3 <http://www.bbc.com/news/world-asia>

4 <http://www.bbc.com/news/world-asia>

release of seven Indian engineers who were abducted in the restive northern Baghlan province of the war-torn country. India is also coordinating with strategic partner Russia which has considerable interests in Afghanistan to secure release of seven Indian engineers kidnapped by the Taliban. There have been senior level contacts between Delhi and Moscow to secure the release of the kidnapped engineers from power firm KEC – subsidiary of RPG enterprise. Moscow has certain contacts in Afghanistan and may assist in the rescue process amid hard negotiations that it is ongoing since the kidnapping took place.

Comments. India has been carrying out reconstruction activities in the war-torn country. It has already provided at least USD 2 billion aid to Afghanistan. Kidnappings are a serious problem in Afghanistan where large areas are blighted by gangs or militant groups. In 2011, 12 Iranian and Afghan engineers were kidnapped while working on a road project in western Afghanistan. They were released after local tribal elders acted as mediators with Taliban insurgents. Last year, a Finnish woman working for a Swedish aid group was kidnapped from a Kabul guesthouse and released some months later.

Afghanistan Air Strike: UN Confirms 30 Child Deaths in April Attack⁵. A UN report has found that 30 children were killed and 51 injured in an Afghan air strike last month in the north-eastern province of Kunduz. The government said after the strike on 2 April that its air force had targeted a gathering of senior Taliban figures. The investigation by the UN found six adults had also been killed in the air strike near a religious school, where an open-air ceremony was under way. According to the UN report, hundreds of men and boys were attending the event in the Dasht-e Archi district when it came under rocket and heavy machine gun fire from helicopters. The Afghan government initially said 18 senior militants planning an attack had been killed and accused the Taliban of shooting civilians. The Taliban denied any militants had been present during the air strike and said 200 civilians had died or been injured.

Comments. The number of air strikes carried out by Afghan and US forces has surged since a new strategy was announced by US President Donald Trump in August last year. But the UN has noted an increase in civilian casualties as more air strikes have been carried out. In 2017, the UN recorded 631 civilian casualties from air strikes by pro-government forces, including international military forces, a 7% increase on 2016 even though total civilian casualties decreased by 9%. More than half of the casualties resulted from operations carried out by the Afghan army. It was the highest number of civilian casualties from air strikes in a single year since the UN started systematic recording in 2009.

17 Killed in Khost Mosque Blast⁶. At least 17 people have been killed and 37 wounded in an explosion at a mosque in the Afghan province of Khost on 06 May 18.

5 <http://www.bbc.com/news/world-asia>

6 <http://www.bbc.com/news/world-asia>

People had gathered for afternoon prayers at the mosque, which was also being used as a voter registration centre. No group has claimed responsibility but the Islamic State group has carried out similar attacks in the past. The latest incident appears to have been caused by explosives left in the mosque, rather than by a suicide bomber.

Comments There have been a number of attacks on voter registration centers since the process started last month for October's parliamentary elections. On 22 April, a suicide bomb attack at a voter registration centre in the capital Kabul killed at least 57 people. The Kabul attack was claimed by IS, but the Taliban has also warned people not to take part in the elections, which are said to be a key test of President Ashraf Ghani's credibility.

IRAN

Col Arvinder Singh

Iran Nuclear Deal: Europe Strives to Keep Agreement.⁷ A flurry of diplomatic activity is under way to rescue the Iran nuclear deal after President Donald Trump's decision to withdraw the US from it and bring back sanctions against Tehran. German Chancellor Angela Merkel spoke with President Putin of Russia, and UK PM Theresa May has talked to Mr Trump. Mrs May spoke on the phone to Mr Trump to tell him that Europe remained "firmly committed" to the deal. French ministers have been loudest in their complaints that major European businesses will be hit hard as US sanctions are re-imposed. Mr Trump says the deal is "horrible". Among his concerns are that restrictions on Iran's nuclear programme are due to expire and the deal does not address Iran's ballistic missile programme or its regional influence. Mr Trump honored an election pledge to scrap US participation in the 2015 accord. Sanctions will be re-imposed in two stages in August and November. .

Comments. Under the agreement Iran undertook to curb nuclear activities in return for the lifting of sanctions. The deal, negotiated by the US, three European Union powers, Russia and China, was designed to prevent Iran developing atomic weapons - something it has always denied trying to do. The agreement is still seen by the non-US signatories as the best way of preventing Iran from becoming a nuclear power, though they concede it is not perfect. The Europeans also stand to lose billions of dollars of business when US sanctions return.

The Impact of Sanctions on Iran.⁸ President Donald Trump's announcement that the US will leave the deal means that Washington will begin reinstating sanctions on Iran. The US Treasury has said that there will be wind-down periods of 90 and 180 days before sanctions are implemented. The first deadline, on 6 August, will affect the purchase of US dollars; trade in gold and certain other metals, as well as aviation and the car industry. The next wind-down period will end on 4 November and will target Iran's financial and oil institutions. At the end of the 180 days, sanctions will also be reinstated against individuals who were previously on the US Treasury sanctions list. Iran is one of the world's largest oil producers, and the export of oil and gas is worth billions of dollars each year. The country's oil output and its GDP fell noticeably under

7 <http://www.bbc.com/news/world-europe>

8 <http://www.bbc.com/news/world-middle-east>

international sanctions. The US itself is not a major customer, foreign companies and other countries that continue to deal with Iran after the wind-down periods will face US sanctions if they fail to reduce or end their trade. China, India and Korea are the major oil customers of Iran. And while European oil companies could be particularly hit - French company Total signed a \$5bn deal with Iran after the agreement, while BP has a joint venture to operate the Rhum gas field with Iran's state oil company. The sanctions will have an impact on other industries too. Under the announcement, companies selling commercial aero planes to Iran will be particularly hit. Companies such as Airbus and Boeing - which had agreed deals with Iran to sell 100 and 80 aircraft respectively after the 2015 deal - stand to lose billions of dollars because of the use of US-made parts in construction. Tourism in Iran had also benefited from the nuclear deal, with visitor numbers increasing from 3.8 million visitors in 2012 to over 5 million in 2015.

Implications for India.⁹ While the U.S. has almost nothing to lose in renegeing on the JCPOA, India has a lot to lose both economically and geopolitically, and it will take deft diplomacy to adapt to the changing alignments. A more unstable West Asia would ipso facto mean more difficult choices for New Delhi. More conflict in the region would adversely impact the welfare and safety of Indian expatriates in West Asia, leading to a sharp decline in the remittances they send home, and an assured hike in oil prices. Low crude oil prices had given India the much-needed economic cushion in the past few years. That phase of cheaper oil has now ended. Recall how the U.S. war on Iraq had a debilitating impact on Indian workers and the West Asian remittances. India also had to abandon the Iran-Pakistan-India pipeline in 2008 thanks to U.S. sanctions against Iran. The Indian government's efforts to maintain a fine balance between India's relations with Iran on the one hand and with the U.S., Israel and Saudi Arabia on the other will be seriously tested in the days ahead. The new warmth between Iran and India could attract American ire. What is even more worrying is that unlike the last time when the U.S. imposed sanctions on Iran, and India had to choose the U.S. over Iran, the geopolitical realities are starkly different this time. Not only are the Americans going it alone this time, but the regional ganging-up against the U.S. and in support of Iran will be more pronounced this time around, making India's ability to make a clear choice more difficult. India's dreams of accessing Central Asia via Iran could also be dashed with the return of American sanctions against Iran. India's projects in Iran's Chabahar port have been widely viewed in New Delhi as a crucial plank of its Iran-Afghanistan-Central Asia strategy. With U.S. sanctions again tightening around Tehran, New Delhi may find it hard to continue with this project. As a matter of fact, thanks partly to India's dilly-dallying on Chabahar during the previous round of U.S. sanctions against Iran, Iran had invited Pakistan to the Chabahar project. Some have even suggested a potential link between Chabahar and Gwadar in Pakistan. Given that there is little consensus around Mr. Trump's withdrawal from the JCPOA, several of the dissenting parties might look for ways of thwarting U.S. efforts at isolating Iran. Such efforts, especially those led by China and Russia, both parties to the JCOPA, would have implications for the Southern Asian region as well. If indeed China manages to bring together a group of regional powers, including Russia, Iran, Pakistan and interested others, to counter Washington's influence in the region, India might find itself in a corner.

Comments. There is still some hope for Iran's trading partners, as the other parties to the 2015 nuclear agreement - the UK, France, China, Russia and Germany have pledged their continuing support for the deal. The US government has said that exemptions for those dealing with Iran are possible, although it has not yet given any details about which companies could benefit. If that fails, the EU could also use a

9 <http://www.thehindu.com/opinion/lead/a-time-to-think-fast/article>

blocking statute to protect companies conducting business with Iran from US sanctions, as it did when it lifted its own sanctions on Cuba.

Israel Strikes Iranian Targets in Syria in Response to Rocket Fire.¹⁰ Israel says it has struck almost Iran's entire military infrastructure inside Syria in its biggest assault since the start of the civil war there. The strikes came after 20 rockets were fired at Israeli military positions in the occupied Golan Heights overnight. Russia, Germany and France called on both countries to exercise restraint, but the US said Iran bore full responsibility for the consequences of its reckless actions and that Israel had a right to defend itself.

Comments. The Golan Heights is a rocky plateau in south-western Syria, about 50km (30 miles) from the capital Damascus. Israel occupied most of the area in the 1967 Middle East war and later annexed it in a move not recognized internationally. The Israel Defence Forces (IDF) said that early on Thursday morning 20 rockets had been launched at its forward posts there by the Quds Force, the overseas operations arm of Iran's Islamic Revolution Guards Corps. Four rockets were intercepted by the Israeli Iron Dome aerial defence system, while 16 others fell short of their targets. No injuries or damage were reported. The Syrian Observatory for Human Rights, a UK-based monitoring group, confirmed that rockets were fired towards the occupied Golan. But it said the attack came after Israeli forces bombarded Baath, a town in the demilitarized zone.

ASEAN

Col Shyamji Yadav

India to Help Settle Rohingya Back in Rakhine. During her two-day trip to Myanmar Sushma Swaraj urged [Myanmar](#) to ensure the safe return of Rohingya refugees from camps in Bangladesh. The External Affairs Minister reiterated India's readiness and commitment to helping the Government of Myanmar in addressing issues related to Rakhine state. The Minister ... underlined the need for safe, speedy and sustainable return of displaced persons to the Rakhine state.

The Minister informed Myanmar that India was on track to complete a project to set up prefabricated housing for the Rohingya population returning from camps in Bangladesh.

Comments. Until some infrastructure is created, the refugees won't go back. With specific, targeted assistance, once the return stream begins, it will create momentum for more people to return. This is the only way of restoring normalcy and harmony in Rakhine state

India's initiative binds the three nations into a web. By allowing India to construct shelters, Myanmar acknowledges it needs to take back the refugees. There is reassurance for Bangladesh, and importantly, insurance for the refugees. The refugees

¹⁰ <http://www.bbc.com/news/world-middle-east>

will feel safer if they have shelters, with the psychological assurance of an Indian "guarantee" of sorts

For India, relationships with both Bangladesh and Myanmar are crucial. Myanmar is India's gateway to Southeast Asia. Along with that, Rakhine state is a crucial link for India's hydrocarbon and trade ambitions; India has been working on connecting northeast Indian states to Sittwe port.

India needs Bangladeshi territory for the movement of people as well as goods. India needs to get more involved in the long-term resolution of the crisis. Improving connectivity with Rakhine state and establishing commercial links with the entire region will play a larger role in stabilizing the region and that should be the focus of the Indian government at the moment.

Agreement on Land Border Crossing. India and Myanmar also concluded the Agreement on Land Border Crossing, which will allow people from both sides to cross the border with passport and visa for health and educational needs and tourism. Reflecting cultural ties between the two sides, Ms. Swaraj sealed a memorandum of understanding on restoration of earthquake-damaged pagodas in the famed Buddhist tourism centre of Bagan.

Comments. The agreement will facilitate movement of people on basis of valid passports and visas which will enhance economic and social interaction between two countries. It will facilitate regulation and harmonization of already existing free movement rights for people ordinarily residing in border areas of both countries.

It will also give boost to economy of North East and leverage geographical connections with Myanmar to boost trade and people to people ties. It will also safeguard traditional rights of largely tribal communities residing along border which are accustomed to free movement across land border.

Malaysia Election. Election has been won by the opposition led by Mr Mahathir Mohamad who has been prime minister before, as leader of the Barisan Nasional for 22 years from 1981 until he stood down in 2003. He was also a mentor to Mr Najib. The next prime minister could well be Anwar Ibrahim, who has been pardoned and released from jail.

Malaysia has been ruled by the same coalition of parties - the Barisan Nasional - since independence in 1957. Although its popularity had been declining, most people believed Prime Minister Najib Razak was going to lead it to yet another win.

Why did they get voted out? The cost of living has gone up a lot and the government brought in a new tax on goods and services - never a popular move. Najib Razak has been involved in corruption. Najib Razak had set up a special fund to encourage foreign investment. But people involved in it have been accused of using it for their personal gain. Najib was accused of pocketing \$700m

Comments. A stunning win by the opposition bloc in Malaysia's general election on Wednesday could have implications for the Southeast Asian nation's ties with China, a major investor.

In Malaysia, a number of major port and rail projects have been scheduled for development. A City report estimated they would receive as much as 400 billion ringgit (\$101 billion) in Chinese investments over the next two decades.

A project that has been singled out by Mahathir in the lead up to the general election for being wasteful is the East Coast Rail Link in peninsular Malaysia. A 688-kilometer (430-mile) rail project costing \$13 billion would be reviewed and its development halted if it is found inessential, Mahathir was quoted as saying by the state-run Bernama news agency in April.

Blasts Targeting Three Churches in Indonesia's City of Surabaya. At least 13 people were killed and dozens injured in the attacks. The blasts were coordinated to hit those coming to morning services and were over within the space of just 10 minutes. In recent years women have become increasingly active in terrorist cells in Indonesia but this would be the first time children have been used.

Comments. Indonesia had been widely praised for its sustained anti-terrorism crackdown following the 2002 Bali bombings. It managed a successful combination of arrests and killings, alongside a de-radicalisation program that focused on changing minds and providing alternative incomes for released terrorists.

But the rise of IS overseas has made in roots in the loosely constituted jihadi networks. There has also been rising intolerance in recent years in this once tolerant, pluralist, majority-Muslim nation, which has made minorities groups increasingly uncomfortable. This appears to be the worst attack linked to IS in Indonesia.

Singapore, Brunei Ink Pacts to Boost Cooperation in Finance. Madam Halimah, is on a four-day state visit to Brunei. Two agreements- a memorandum of understanding (MOU) to exchange information related to money laundering and terrorist financing, and a financial technology agreement seeking to boost innovation in financial services were signed with Brunei during the visit

Comments. The FinTech agreement between the Monetary Authority of Singapore (MAS) and the Autoriti Monetari Brunei Darussalam will see the two countries sharing information on FinTech developments and trends provide referrals to FinTech firms in the respective countries, and potentially undertaking joint innovation projects.

It will provide for the exchange of information such as suspicious transaction reports, cross-border movement of cash, or casino cash transaction reports to combat money laundering and terrorist financing.

RUSSIA

Col Harpreet Singh

Russia Budget Paradox. Oil prices near the highest level in over three years are driving the world's biggest energy exporter's budget. While Russia stands to reap a windfall from crude's recent rally, with the budget now on track for its first surplus since 2011, a program of foreign-currency purchases by the Finance Ministry means that it needs more rubles to conduct the operations when the exchange rate appreciates thanks to higher oil prices. Instead of quenching the government's financing needs, the result is that borrowing in rubles will actually rise close to last year's record level to absorb the extra dollars in line with the so-called budget rule.

Russia experienced a similar paradox in 2011-2012, when the Finance Ministry kept up borrowing and funneling the cash into a wealth fund despite running a fiscal surplus. This year, budget revenue may exceed spending by 441 billion rubles, or 0.4 percent of economic output.

The Finance Ministry just expanded this year's target for domestic borrowing by almost 28 percent to 1.04 trillion rubles (\$16.9 billion), according to its amended fiscal plan published on the official disclosure website. That's about double the amount it's sold so far in 2018. A stronger ruble than assumed in the budget may force the government to raise more capital at home. The government will need to auction off 450 billion rubles this quarter and about 130 billion rubles in the second half, compared to the 463 billion rubles raised in the first three months of the year. That's feasible and raises no risk of crowding out corporate borrowers.

Comments. Budget Rule. To insulate the ruble and the economy from oil's ups and downs and cap spending, the government is absorbing all revenue earned when Russia's Urals export blend is above \$40 a barrel, channeling the excess income into its sovereign wealth fund. Purchases of foreign currency will more than double this year to about 2 trillion rubles if prices for Russian crude average \$54-\$55 a barrel, climbing to about 2.8 trillion rubles if Urals is around \$60.

Oil is on the rise as U.S. plans to renew sanctions on Iran and continuing tensions in the energy-rich Middle East stoke concern over supply disruptions. This suits Russia as it prepares for a surplus budget after seven years. However the gains will be spread out in line with the budget rule. A stronger Russian economy is likely to nullify some of the effects of US sanctions on Russia.

Visit of NSA to Russia. National Security Adviser Ajit Doval and Foreign Secretary Vijay Gokhale met Russian Foreign Minister Sergei Lavrov and other senior officials, including Secretary of the Russian Security Council, Nikolai Patrushev, in Moscow on 10 May 18. This was part of the regular NSA-level dialogue between the two nations, and preceded the summit meeting between Prime Minister Narendra Modi and recently re-elected Russian President Vladimir Putin expected in India later this year.

Apart from regular issues like combating narco-terrorism and organised crime, the two sides discussed the implications of the impending US sanctions on Russia and Iran, which could impact India's pending arms purchases as well as its energy security.

Sources in New Delhi said the government would decide on how to deal with the sanctions only after they were formally imposed and their "contours became clear." The government line is that "We have already requested Washington to be sensitive to our concerns, particularly towards deals already finalized with Russians. We also pointed out that none of our purchases pose any direct or indirect threat to American interests."

The Indian side also sought Russian help in freeing Indian engineers kidnapped by the Taliban in Afghanistan earlier this month. However, there is no clarity on whether the issue of Moscow's increasing military and strategic relationship with Pakistan was raised.

Comments. Several Russian companies which supply military equipment and spares to India are likely to face sanctions under the US Countering America's Adversaries through Sanctions Act (CAATSA). However things seem to be under control with the US indicating a softer line on CAATSA as far as India is concerned.

The indicators are that Russia's recent engagement with Pakistan is likely to continue.

UNITED STATES OF AMERICA

Gp Capt G D Sharma, VSM (Retd)

Implications of US Withdrawal from the Joint Comprehensive Plan of Action Agreement with Iran (Nuclear Deal). US President withdrew from the nuclear deal with Iran on 08 May 2018. The move will entail re-imposition of economic sanctions. Consequent to this, there is a widespread anxiety among the nations including India which are engaged in trade with Iran. In the instant case however, the other participants of the deal namely, Britain, France, China and Russia plus Germany have continued to remain with the deal. They would continue to trade with Iran. Therefore, unlike last time when Iran was under UN sanctions for alleged involvement in production of nuclear weapon, this time UN has not imposed sanctions. Hence, it is not expected that sanction regime would be very harsh. Under these circumstances, the sanctions would not have debilitating economic effect on Iran.

India too is expected to be impacted by these sanctions. We are engaged with Iran firstly, for our energy need secondly, towards building of Chabahar port project which is considered vital for our stabilising role in Afghanistan and in our possible opening of trade route to the Central Asian countries. In the previous sanction regime, US had given some concessions considering India is energy deficient and we have to meet the energy demands through import only. This position was appreciated by U.S. Meanwhile, India broadened its energy basket to offset any loss due to the sanction.

It is expected that US will once again will take note our predicament and workout some plan to help in India's situation. The other possibility is that other participants of the deal may carry out some tweaking in the deal in consultation with Iran to satisfy President Trump.