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# **PANORAMA.....**

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**CURRENT EVENT ANALYSIS**

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## Contents

<b>INDIA AND WORLD .....</b>	<b>3</b>
India–United States relations: History .....	3
India-U.S. Delhi Declaration of Friendship .....	7
US-India Joint Strategic Vision for Asia-Pacific and Indian Ocean Region .....	8
Defence Framework Agreement.....	9
Nuclear Power in India .....	11
India’s Nuclear Doctrine.....	15
Treaty on the Non-Proliferation of Nuclear Weapons (NPT).....	15
Comprehensive Nuclear-Test-Ban Treaty (CTBT).....	19
International Atomic Energy Agency (IAEA).....	24
Nuclear Suppliers Group .....	25
India–United States Civil Nuclear Agreement.....	25
The Civil Liability for Nuclear Damage Act, 2010 .....	29
Civil Nuclear Deals with Other Countries.....	33
Islamic State .....	35
<b>ECONOMY .....</b>	<b>42</b>
Transfer Pricing Adjustments.....	42
Full Capital Account Liberalisation/Convertibility.....	45
GDP Calculation Changes .....	49
Merger & Aquisition in 2014.....	51
<b>HISTORY .....</b>	<b>56</b>
Heritage City Development Scheme (HRIDAY) .....	56
<b>MISCALLENEOUS.....</b>	<b>57</b>
R.K. Laxman.....	57
Subash Ghising .....	57
Shekhar Sen.....	58

## INDIA AND WORLD

### India–United States relations: History

#### Till 1947

Historically, the relationships between India in the days of the British Raj and the US were thin. The only significant immigration from India before 1965 involved Sikh farmers going to California in the early 20th century. Very few American businessmen, tourists, religious seekers or Christian missionaries spent much time in India.

The religiously curious in the U.S. welcomed the visit of Swami Vivekananda, who introduced Yoga and Vedanta to America at the World's Parliament of Religions in Chicago, in connexion with the World's Fair there in 1893. He also spoke to large audiences in Chicago and at numerous other venues in 1893-94. He raised some money but won few followers, so he moved on to England.

Mark Twain visited India in 1896 and described it in his travelogue *Following the Equator* with both revulsion and attraction before concluding that India was the only foreign land he dreamed about or longed to see again. Regarding India, Americans learned more from English writer Rudyard Kipling. Mahatma Gandhi had an important influence on the philosophy of non-violence promoted by Martin Luther King, Jr. in the 1950s.

#### World War II

Everything changed in World War Two, when India became the main base for the American China Burma India Theater (CBI) in the war against Japan. Tens of thousands of American servicemen arrived, bringing all sorts of advanced technology, and money; they left in 1945. Serious tension erupted over American demands, led by President Franklin D. Roosevelt, that India be given independence, a proposition Prime Minister Winston Churchill vehemently rejected.

For years Roosevelt had encouraged Britain's disengagement from India. The American position was based on principled opposition to colonialism, practical concern for the outcome of the war, and the expectation of a large American role in a post-colonial era. However, in 1942 when the Congress Party launched a Quit India movement, the British authorities immediately arrested tens of thousands of activists. Meanwhile India became the main American staging base for aid to China. Churchill threatened to resign if Roosevelt pushed too hard, so Roosevelt backed down.

#### Post-independence (1947-1997)

After Indian independence and until the end of the Cold War, the relationship between the US and India was cold and often thorny. This was due to the closeness of the US towards India's arch-rival Pakistan during the War, with Pakistan joining the US-led Western Bloc in 1954.

The relations worsened further with India pursuing a policy of being neutral i.e. not aligned with either the US or the Soviet Union, but maintaining close ties with the soviets to counter Pakistan.

In the late 1948s, Prime Minister Jawaharlal Nehru rejected American suggestions for resolving the Kashmir crisis. His 1949 tour of the US was "an undiplomatic disaster" that left bad feelings on both sides. India rejected the American advice that it not recognise the Communist conquest of China, but it did back the US when it supported the 1950 United Nations resolution condemning North Korea's aggression in the Korean War.

India tried to act as a broker to help end that war, and served as a conduit for diplomatic messages between the US and China. Meanwhile poor harvests forced India to ask for free American food, which was given starting in 1950. In the first dozen years of Indian independence (1947–1959), the US provided \$1.7 billion in gifts, including \$931 million in food. The Soviet Union provided about half as much, largely in the form of steel mills. In 1961, the US pledged \$1.0 billion in development loans, in addition to \$1.3 billion of free food.

In 1959, Dwight D. Eisenhower was the first US President to visit India to strengthen the staggering ties between the two nations. He was so supportive that the New York Times remarked, "It did not seem to matter much whether Nehru had actually requested or been given a guarantee that the US would help India to meet further Chinese Communist aggression. What mattered was the obvious strengthening of Indian-American friendship to a point where no such guarantee was necessary."

During John F. Kennedy's Presidency (1961–63), India was considered a strategic partner and counterweight to the rise of Communist China. Kennedy said,

"Chinese Communists have been moving ahead the last 10 years. India has been making some progress, but if India does not succeed with her 450 million people, if she can't make freedom work, then people around the world is going to determine, particularly in the underdeveloped world, that the only way they can develop their resources is through the Communist system."

The Kennedy administration openly supported India during the 1962 Sino-Indian war and considered the Chinese action as "blatant Chinese Communist aggression against India". The United States Air Force flew in arms, ammunition and clothing supplies to the Indian troops and the United States Navy even sent the USS Kitty Hawk aircraft carrier from the Pacific Ocean to protect India, only to recall it back before it reached the Bay of Bengal.

In a May 1963 National Security Council meeting, the United States discussed contingency planning that could be implemented in the event of another Chinese attack on India. The president was advised to use nuclear weapons should the Americans intervene in such a situation. Kennedy insisted that Washington defend India as it would any ally, saying, "We should defend India, and therefore we will defend India." Kennedy's ambassador to India was the noted liberal economist John Kenneth Galbraith, who was considered close to India. While in India, Galbraith helped establish one of the first Indian computer science departments, at the Indian Institute of Technology in Kanpur, Uttar Pradesh. As an economist, he also presided over the (at the time) largest US foreign aid program to any country.

Following the assassination of Kennedy in 1963, Indo-US relations deteriorated gradually and hit an all time low under the Nixon administration in the early 1970s. Richard Nixon established a very close relationship with Pakistan, aiding it militarily and economically, as India, now under the

leadership of Indira Gandhi, was seen as leaning towards the Soviet Union. He considered Pakistan as a very important ally to counter Soviet influence in the Indian subcontinent and establish ties with China, with whom Pakistan was very close. The frosty relationship between Nixon and Indira worsened the relations further. During the 1971 Indo-Pakistani War, the US openly supported Pakistan and even deployed its aircraft carrier USS Enterprise towards the Bay of Bengal, which was seen as a show of force by the US in support of the beleaguered West Pakistani forces. Later in 1974, India conducted its first nuclear test, Smiling Buddha, which was opposed by the US, however it also concluded that the test did not violate any agreement and proceeded with a June 1974 shipment of enriched uranium for the Tarapur reactor.

In the late 1970s, with the anti-Soviet Janata Party leader Morarji Desai becoming the Prime Minister, India improved its relations with the US, now led by Jimmy Carter, despite the latter signing an order in 1978 barring nuclear material from being exported to India due to the latter's non-proliferation record.

After the return of Indira Gandhi to power in 1980 and the Soviet invasion and occupation of Afghanistan, the relations between the two countries improved. The Reagan Administration decided to provide limited assistance to India. India sounded out Washington on the purchase of a range of US defence technology, including F-5 aircraft, super computers, night vision goggles and radars. In 1984 Washington approved the supply of selected technology to India including gas turbines for naval frigates and engines for prototypes for India's light combat aircraft. There were also unpublicised transfers of technology, including the engagement of a US company, Continental Electronics, to design and build a new VLF communications station at Tirunelveli in Tamil Nadu, which was commissioned in the late 1980s.

In the 1990s there was a significant effort by both countries to improve relations with each other.

### **1998-2008**

Soon after Atal Bihari Vajpayee became Indian Prime Minister, he authorised nuclear weapons testing at Pokhran.

The United States strongly condemned this testing, promised sanctions, and voted in favour of a United Nations Security Council Resolution condemning the tests.

President Bill Clinton imposed economic sanctions on India, including cutting off all military and economic aid, freezing loans by American banks to state-owned Indian companies, prohibiting loans to the Indian government for all except food purchases, prohibiting American aerospace technology and uranium exports to India, and requiring the US to oppose all loan requests by India to international lending agencies.

However, these sanctions proved ineffective - India was experiencing a strong economic rise, and its trade with the US only constituted a small portion of its GDP. Only Japan joined the US in imposing direct sanctions, while most other nations continued to trade with India. The sanctions were soon lifted. Afterward, the Clinton administration and Prime Minister Vajpayee exchanged representatives to help rebuild relations.

In March 2000, U.S. President Bill Clinton visited India, undertaking bilateral and economic discussions with Prime Minister Vajpayee. During the visit, the Indo-US Science & Technology Forum was established. Over the course of improved diplomatic relations with the Bush Administration, India agreed to allow close international monitoring of its nuclear weapons development, although it has refused to give up its current nuclear arsenal. India and the US since have also greatly increased their economic ties.

#### **After September 11 2001 Attack**

After the September 11 attacks against the US in 2001, President George W. Bush collaborated closely with India in controlling and policing the strategically critical Indian Ocean sea lanes from the Suez Canal to Singapore. After the December 2004 tsunami, the US and Indian navies cooperated in search and rescue operations and in the reconstruction of affected areas. An Open Skies Agreement was signed in April 2005, enhancing trade, tourism, and business via the increased number of flights, and Air India purchased 68 US Boeing aircraft at a cost of \$8 billion.

Former US Secretary of Defence Donald Rumsfeld and former US Secretary of State Condoleezza Rice made recent visits to India as well in 2005. The United States and India also signed a bilateral Agreement on Science and Technology Cooperation in 2005. After Hurricane Katrina, India donated \$5 million to the American Red Cross and sent two planeloads of relief supplies and materials to help. Then, on 1 March 2006, President Bush made another diplomatic visit to further expand relations between India and the US.

India emerged in the 21st century as increasingly vital to core US foreign policy interests. India, a dominant actor in its region, and the home of more than one billion citizens, is now often characterised as a nascent Great Power and an "indispensable partner" of the US, one that many analysts view as a potential counterweight to the growing clout of China.

Since 2004, Washington and New Delhi have been pursuing a "strategic partnership" that is based on shared values and generally convergent geopolitical interests. Numerous economic, security, and global initiatives - including plans for civilian nuclear cooperation - are underway. This latter initiative, first launched in 2005, reversed three decades of American non-proliferation policy. Also in 2005, the United States and India signed a ten-year defence framework agreement, with the goal of expanding bilateral security cooperation.

The two countries now engage in numerous and unprecedented combined military exercises, and major US arms sales to India have gotten under way. The value of all bilateral trade tripled from 2004 to 2008 and continues to grow, while significant two-way investment also grows and flourishes. The influence of a large Indian-American community is reflected in the largest country-specific caucus in the United States Congress, while between 2009-2010 more than 100,000 Indian students have attended American colleges and universities.

During the tenure of the George W. Bush administration, relations between India and the United States were seen to have blossomed, primarily over common concerns regarding growing Islamic extremism, energy security, and climate change. In November 2010, President Barack Obama

visited India and addressed a joint session of the Indian Parliament, where he backed India's bid for a permanent seat on the United Nations Security Council.

## India-U.S. Delhi Declaration of Friendship

Reflecting the close ties between two democracies, India and the United States agree to elevate long-standing strategic partnership, with a Declaration of Friendship that strengthens and expands the relationship between our two countries. Each step we take to strengthen the relationship is a step towards shaping international security, regional and global peace, prosperity and stability for years to come.

Signaling the natural affinity enjoyed by two nations, this Declaration proclaims a higher level of trust and coordination that will continue to draw our Governments and people together across the spectrum of human endeavor for a better world.

The India-U.S. Vision Statement endorsed in September 2014 committed nations to a long-term partnership for prosperity and peace, through which our countries work together to make our citizens and the global community, safer and more prosperous.

The Declaration makes tangible and enduring the commitment of two countries to harness the inherent potential of our two democracies, and upgrades the unique nature of our relationship, committing our Governments to work through areas of difference.

Through this Declaration of Friendship and in keeping with national principles and laws, we respect:

- ✓ Equal opportunity for all our people through democracy, effective governance, and fundamental freedoms
- ✓ An open, just, sustainable, and inclusive rule-based global order
- ✓ The importance of strengthened bilateral defense ties
- ✓ The importance of adapting to and mitigating the impact of climate change through national, bilateral and multilateral efforts
- ✓ The beneficial impact that sustainable, inclusive development will have on our two countries and the world;
- ✓ The centrality of economic policies that support the creation of strong and sustainable jobs, inclusive development, and rising incomes;
- ✓ Transparent and rule-based markets that seek to drive the trade and investment necessary to uplift all members of society and promote economic development.

As part of this Declaration of Friendship, we commit to:

- ✓ Hold regular Summits with increased periodicity;
- ✓ Elevate the Strategic Dialogue to a Strategic and Commercial Dialogue
- ✓ This reflects the United States` and India`s commitment to strengthen commercial and economic ties to advance mutual prosperity, regional economic growth and stability;
- ✓ Establish secure hotlines between the Prime Minister of India and the President of the United States of America and National Security Advisors;

- ✓ Cooperate to develop joint ventures on strategically significant projects;
- ✓ Build meaningful security and effective counterterrorism cooperation;
- ✓ Hold regional and multilateral consultations;
- ✓ Consult and hold regular consultations in multilateral forums;
- ✓ Leverage the talents and strengths of our people to enhance sustainable, inclusive development around the globe.

## US-India Joint Strategic Vision for Asia-Pacific and Indian Ocean Region

(Vision Text)



As the leaders of the world's two largest democracies that bridge the Asia-Pacific and Indian Ocean region and reflecting our agreement that a closer partnership between the United States and India is indispensable to promoting peace, prosperity and stability in those regions, we have agreed on a Joint Strategic Vision for the region.

### Drivers of regional and global growth

India and the United States are important drivers of regional and global growth. From Africa to East Asia, we will build on our partnership to support sustainable, inclusive development, and increased regional connectivity by collaborating with other interested partners to address poverty and support broad-based prosperity.

### Infrastructure connectivity

To support regional economic integration, we will promote accelerated infrastructure connectivity and economic development in a manner that links South, Southeast and Central Asia, including by enhancing energy transmission and encouraging free trade and greater people-to-people linkages.

**Security**

Regional prosperity depends on security. We affirm the importance of safeguarding maritime security and ensuring freedom of navigation and over flight throughout the region, especially in the South China Sea.

We call on all parties to avoid the threat or use of force and pursue resolution of territorial and maritime disputes through all peaceful means, in accordance with universally recognized principles of international law, including the United Nations Convention on the Law of the Sea.

We will oppose terrorism, piracy, and the proliferation of weapons of mass destruction within or from the region.

**Shared Values**

We will also work together to promote the shared values that have made our countries great, recognizing that our interests in peace, prosperity and stability are well served by our common commitment to the Universal Declaration of Human Rights (UDHR).

**East Asia Summit**

We commit to strengthening the East Asia Summit on its tenth anniversary to promote regional dialogue on key political and security issues, and to work together to strengthen it.

In order to achieve this regional vision, we will develop a roadmap that leverages our respective efforts to increase ties among Asian powers, enabling both our nations to better respond to diplomatic, economic and security challenges in the region.

As part of these efforts, the United States welcomes India's interest in joining the Asia Pacific Economic Cooperation forum, as the Indian economy is a dynamic part of the Asian economy.

Over the next five years, we will strengthen our regional dialogues, invest in making trilateral consultations with third countries in the region more robust, deepen regional integration, strengthen regional forums, explore additional multilateral opportunities for engagement, and pursue areas where we can build capacity in the region that bolster long-term peace and prosperity for all.

**Defence Framework Agreement**

India, U.S. Defence cooperation pact

Aiming for a transformative defence partnership, India and the U.S. agreed to extend the Defence Framework Agreement.

The new framework will enhance bilateral defence partnership by stepping up joint military exercises and through more in-depth intelligence-sharing, maritime security efforts among others.

The agreement would guide the bilateral defence cooperation for the next 10 years.

In 1995, countries signed an Agreed Minute on Defence Relations, which was valid for 10 years.

When that expired in 2005, the two sides signed the New Defence Framework Agreement.

The U.S.-India defense relationship derives from a common belief in freedom, democracy, and the rule of law, and seeks to advance shared security interests. These interests include:

- ✓ maintaining security and stability
- ✓ defeating terrorism and violent religious extremism
- ✓ preventing the spread of weapons of mass destruction and associated materials, data, and technologies
- ✓ protecting the free flow of commerce via land, air and sea lanes

### **Defence Technology Trade Initiative**

They identified projects under Defence Technology Trade Initiative (DTTI) for joint production and development and exploring cooperation for jet engines and aircraft carrier systems.

This would help upgrade country's domestic defence industry and expand the manufacturing sector in India.

Two countries agreed to set up a working group to explore aircraft carrier technology and design and develop jet engine technology in India.

The projects identified under the DTTI include:

- ✓ next-generation Raven mini-unmanned aerial vehicles (actually they are micro-UAVs) that infantry platoons can launch for battlefield surveillance
- ✓ roll-on, roll-off kits for US-supplied C-130J Super Hercules transport aircraft, which are changeable aircraft interiors that allow the C-130J to be quickly configured for different missions like para-dropping, cargo-carrying and medical evacuation
- ✓ a mobile electric hybrid power source for various utilisations, which could potentially be scaled up into an "air-independent power system" for submarines
- ✓ Uniform Integrated Protection Ensemble Increment II, or protective clothing for soldiers in nuclear, chemical or biologically contaminated battlefields.

There is an attempt now to make the DTTI more operational so that it becomes result-oriented. So far, since its institutionalisation in 2012, no major projects have emerged. And now certain projects have been clearly outlined on which work will begin. This is a major step forward and also very ambitious with the talk of working groups on aircraft carrier and jet engine technologies.

Both countries agreed to increase bilateral anti-terror cooperation, intelligence sharing and maritime security.

### **Analysis**

Current agreement, while promising much for example, military intelligence cooperation has delivered little.

Utility of four military equipment that America and India will co-develop and co-manufacture as "pathfinder projects" under the Defence Trade and Technology Initiative (DTTI) is not clear. None of these require cutting-edge technology or engineering. This list is more representative of proposals the United States has presented than Indian proposals, which incorporate advanced technology.

India may have signed due to creation of a working group for cooperation in two genuinely interesting areas: aircraft carrier technology and hot engine technology.

With navy planning second indigenous aircraft carrier US involvement would benefit both sides.

India would gain from the involvement of the world's most skilled and technologically advanced carrier operators, while the United States could eventually build important parts of the Indian carrier.

US-India military cooperation now has a detailed strategic underpinning.

Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region commits the two countries to cooperate on security, counter-piracy, counter-terrorism, trade and commerce, energy transmission, and people-to-people linkages.

India has assured China that this is not directed at China, but China will bitterly note that India has agreed to partner United States in safeguarding maritime security and ensuring freedom of navigation and over flight throughout the region, especially in the South China Sea. This point is reinforced in the very next paragraph that "call[s] on all parties to avoid the threat or use of force and pursue resolution of territorial and maritime disputes through all peaceful means". Amongst these territorial disputes is the Sino-Indian boundary question. China's reaction to this pact is crucial towards resolution of boundary dispute.

## **Nuclear Power in India**

India tested its first fission device in May 1974, and now possesses full nuclear fuel cycle capabilities. It remains outside the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and the Comprehensive Nuclear Test Ban Treaty (CTBT). However, India has a facility-specific safeguards agreement in place with the International Atomic Energy Agency (IAEA) and a waiver from the Nuclear Suppliers Group (NSG) allowing it to participate in global civilian nuclear technology commerce. India has a sizable and growing nuclear arsenal, although it has not made an official claim as to its nuclear capabilities.

### **Historical overview**

#### **Developing a Peaceful Nuclear Program: 1947 to 1974**

India's nuclear program was conceived in the pre-independence era by a small group of influential scientists, notably Homi Bhabha, who grasped the significance of nuclear energy and persuaded political leaders to invest resources in the nuclear sector. In the aftermath of independence in August 1947, Prime Minister Jawaharlal Nehru launched an ambitious nuclear program meant to boost the country's prestige and self-reliance in energy. The primary focus of the program was the production of inexpensive electricity; however, the decision to develop the complete nuclear fuel cycle also gave India the technical capability to pursue nuclear weapons.

In the years that followed, the internal debate over whether India should develop a nuclear explosive device continued. On the one hand, the scientific establishment wanted to prove that it was technically capable of detonating a nuclear device, and hawks within Parliament pointed to security developments in China and elsewhere as necessitating a nuclear deterrent. On the other hand,

many politicians opposed nuclear weapons both for economic and moral reasons, arguing that nuclear weapons would not make India safer, and that the solution to nuclear proliferation was comprehensive global nuclear disarmament. A consensus emerged on both sides that India should not sign the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) when it was opened for signature in 1968 unless the nuclear weapon states agreed to a clear plan for nuclear disarmament. Although averse to the idea of nuclear weapons, Prime Minister Lal Bahadur Shastri authorized theoretical work on the Subterranean Nuclear Explosion for Peaceful Purposes (SNEPP) project in November 1964. In the late 1960s nuclear scientists continued to develop the technical capacity for a nuclear explosion, although the political decision had not yet been made to carry out the test. Ultimately, on 18 May 1974, India tested a fission device which it described as a “peaceful nuclear explosion” (PNE). The decision was partly based on security considerations, but equally important were the scientific community’s desire to display its successes and the domestic political desire to win support. For some analysts the final decision to conduct the test was the result of an ad hoc, intuitive process that lacked rigorous security analysis.”

#### **The Slow Path toward Weaponization: 1974 to 1998**

India’s 1974 nuclear test was condemned by many countries as a violation of the peaceful-use agreements underlying U.S. and Canadian-supplied nuclear technology and material transfers, and was a major contributing factor to the formation of the Nuclear Suppliers Group (NSG).

The United States responded to the test by imposing a number of sanctions on India. However, despite international alarm about the military implications of its nuclear explosion, India did not follow the 1974 test with subsequent tests, nor did it immediately weaponize the device design that it had tested. At that time, advances in Pakistan’s efforts to acquire nuclear weapons and the oblique nuclear threats issued by Islamabad in the wake of the 1986 to 1987 Brasstacks crisis appear to have persuaded Prime Minister Rajiv Gandhi to authorize weaponization of India’s nuclear capability.

At the same time, India continued to support efforts for nuclear disarmament. In 1988, Prime Minister Gandhi submitted an Action Plan for a Nuclear-Weapons-Free and Non-Violent World Order to the United Nations General Assembly. As negotiations on the CTBT rapidly progressed in the early 1990s, Indian elites came to regard the CTBT as an instrument of nonproliferation that sought to freeze countries’ nuclear capabilities. This, along with the indefinite extension of the NPT, reignited domestic political pressure for India to risk economic sanctions by conducting further tests. In 1995 the Narasimha Rao government considered an accelerated program of nuclear tests. However, India’s test preparations were detected by U.S. intelligence agencies, and the resultant U.S. diplomatic pressure convinced the Rao government to postpone the tests. Plans for testing were renewed when the Bharatiya Janata Party (BJP) led by Atal Bihari Vajpayee came to power for a brief period in 1996, but the BJP decided not to go through with the tests. When it returned to

power in 1998, the BJP authorized two rounds of nuclear tests on 11 and 13 May 1998, after which it formally declared India to be a nuclear-weapon state.

### **India as a Declared Nuclear Power: 1998 to the Present**

India's nuclear tests were followed within a month by a similar set of tests by Pakistan, resulting in fears in the international community of an arms race or an escalation of conflict between the two openly declared nuclear powers in South Asia. The 1999 Kargil War and the 2001 to 2002 Twin Peaks Crisis heightened tensions between the two countries, although these low-level conventional conflicts did not escalate to the nuclear level.

After the 1998 tests the Indian government established a National Security Advisory Board, which issued a Draft Report on Indian Nuclear Doctrine in 1999 that broadly outlined India's nuclear no-first-use policy and defensive posture of "credible minimum nuclear deterrence." In January 2003, a Ministry of External Affairs press release maintained adherence to no-first-use, although with the condition that nuclear weapons could also be used in retaliation for a biological or chemical attack, or to protect Indian forces operating in Pakistan. Internal debate about the future role of nuclear weapons continued: a task force established by the Ministry of External Affairs to review India's nuclear posture recommended in 2007 "a comprehensive and integrated nuclear defense capability," taking into account the persistent political instability in the region and China's continued nuclear cooperation with Pakistan.

In line with this posture, India does not maintain a constituted nuclear force on a heightened state of alert. The country's nuclear weapons remain under the control of the civilian Nuclear Command Authority (NCA), comprised of a Political Council, chaired by the Prime Minister, which is "the sole body which can authorize the use of nuclear weapons;" and an Executive Council, led by the National Security Advisor, which "provides inputs for decision making... and executes the directives given to it by the Political Council." The Indian mission to the United Nations has submitted several draft recommendations on "reducing nuclear danger," which include "steps to reduce the risks of unintentional and accidental use of nuclear weapons, including through de-alerting and de-targeting nuclear weapons."

### **The U.S.-India Nuclear Agreement and India's Participation in Nuclear Commerce**

A key development in recent years has been the U.S.-India nuclear cooperation agreement, plans for which were first unveiled in July 2005. This agreement and the subsequent endorsement of India's case by the Nuclear Suppliers Group (NSG) enabled India to engage in international nuclear trade. In return, New Delhi agreed to allow safeguards on a select number of its nuclear facilities that are classified as "civilian" in purpose. The remaining "military" facilities remain off-limits to international inspectors.

The agreement process required navigating a number of diplomatic and legal hurdles. The U.S. Congress passed the Hyde Act in January 2006 to exempt nuclear cooperation with India from provisions of the U.S. Atomic Energy Act, allowing for the adoption of a bilateral 123 nuclear

cooperation agreement in August 2007. In September 2008, the NSG approved an exemption allowing the members of this export control regime to conduct nuclear trade with India. Finally, a safeguards agreement for select civilian nuclear facilities was concluded between India and the International Atomic Energy Agency (IAEA) in February 2009, after approval by the IAEA Board of Governors the previous year.

In October 2009, India submitted a separation plan to put its 14 civilian nuclear facilities under IAEA safeguards by 2014. The last two facilities, The Narora Atomic Power plant Unit I and II (NAPS), are set to go under IAEA safeguards at the end of 2014. In late July 2010, India and the United States signed a bilateral agreement allowing India to reprocess U.S.-obligated nuclear material at two new reprocessing facilities, to be constructed and placed under IAEA safeguards.

Following the NSG waiver, India signed nuclear cooperation agreements with Russia, France, the United Kingdom, South Korea, Canada, Argentina, Kazakhstan, Mongolia, and Namibia. In October 2009, New Delhi identified two locations in the states of Gujarat and Andhra Pradesh that could host reactors constructed by GE Hitachi and Westinghouse. However, given the constraints on any agreement imposed by New Delhi's civil nuclear liability law, it is unclear whether U.S. companies will conclude any reactor supply deals with India.

### **Recent Developments and Current Status**

India continues to participate in international nuclear trade. In April 2013, Canada and India signed a bilateral safeguards agreement for trade in nuclear materials and technology used in IAEA safeguarded facilities. India has long sought to secure a bilateral civilian nuclear agreement with Japan. However, the stalemate continues since the two parties failed to secure an agreement during a five day meeting between the two Prime Ministers in September 2014. Also in September 2014, Australia's Prime Minister Tony Abbott and India's Narendra Modi signed a nuclear cooperation agreement. This agreement paves the way for Australia to export uranium for India's civilian nuclear program.

India is tightening its export controls for dual-use technologies in an effort to get membership into the Nuclear Supplier's Group and other export control regimes. New Delhi is seeking membership to the NSG, MTCR, Wassenaar Arrangement and Australia Group. In January of 2015, India and the United States released a joint statement announcing that the two nations will work towards India's phased entry into the Nuclear Suppliers Group (NSG), the Missile Technology Control Regime (MTCR), the Wassenaar Arrangement, and the Australia Group. China extended conditional support for India's inclusion into the NSG, but stressed that the group should proceed with caution, and that China "support[s] India to take further measures to meet the requirements for the inclusion in the group," according to Chinese foreign ministry spokesperson Hua Chunying. According to Foreign Secretary Ranjan Mathai, "In some respects, our controls are more stringent than those practiced by the NSG and MTCR."

In arguing for NSG membership, India has portrayed itself as a responsible nuclear power, pointing to its positive record on nonproliferation and consistent support for complete nuclear disarmament. It

has maintained a unilateral moratorium on nuclear testing and supports negotiations of a Fissile Material Cut-off Treaty (FMCT) that is "universal, non-discriminatory, and internationally verifiable." At the same time, India has remained firmly outside of the NPT, arguing that "nuclear weapons are an integral part of our national security and will remain so pending the global elimination of all nuclear weapons." New Delhi has not signed the CTBT, and continues to produce fissile material for its nuclear weapons program. Although it has reiterated its commitment to no-first-use of nuclear weapons, India's nuclear posture of credible minimum deterrence is still evolving, and the country is developing a strategic triad of nuclear delivery systems.

## India's Nuclear Doctrine

India's nuclear doctrine can be summarized as follows:

- ✓ Building and maintaining a credible minimum deterrent;
- ✓ A posture of "No First Use" nuclear weapons will only be used in retaliation against a nuclear attack on Indian territory or on Indian forces anywhere;
- ✓ Nuclear retaliation to a first strike will be massive and designed to inflict unacceptable damage.
- ✓ Nuclear retaliatory attacks can only be authorised by the civilian political leadership through the Nuclear Command Authority.
- ✓ Non-use of nuclear weapons against non-nuclear weapon states;
- ✓ However, in the event of a major attack against India, or Indian forces anywhere, by biological or chemical weapons, India will retain the option of retaliating with nuclear weapons;
- ✓ A continuance of strict controls on export of nuclear and missile related materials and technologies, participation in the Fissile Material Cutoff Treaty negotiations, and continued observance of the moratorium on nuclear tests.
- ✓ Continued commitment to the goal of a nuclear weapon free world, through global, verifiable and non-discriminatory nuclear disarmament.

The Nuclear Command Authority comprises a Political Council and an Executive Council. The Political Council is chaired by the Prime Minister. It is the sole body which can authorize the use of nuclear weapons.

The Executive Council is chaired by the National Security Advisor. It provides inputs for decision making by the Nuclear Command Authority and executes the directives given to it by the Political Council.

## Treaty on the Non-Proliferation of Nuclear Weapons (NPT)

**Opened for signature: 1 July 1968**

**Entered into force: 5 March 1970**

**Duration:** Indefinite. Twenty five years after the entry into force of the NPT, at the 1995 NPT Review and Extension Conference held in New York at the United Nations from 17 April to 12 May 1995, States Parties agreed without a vote "that the Treaty shall continue in force indefinitely."

**Obligations:**

- ✓ Nuclear weapon states (NWS) are not to transfer to any recipient whatsoever nuclear weapons or other nuclear explosive devices and not to assist, encourage, or induce any non-nuclear weapon states (NNWS) to manufacture or otherwise acquire them.
- ✓ NNWS are not to receive nuclear weapons or other nuclear explosive devices from any transferor, and not to manufacture or acquire them.
- ✓ NNWS must place all nuclear materials in all peaceful nuclear activities under IAEA safeguards.
- ✓ All Parties are obligated to facilitate and participate in the exchange of equipment, materials, and scientific and technological information for the peaceful uses of nuclear energy.
- ✓ All Parties must pursue negotiations in good faith on effective measures relating to the cessation of the nuclear arms race and to nuclear disarmament, and on a treaty on general and complete disarmament under strict and effective international control.

From an Indian standpoint, the history of NPT can be divided into three time periods: the periods of engagement, disengagement and reengagement.

**Engagement** The period of engagement stretches from 1954 to 1970. India called for a standstill agreement on all nuclear testing in 1954 and signed the Partial Test Ban Treaty in 1963. It was one of the members of the Eighteen Nation Disarmament Commission (ENDC) which started negotiating the NPT in July 1965. However, as the negotiations unfolded, Indian excitement diminished. The treaty allowed possession of nuclear weapons to states that had imploded nuclear devices before 1 January 1967. However, it did not address the question of reductions of the arsenals of the NWS adequately. As is evident in article VI of the treaty, NWS only promised to negotiate in good faith towards nuclear disarmament. India also felt threatened when China, with which it has a border dispute, was included in the treaty as a NWS since China had conducted nuclear tests in 1964. By the time the treaty came into force in 1970, India's period of disengagement had begun.

**Disengagement** This process lasted from 1970 to 1998. During this period, India distanced itself from the treaty. India had developed a sophisticated nuclear programme since the mid 1940's and the NPT's failure in meeting India's expectations provided it with a motivation to go nuclear. India conducted its first nuclear test in 1974, euphemistically called a 'Peaceful Nuclear Explosion'. Following the blast, all international nuclear-related trade with India was heavily sanctioned. In May 1998, it conducted five nuclear tests, declaring to the world its military nuclear programme.

**Reengagement** However, with the coming of the bomb, came a period of reengagement, informed by two important developments. First, having gone nuclear and thus being reassured of its nuclear status, India joined the other NWS in looking at non-proliferation from the perspective of a state with nuclear weapons. It realized, for example, the destabilizing impact of the nuclear proliferation business between North Korea, China and Pakistan on the South Asian region.

Just before the 2000 NPT Revised Conference, the Indian government for the first time supported the principles of the NPT, though it declined to join it as a NNWS. Again in 2005, the Indian Minister for External Affairs Natwar Singh appealed for strengthening the NPT and called India a 'responsible' nuclear power. This pattern was visible in the address of the Indian Prime Minister Manmohan Singh in the recently held Nuclear Security Summit in Washington, DC where it became evident that India has now become one of the pivotal members of the non-proliferation regime. A shift in India's stance on the NPT has resulted in India being brought into the non-proliferation regime from the backdoor. Today, India stands at crossroads: part of the non-proliferation regime and yet not a part of the NPT, either as a NNWS or a NWS.

### **Might India join the NPT as a NNWS?**

India can only be accepted as a NNWS in the NPT if it unilaterally disarms and gives up its military nuclear programme. However, having been recognized as a de facto NWS, a responsible nuclear power and a state with advanced nuclear technology under the Indo-US nuclear deal, this is nearly impossible. Since the 1998 tests, Indian foreign policy has taken a realpolitik bent. As Raja Mohan pointed out in his 2007 study, India realizes that in the foreseeable future nuclear weapons will remain active tools of international diplomacy and may well decide the contours of power politics. Even President Obama conceded the importance of nuclear weapons for US security in his Prague Speech. Also, the 2010 Nuclear Posture Review underlines the salience of nuclear weapons in the contemporary world. In this scenario, India would very much like to hold onto its nuclear weapons.

### **Will India join the NPT as a NWS?**

Many in India and abroad have deliberated on this issue and have responded in favour of bringing an amendment to the NPT under the provisions of Article VIII in order to accommodate India as a NWS member. Legally possible, such a proposal is politically myopic. Bringing an amendment to the NPT is easier said than done. More than one-third of the NPT member states must support any plea for amendment, and a successful amendment to the treaty requires the solid backing of all five NWS as well as a majority of the NNWS.

Consensus among the NNWS is highly problematic. Egypt, which heads the Non-Alignment Movement in the NPT, has described cooperation under the Indo-US nuclear deal as a "direct contravention of Article I of the treaty and provisions of Para 12 of the 1995 NPT Review and Extension conference". It has also underlined the negative impact of the deal on the overall structure of the NPT. Iran has said that the deal has already "severely damaged" the NPT. India's incorporation as a NWS would be even more disconcerting for these countries.

Even the NWS understand that such a development may lead to the erosion of NPT's legitimacy. All NWS have an inherent interest in maintaining the sanctity of the NPT. NPT has a near universal membership with 189 members. More than 26 countries, such as South Africa, Brazil and Argentina, have rolled back their nuclear programmes and have become members of the NPT. Only North Korea has proliferated while remaining inside the treaty. Iran is suspected of doing so. Seen against

the backdrop of the proliferation fears expressed by President Kennedy in his speech in the United Nations General Assembly in 1961, the NPT has indeed made huge strides towards restraining many states from going nuclear.

This explains why the Obama administration is so persistent about the universalisation of the NPT, despite the apparent contradiction, as many in India see it, with the US position in the Indo-US nuclear deal. The constant advocacy for universalisation of the NPT as reflected in the NPT RevCon's Final Declaration is a manifestation of a collective interest in preserving the NPT. The above arguments underline the fact that both NWS and NNWS will not wish to see the structure of the NPT changed to accommodate India as a NWS.

### **What about the status quo option?**

Soon after negotiations on the nuclear deal were initiated, the North Korean Vice Foreign Minister Kim Kye Gwan requested that the US Assistant Secretary of State, Christopher Hill, "treat us (North Korea) in the way you treat India. It means that following the Indian example, North Korea also wants its weapons programme to be legitimized. Hence, the history of India's engagement, disengagement and reengagement with the NPT has become a model for states who want to go nuclear. In other words, India today offers a 'complete breakout package' to those disgruntled with progress under the NPT. Incorporation will not only embolden aspirations to follow this 'model for proliferation' but would also provide a fundamental motivation to proliferate.

Incorporating India as a NWS into the NPT would suggest that the NWS are only concerned with horizontal proliferation (the spread of weapons of mass destruction (WMD) to countries that have not previously held them), not with vertical proliferation (the increase in size of an existing WMD arsenal). This is bolstered by the fact that India's continued stockpiling of weapons-grade plutonium has received far less attention than proliferation attempts by Iran and North Korea. The impression thus rendered - by the US-India nuclear deal were India were to be granted NWS status - is that once a state crosses the nuclear threshold, the international community will, sooner or later, accept its nuclear status.

The Indo-US nuclear deal was an exception to the rule of the non-proliferation regime. So far, if the damage done by the deal has been limited, this is because of the widespread legitimacy the NPT enjoys in the international arena. However, any further meddling with the NPT will certainly lead to unpalatable outcomes. Even if the NPT has been so far successful in restraining its members from proliferating, continued assault on its core normative underpinnings may lead to its disintegration.

This fear, as was indicated by the UN High Level panel on Threats, Challenges and Change did not solely emanate from clandestine activities of states such as North Korea and Iran. It also arose from the constant undermining of the values of the NPT by the great powers, as made evident in the Indo-US civilian nuclear agreement and in the ongoing sidelining of the NWS's disarmament commitments. India's incorporation into the NPT as a NWS would further strengthen the 'Indian

Model of Proliferation' and rekindle motivations to proliferate among other states. Order, in a world with a number of nuclear powers, will be hard to maintain. Therefore, it is in India's interest as a growing power in the international scene to maintain the status quo on the NPT.

Under these conditions, the only available option for India and the NPT members is to maintain the status quo.

However, maintaining the status quo can only act as a temporary fix in the international nuclear order, given the NPT's inherently discriminatory nature. Diplomatic wrangling on the issue of universalisation of the NPT will continue until and unless the categories of NWS and NNWS are eliminated. This will only be possible in a world free of nuclear weapons. In a nuclear weapons world, these categories will persist, representing discrimination and injustice, and hence a reason for rivalry and contention amongst states.

### **Comprehensive Nuclear-Test-Ban Treaty (CTBT)**

Conference on Facilitating the Entry-into-Force of the Comprehensive Nuclear-Test-Ban Treaty (CTBT) Conference on Facilitating the Entry-into-Force of the Comprehensive Nuclear-Test-Ban Treaty (CTBT)

**Opened for Signature:** 24 September 1996.

**Duration:** Indefinite

**Number of Signatories:** 183, **Number of Ratifications:** 162

Number of Signatures of the 44 States, Number of Ratifications of the 44 States

**Basic Obligations:**

The CTBT bans any nuclear weapon test explosion or any other nuclear explosion (i.e., true zero yield).

The CTBT is frequently associated with another key element in the process of nuclear disarmament: a ban on the production of fissile material for anything other than verified peaceful use. Such a ban would impose a quantitative limit on the amount of nuclear material available for weapons use. That objective is the basis for an initiative at the Conference on Disarmament (CD) to negotiate a treaty banning further production of fissile material for weapons purposes — the draft Fissile Material Cut-Off Treaty (FMCT). Taken together, the CTBT and the FMCT are integral components of the nuclear control regime and provide the foundation for eventual nuclear disarmament.

Organization: The Treaty establishes a CTBT Organization (CTBTO), located in Vienna, to ensure the implementation of its provisions, including those provisions for international verification measures.

#### **India and CTBT**

Indian rejection of the Comprehensive Test Ban Treaty (CTBT) in 1996 was based on both political and technical considerations. The Indian representative Ms. Arundhati Ghose responded to western pressure by declaring that India would accede – "not now, not ever" – to treaty that reinforced

existing inequities in the international system, and offered little by way of commitments to disarmament. However, since the nuclear tests of May 1998, the Indian government has agreed in principle to eventually signing the CTBT.

### **Technical Issues**

Under the provisions of the CTBT, all signatories (even those outside the NPT) would have had to forgo the option of testing nuclear weapons. However, existing nuclear powers would be able to continue refining their existing arsenals by through sub-critical tests. Therefore India's main technical objection to signing the CTBT was that the treaty would foreclose the country's nuclear option that had developed and nurtured over the years. Signing on to a blanket ban on testing would have severely undermined the credibility of the India's arsenal. Simple warhead designs do not require testing, as was demonstrated at Hiroshima. However, testing was a pre-requisite for the validation of India's sophisticated warhead designs. The technical aspects of the nuclear program were addressed when India conducted two series of tests on May 11th and May 13th, 1998 at Pokhran (POK-2). As explained below the 1998 tests allowed India to test updated warheads designed on experience gained from the 1974 (POK-1) test.

### **Political issues**

The politics of CTBT accession must also be understood at various levels.

### **Disarmament**

Indian objections to the CTBT stem largely from the concern that it does nothing to advance the cause of disarmament. During the indefinite extension of the NPT, the five nuclear weapons states (NWS) pledged to work to ensure that the CTBT would be in place by 1996 and negotiations on concluding a successful Fissile Material Cut-Off Treaty (FMCT) would be started as steps towards fulfilling the Article 6 provisions. The Indian apprehensions were vindicated when France and China conducted a series of tests to enhance their arsenals prior to signing the CTBT. The US has set up its stockpile stewardship program, which not only certifies old designs but can also develop new designs without actual tests. Subsequently, the US, Russia and China have all started carrying out sub-critical tests. None of the NWS bothered even to pay lip service to Article 6 of the NPT.

Disarmament is not some esoteric Nehruvian concept. In fact disarmament and security are the two faces of the same coin. This is because fewer (or no) weapons, substantially reduces the chances of their being used in actuality or for coercion. At this juncture it is important to demolish another myth. The indefinite extension of the NPT has conferred special status on the five NWS and perpetuates their access to nuclear weapons. The May 1998 tests have created a new reality of states with nuclear weapons (SNW) as opposed to the NPT, which has the definition of five NWS and all those who have acceded to it. Only Israel is left out in this categorization. It has signed the CTBT though, indicating that it has no need to test. SNW were all outside the purview of the NPT, and that two of them chose to exercise their nuclear options is not a violation of any international

obligations that they have undertaken. Any further breakout is a problem of violation of NPT which is not of India's making. Also Indian doctrine states clearly that its posture is to deter other nuclear weapons only. The corollary is that so long as nukes are there, so long will the Indian posture be there. Together they can approach zero.

### **Inspection regime**

The CTBT proposes an extensive intrusive inspection regime based on member complaints. Such a process is more extensive than any that India has ever been part of. Only the power plants supplied from abroad are under IAEA safeguards. All other Indian plants are out of bounds. It is possible that some interested parties can make an excuse and subject India to challenge inspections and proceed with malafide intent. That the inspection regime does not confine itself to declared test sites only is a possible source of agony in future. From the Indian perspective this remains a key concern.

### **Vienna Convention and the CTBT process**

Under the Vienna convention on treaties, no state will be coerced into accepting a treaty to which it is not a signatory. In 1996 India rejected CTBT at the Conference on Disarmament. The treaty was subsequently put to a vote in the UN General Assembly and passed. It has provisions that it would come into force only when states which are not parties to it sign and ratify it. This is against the spirit of the Vienna Convention on treaties. An argument can therefore be made that India should not bring about the success of the very treaty that violates the spirit of free association and accession to international treaties.

### **US Senate rejection and issues**

During the United States Senate debate on the ratification of the CTBT many issues were raised. United States is a principal signatory state and its failure to ratify dooms the treaty from entry into force (EIF). The other principal signatories, Russia and China have not ratified and are unlikely to do so until their security concerns are addressed. What the US senate rejection implies is, there is need to keep the option of conducting nuclear tests for various reasons in the post-Cold war era. Some of these include - stockpile degradation, small inventories need high reliability of integrated systems. Another reason for not signing the CTBT in the Indian context is that testing could serve as a warning shot across the bows to ward off potential aggressors. This is especially relevant in enhancing credibility in light of some skepticism about the performance of S-1. The six-month withdrawal clause for supreme national interest is not sufficient to provide such capability. It is better to be able to test to prove resolve than to allow a breakdown of deterrence.

### **Virtual test ban moratorium**

Since May 1998 (and despite the CTBT's non-entry into force) there exist virtual national moratoriums on nuclear tests. Three states - US, Russia and China - are the only states who may have cause to break this. A US breakout would come if its stockpile stewardship program (SSP)

leads it to the conclusion further tests are necessary. With the amount of money being spent on the program this is highly unlikely. Russia has changed its doctrine to include low yield weapons to account for the degradation of its conventional weapons. It also fears further attempts to dismember it via externally aided insurgencies. It would break out only if these come true. There appears to be little interest in the further disintegration of Russia as the fear of narco-terrorism combined with religious extremism is gaining ground. China has no need to break out as it has now access to US data as reported in the Cox Report and it has completed its round of tests. It could demonstrate resolve if there are attempts to degrade its security. There are only plans to engage and bring it into the community of nations and not constrain it. Perhaps the national moratoriums are the best outcome for the treaty and can be explained as satisfying the commitments made to the negotiating nations at the indefinite extension of the NPT.

### **Sub critical test issue**

India stated that with the successful completion of its sub-kiloton tests it acquired the capability to conduct sub-critical tests. Sub-critical tests, incidentally, are not banned by the CTBT. However to date only three of the NWS have performed these tests and this would seem to imply that only the NWS have the right to perform these tests. The other NWS who do not have access to test sites have a data sharing agreement with the US. It is important that India conduct these tests, even if they are not needed to establish its de-facto nuclear status, prior to assenting to any treaties as a matter of establishing its legal rights.

### **Indo-US nuclear dialogue**

It started in the late sixties when the NPT was first being negotiated. US exerted great pressure on India not to reply to China's test. The Vienna Convention on treaties and the peaceful explosion route and lack of aggressive moves from China were expected to provide enough leeway for India. Nixon's engagement of China and subsequent US attempts to involve the former against India during the Bangladesh War in 1971 played a significant role in forcing India to exercise its nuclear option. Subsequently non-proliferation became a major plank of US foreign policy. Had this been accompanied by security assurances, it would have kept India in nuclear limbo. This engagement was revived continued immediately after end of the Cold War and the nineties. The London talks broke down in 1994. However there seems to have been a track two effort between the two countries. The details of the Rao-Clinton meeting in 1994 are not available, but one can draw inferences from the subsequent events. The Indians appear to have agreed to the following- not show up at the NPT renewal conference, co-sponsor the CTBT, and cap the testing and deployment of ballistic missiles. The US in turn agreed to drop references to human rights violations in Kashmir and renew the NPT for another fixed term. The indefinite extension of the NPT, therefore, came as a shock and surprise for India. It started re-appraising the nuclear option and started modifying its foreign policy accordingly. The preceding points are important to remind one of the impact that US policies have had on Indian ambivalence.

### Indian debate on CTBT

It is now quite clear that the technical issues that prevented India from acceding to the CTBT have been by and large resolved. However, political and strategic issues have are far from being settled to India's satisfaction. At the UNGA India had stated that it would not be in the way of the CTBT coming into force. It would accede if those signatories ratified without conditions. It has kept to this stand even after reports about failure of its tests coming from the US. With the US Senate's failure to ratify the CTBT, whether India signs or not has become a moot point. It is not India, but the US, Russia and China who the principal states are preventing its from entry into force.

There is no political consensus in India on the issue of accession, though there is a broad consensus on testing moratorium. India is trying to dis-aggregate the process of accession to a three-stage minuet, but this is not right. The founding fathers of the Indian Constitution did not envisage this type of convulsive maneuvers for the process of treaty accession. It is improper to accede to a treaty, which one knows will not come into effect and would subject the nation to intrusive inspections. Moreover the Vienna Convention requires a signatory to accept the obligations of a treaty even if it does not come into force. It is possible that all these maneuvers are to get India to sign so that the Vienna obligations force it from further testing if ever. This is the same status for the five NWS right now. Further the reports of side agreements and classified MoUs exchanged between the NWS are disturbing and show the treaty to be a discriminatory one. India should be a party to these as well. A consensus or national opinion cannot be sought in bits and pieces. It is better to introduce a resolution in the Parliament and let there be an informed debate.

### Where do we go from here?

Deterrence relies on credibility. Without the latter there is no deterrence. From an Indian perspective there are four alternatives available. First, base the nuclear posture on proven fission tests and rely on ambiguity for the fusion component. Second, realize that credibility is at the core of deterrence and announce a series of tests and proceed to provide credibility for the posture and finally join the CTBT. Third, do nothing and rely on ambiguity and accede to the CTBT. Lastly, give up on weaponization and join NPT and CTBT. The last two options are what US would prefer India choose. These are untenable for various reasons that will only be listed as they have been discussed interminably by more astute observers.

The first option of basing the posture on fission technology including boosted fission and ambiguity for the fusion-based systems (incorporating the lessons learned from S-1) has some pros and cons. Again ambiguity leads to a reduction in credibility. Worse yet, it indicates lack of resolve and could encourage further misadventures by neighbors. These are top-level issues. There will always be lingering doubts that India is not a complete power and its statements will be taken as being less than candid. Further more, option one increases the requirement for the number of weapons to cause sufficient damage to an aggressor. In other words India has to increase its fissile material

inventory and the number of payloads. As the Indian inventory of fissile material is limited and the world community is interested in negotiating a FMCT as part of the NPT extension bargain, this would be at cross-purposes. This of course has a ripple effect on strategic balance of the nuclear powers and those are not addressed here as there are other issues tugging at that conundrum- ABMs, changes in doctrine, China's modernization etc. The cost of the posture goes up due to increase in survivable delivery vehicles with proper payloads. In addition as payloads are heavier as pointed out by P K Iyengar (800 kg versus 200kg), the delivery vehicles become more cumbersome and expensive. In addition the life cycle costs increase and these have reduced safety as he alludes to. The pro is that no further tests would be required before acceding to the CTBT and it would go down well with the US. There could be intangible benefits of being in the good books of the "do-gooder" elements of the domestic and international community. This would be one less stick to be used against India. However the accession to CTBT is ruled out to preserve the supreme interest clause to test the fusion weapon, as needed.

The second option, of announcing a series of tests to refine the fusion series of weapons and conducting these. All designs should be completed as announced without any misgivings. The dates would to be announced and the tests conducted on those dates. No last minute postponements. True, there will be a reaction but that is for diplomacy to take care of. This process will add credibility and demonstrate resolve, which are always at the core of the Indian national character. After the tests are conducted and the results are deemed satisfactory, India can formally accede to the CTBT. This option has as pros all the cons listed in option one. In addition it can utilize the fissile material efficiently and maximize Indian inventory. We conclude therefore that it is in the national interest for India to both enhance the credibility of its deterrent and subsequently join the international moratorium on testing. India should therefor announce a resumption of testing and follow this up by acceding to the CTBT. The alternative is to weaponize based on fission and its variant technology and revoke NFU and not accede to CTBT.

### **International Atomic Energy Agency (IAEA)**

The International Atomic Energy Agency (IAEA) is an international organization that seeks to promote the peaceful use of nuclear energy, and to inhibit its use for any military purpose, including nuclear weapons. The IAEA was established as an autonomous organization on 29 July 1957. Though established independently of the United Nations through its own international treaty, the IAEA Statute, the IAEA reports to both the United Nations General Assembly and Security Council. The IAEA has its headquarters in Vienna, Austria. The IAEA has two "Regional Safeguards Offices" which are located in Toronto, Canada, and in Tokyo, Japan. The IAEA also has two liaison offices which are located in New York City, United States, and in Geneva, Switzerland. In addition, the IAEA has three laboratories located in Vienna and Seibersdorf, Austria, and in Monaco.

The IAEA serves as an intergovernmental forum for scientific and technical cooperation in the peaceful use of nuclear technology and nuclear power worldwide. The programs of the IAEA

encourage the development of the peaceful applications of nuclear technology, provide international safeguards against misuse of nuclear technology and nuclear materials, and promote nuclear safety (including radiation protection) and nuclear security standards and their implementation.

The IAEA is generally described as having three main missions:

- ✓ Peaceful uses: Promoting the peaceful uses of nuclear energy by its member states,
- ✓ Safeguards: Implementing safeguards to verify that nuclear energy is not used for military purposes
- ✓ Nuclear safety: Promoting high standards for nuclear safety

The IAEA has 162 member states.

## **Nuclear Suppliers Group**

Nuclear Suppliers Group (NSG) is a multinational body concerned with reducing nuclear proliferation by controlling the export and re-transfer of materials that may be applicable to nuclear weapon development and by improving safeguards and protection on existing materials.

The NSG was founded in response to the Indian nuclear test in May 1974 and first met in November 1975. The test demonstrated that certain non-weapons specific nuclear technology could be readily turned to weapons development. Nations already signatories of the Nuclear Non-Proliferation Treaty (NPT) saw the need to further limit the export of nuclear equipment, materials or technology. Another benefit was that non-NPT and non-Zangger Committee nations, then specifically France, could be brought in.

A series of meetings in London from 1975 to 1978 resulted in agreements on the guidelines for export. Listed items could only be exported to non-nuclear states if certain International Atomic Energy Agency safeguards were agreed to or if exceptional circumstances relating to safety existed. The name of the "London Club" was due to the series of meetings in London. It has also been referred to as the London Group, or the London Suppliers Group.

The NSG did not meet again until 1991. The "Trigger List" remained unchanged until 1991, although the Zangger list was regularly updated. The revelations about the Iraqi weapons program following the first Gulf War led to a tightening of the export of so-called dual-use equipment. At the first meeting since 1978, held at The Hague in March 1991, the twenty-six participating governments agreed to the changes, which were published as the "Dual-use List" in 1992, and also to the extension of the original list to more closely match the up-to-date Zangger list. A regular series of plenary meetings was also arranged as was the regular updating of the two key lists.

As of 2014 the NSG has 48 members.

## **India–United States Civil Nuclear Agreement**

The 123 Agreement signed between the United States of America and the Republic of India is known as the U.S.–India Civil Nuclear Agreement or Indo-US nuclear deal. The framework for this agreement was a July 18, 2005, joint statement by then Indian Prime Minister Dr. Manmohan Singh and then U.S. President George W. Bush, under which India agreed to separate its civil and military nuclear facilities and to place all its civil nuclear facilities under International Atomic Energy Agency

(IAEA) safeguards and, in exchange, the United States agreed to work toward full civil nuclear cooperation with India.

In its final shape, the deal places under permanent safeguards those nuclear facilities that India has identified as "civil" and permits broad civil nuclear cooperation, while excluding the transfer of "sensitive" equipment and technologies, including civil enrichment and reprocessing items even under IAEA safeguards.

On August 18, 2008 the IAEA Board of Governors approved, and on February 2, 2009, India signed an India-specific safeguards agreement with the IAEA.

Once India brings this agreement into force, inspections began in a phased manner on the 35 civilian nuclear installations India has identified in its Separation Plan.

On August 1, 2008, the IAEA approved the safeguards agreement with India, after which the United States approached the Nuclear Suppliers Group] (NSG) to grant a waiver to India to commence civilian nuclear trade. The 48-nation NSG granted the waiver to India on September 6, 2008 allowing it to access, civilian nuclear technology and fuel from other countries.

The implementation of this waiver made India the only known country with nuclear weapons which is not a party to the Non-Proliferation Treaty (NPT) but is still allowed to carry out nuclear commerce with the rest of the world.

#### Rationale behind deal

- ✓ **Nuclear non-proliferation** The proposed civil nuclear agreement implicitly recognizes India's "de facto" status even without signing the NPT. The Bush administration justifies a nuclear pact with India arguing that it is important in helping to advance the non-proliferation framework by formally recognizing India's strong non-proliferation record even though it has not signed the NPT.
- ✓ **Economic considerations** It is India's stated objective to increase the production of nuclear power generation from its present capacity of 4,780 MWe to 20,000 MWe in the next decade. Such a deal could spur India's economic growth and bring in \$150 billion in the next decade for nuclear power plants. USA will get share from this.
- ✓ **Nuclear technology** both countries can benefit from each other's nuclear technologies. Because India's nuclear program was developed mostly indigenously, the country used unique techniques that other countries can learn from.
- ✓ **Strategic** The United States also sees India as a viable counter-weight to the growing influence of China.
- ✓ **Energy Security** While India is self-sufficient in thorium, (25% of the world's thorium) it possesses a meager 1% of the similarly calculated global uranium reserves. Indian support for cooperation with the U.S. centers on the issue of obtaining a steady supply of sufficient energy for the economy to grow.

## 123 AGREEMENT

This is an agreement for cooperation between the government of the USA and the government of India concerning peaceful uses of nuclear energy.

### The provisions of agreement are:

The Parties shall cooperate in the use of nuclear energy for peaceful purposes in accordance with the provisions of this Agreement.

Each Party shall implement this Agreement in accordance with its respective applicable treaties, national laws, regulations, and license requirements concerning the use of nuclear energy for peaceful purposes.

The purpose of the Agreement being to enable full civil nuclear energy cooperation between the Parties, the Parties may pursue cooperation in all relevant areas to include, but not limited to, the following:

- ✓ Advanced nuclear energy research and development in such areas as may be agreed
- ✓ Nuclear safety matters of mutual interest and competence
- ✓ Facilitation of exchange of scientists for visits, meetings, symposia and collaborative research
- ✓ Full civil nuclear cooperation activities covering nuclear reactors and aspects of the associated nuclear fuel cycle including technology transfer on an industrial or commercial scale between the Parties or authorized persons
- ✓ Development of a strategic reserve of nuclear fuel to guard against any disruption of supply over the lifetime of India's reactors;
- ✓ Advanced research and development in nuclear sciences including but not limited to biological research, medicine, agriculture and industry, environment and climate change;
- ✓ Supply of nuclear material;
- ✓ Alteration in form or content of nuclear material as provided for in Article 6;
- ✓ Supply between the Parties of equipment
- ✓ Controlled thermonuclear fusion including in multilateral projects
- ✓ Other areas of mutual interest as may be agreed by the Parties

### US Commitments

The United States has conveyed its commitment to the reliable supply of fuel to India.

U.S. Congress to amend its domestic laws and to work with friends and allies to adjust the practices of the Nuclear Suppliers Group to create the necessary conditions for India to obtain full access to the international fuel market, including reliable, uninterrupted and continual access to fuel supplies from firms in several nations.

To further guard against any disruption of fuel supplies, the United States is prepared to take the following additional steps:

- ✓ United States is willing to incorporate assurances regarding fuel supply in the bilateral U.S.-India agreement on peaceful uses of nuclear energy under Section 123 of the U.S. Atomic Energy Act.
- ✓ United States will join India in seeking to negotiate with IAEA India-specific fuel supply agreement.
- ✓ United States will support an Indian effort to develop a strategic reserve of nuclear fuel to guard against any disruption of supply over the lifetime of India's reactors.
- ✓ If despite these arrangements, a disruption of fuel supplies to India occurs, the United States and India would jointly convene a group of friendly supplier countries to include countries such as Russia, France and the United Kingdom to pursue such measures as would restore fuel supply to India.
- ✓ Taking this into account, India will place its civilian nuclear facilities under India-specific safeguards in perpetuity and negotiate an appropriate safeguards agreement to this end with the IAEA.

**Transfer of Information** Information concerning the use of nuclear energy for peaceful purposes may be transferred between the Parties. Transfers of information may be accomplished through reports, data banks and computer programs and any other means mutually agreed to by the Parties.

**Nuclear Trade** The Parties shall facilitate nuclear trade between themselves in the mutual interests of their respective industry, utilities and consumers and also, where appropriate, trade between third countries and either Party of items obligated to the other Party. The Parties recognize that reliability of supplies is essential to ensure smooth and uninterrupted operation of nuclear facilities and that industry in both the Parties needs continuing reassurance that deliveries can be made on time in order to plan for the efficient operation of nuclear installations.

### **Termination**

Either party may seek termination by giving 6 months notice at the end of initial 40 year period or at the end of any subsequent 10 year period.

In the Agreement, there is no provision that states that US cooperation with India will be subject to an annual certification process.

### **Critical Analysis**

Bharatiya Janata Party criticized the Indian government's decision to seek NSG's consensus and remarked that India has walked into the non-proliferation trap set by the U.S., we have given up our right to test nuclear weapons forever, it has been surrendered by the government. However India's former National Security Advisor Brajesh Mishra supported the development at the NSG and said that the waiver granted made "no prohibition" on India to conduct nuclear tests in the future.

A leading advocate of the agreement K. Subrahmanyam argued that the convergence of strategic interests between the two nations forced such a remarkable gesture from the US, overturning its decades-long stand on non-proliferation. He also argued that not recognizing new geo-political realities would be even more foolhardy on the part of the Indian elite.

Former President of India A. P. J. Abdul Kalam, also supported the agreement and remarked that New Delhi may break its voluntary moratorium on further nuclear tests in supreme national interest.

The deal was welcomed by several major Indian companies. Major Indian corporations like Videocon Group, Tata Power and Jindal Power saw a US\$40 billion nuclear energy market in India in the next 10–15 years. Some of India's largest and most well-respected corporations like Bharat Heavy Electricals Limited, National Thermal Power Corporation and Larsen & Toubro were eyeing a \$100 billion business in this sector over the same time period.

Non-proliferation activists and anti-nuclear organizations called for tightening the initial NSG agreement to prevent harming the current global non-proliferation regime. Among the steps called for were:

- ✓ ceasing cooperation if India conducts nuclear tests or withdraws from safeguards
- ✓ supplying only an amount of fuel which is commensurate with ordinary reactor requirements
- ✓ prohibiting transfer of enrichment, reprocessing, and heavy water production items to India
- ✓ opposing any special safeguards exemptions for India
- ✓ conditioning the waiver on India stopping fissile production and legally binding itself not to conduct nuclear tests
- ✓ not allowing India to reprocess nuclear fuel supplied by a member state in a facility that is not under permanent and unconditional IAEA safeguards
- ✓ agreeing that all bilateral nuclear cooperation agreements between an NSG member-state and India explicitly prohibit the replication or use of such technology in any unsafeguarded Indian facilities
- ✓ Others complained the agreement may undermine the credibility, integrity and universality of the Nuclear Nonproliferation Treaty.
- ✓ Pakistan argues the safeguards agreement threatens to increase the chances of a nuclear arms race in the subcontinent. Pakistani Foreign Minister Shah Mahmood Qureshi has suggested his country should be considered for such an accord, and Pakistan has also said the same process should be available as a model for other non-NPT states.

### **The Civil Liability for Nuclear Damage Act, 2010**

Nuclear Liability act of India is based on four International Nuclear Conventions that lay down strict liability and following fundamental principles:

- ✓ Strict Liability for the inherent risk involved
- ✓ Exclusive Liability rests on the operator
- ✓ Liability must be financially secured.
- ✓ Liability is Limited in Time

The Act aims to provide a civil liability for nuclear damage and prompt compensation to the victims of a nuclear incident through a no-fault liability to the operator, appointment of Claims Commissioner, establishment of Nuclear Damage Claims Commission and for matters connected therewith or incidental thereto.

This is one of the last steps needed to activate the 2008 Indo-U.S. civilian nuclear agreement as United State nuclear reactor manufacturing companies will require the liability bill to get insurance in their home state.

After this Act was passed, India became a member of the international convention on liability in the civil nuclear arena.

The Act effectively caps the maximum amount of liability in case of each nuclear accident at INR 5 billion (US\$79 million) to be paid by the operator of the nuclear plant, and if the cost of the damages exceeds this amount, special drawing rights up to 300 million will be paid by the Central Government.

The Act made amendments in the Atomic Energy Act 1962 allowing private investment in the Indian nuclear power program.

The issue of an accident is sensitive in India, where a gas leak in a US company's Union Carbide factory in Bhopal city killed about 20,000 people in 1984 in one of the world's worst industrial disasters.

The Act came into force from 11 November 2011.

### Important Provisions

The Nuclear Liability Bill ran into controversy for many reasons. Provision on Compensation related to capping of nuclear operator liability, the near absence of suppliers' liability and the maximum liability amount, among others, formed the crux of the contentious issue in the Bill.

- ✓ **Section 6** The issue of liability of the operator has been dealt with in Section 6 of the Act. Section 6 of the Act specifies the amount of damages recoverable from the supplier in the event of a nuclear catastrophe. Further, it vests the power with the Central Government to revise the compensation from time to time. The operator has been limited to Rs.1500 crores. The liability cap on operators is very low compared to the \$10.2 billion cap in USA, \$6.2 billion cap in Japan and unlimited liability in Germany and Finland.
- ✓ **Section 17** Section 17 of the Act enables the operator to seek damage from the supplier in the event of gross negligence. This is an innovation in Indian Law and an aberration from the common principles of international law. Except for Russia, South Korea, Germany and a few other countries, the suppliers are exempted from any liability that might arise in the event of a nuclear catastrophe.
- ✓ But effectiveness of this section has been blunted by subsequent sections of act.
- ✓ **Section 46** Section 46 of the Nuclear Liability Act, 2010 states that "Nothing in the Act would prevent the operation of other laws in force in the country". According to this section, it is clear that criminal liability in the event of an accident remains.

- ✓ **Nuclear Damage Claims Commission** Act provides for the setting up of Nuclear Damage Claims Commission under Section 35 and no civil courts are involved in adjudication of liability suits. This is in sharp contrast to USA. The purpose of the enactment is to ensure speedy disposal of claims that would ensure that victims would have access to speedy justice.
- ✓ **Section 18** Section 18 of the Act limits the right of victims to seek compensation to ten years from the date of occurrence of the accident. Nuclear accidents have wide repercussions that are not compoundable within the stipulated time in this Bill.

### Issues and Current Statue

Obama visit was aimed at removing final hurdles in the civilian nuclear agreement to pave the way for its commercialisation almost a decade after Prime Minister Manmohan Singh and President Bush first issued a joint statement, in July 2005, on civilian nuclear cooperation.

Two sticking points were holding up an agreement:

#### Transfer of nuclear materials to India

For more than a year, the U.S. has refused to accept an Indian draft agreement that was based on the sound principle that New Delhi would be accountable only for the totality of nuclear material supplied to it, and under the safeguards of the International Atomic Energy Agency (IAEA).

Given India's closed fuel cycle, allowing nuclear material from different countries to be tracked and audited separately could be unnecessarily intrusive and could undermine the confidentiality of its nuclear programme.

Non-proliferation lobby in USA had upper hand as the political leadership seemed reluctant to take a call even though it was against the letter and spirit of the 123 agreement: the fundamental basis of the civil nuclear agreement between India and the U.S.

The deal has been done only because President Obama has now put his personal weight behind it, to marginalise those who still see India's nuclear programme through the prism of non-proliferation policies of the 1990s towards New Delhi.

The deal will pave the way for GE, Westinghouse and other leading businesses in the nuclear industry to begin commercial operations in India. Also India can approach other countries for similar deals.

#### Nuclear liability issue

On issue of nuclear liability, where American companies were concerned by the unlimited liability they could face in case of a nuclear accident under Sections 17(b) and 46 of the Indian Civil Liability for Nuclear Damage Act of 2010, a compromise seems to have been found.

India has agreed to create a publicly funded insurance pool and the Attorney General of India is likely to issue an explanatory memorandum on Section 46 which will potentially clarify the limits of tort claims by accident victims against the suppliers of nuclear reactors.

Claims could be linked to compensations offered contemporaneously to victims of industrial accidents in the U.S.

The deal paves way for American companies to set up civil nuclear reactors, which India hopes will contribute to its energy security.

A nuclear risk management fund, worth Rs 1,500 crore, will be created to cover operators and suppliers. This will be led by five Indian public-sector insurance firms, which will together contribute Rs 750 crore to the pool (the rest will be provided by the government). Indian Foreign Secretary Sujatha Singh said political leadership played a "key role" to find a solution to concerns of the Americans on the Indian nuclear liability law.

President Obama and his team to support India's membership of international export control regimes, including the Nuclear Suppliers Group, the Wassenaar Arrangement, the Australia Group, and the Missile Technology Control Regime that will help to further mainstream India's nuclear programme.

For the past six years, India and the U.S. have been unable to conclude the administrative arrangements that would enable commercial cooperation between Indian and American companies under the civil nuclear deal. While diplomats are to be congratulated on having cleared this hurdle, the Indian public must be informed about exactly what assurances have been given to U.S. officials in return for their acceptance of the Indian liability law, and what the added costs would be.

Since the Indian taxpayer will be the consumer, the underwriter and the potential victim of any untoward nuclear accident, the subject of liability in the nuclear deal is of utmost importance.

### **Some Questions**

#### **What does the agreement set out to do?**

It seeks to set a framework for the U.S. nuclear industry to enter commercial talks on building nuclear reactors in India by resolving two concerns - one about inspections; the other about liability for a nuclear accident.

This will result into:

- ✓ Growth of nuclear power in India resulting in energy security
- ✓ Creation of employment and growth of manufacturing sector in India
- ✓ Industries from USA will bring new technologies in India
- ✓ Nuclear industry in USA will invest in India, so growth for USA industries

#### **What's the deal on inspections?**

An agreement on 'administrative arrangements' (inspections) ties up one loose end dating back to the landmark nuclear cooperation deal signed in 2008. India agreed to tighter checks by the

International Atomic Energy Agency. USA has dropped its insistence on 'flagging', or tracking, fuel consignments. An agreed text is expected to be finalised within a month or two.

#### **How does the agreement address liability?**

The agreement endorses the principle of strict liability, which 'channels' costs arising from a nuclear accident to the plant operator and requires it to pay no-fault compensation. Negotiators from both sides say the Indian side presented a body of law, precedent and opinion supporting the case that its laws and regulations meet international standards.

A key clause in India's 2010 nuclear liability law does allow a plant operator to seek secondary recourse against a supplier - a legacy of the unresolved claims arising from the 1984 disaster at a U.S.-owned plant in Bhopal. To address this, India will set up an insurance pool to cover liability up to a hard cap.

#### **How would the insurance pool work?**

The state-backed insurance pool would cover operator liabilities of up to 15 billion rupees (\$244 million). Any recourse sought by the operator against a supplier could not exceed this figure. Insurance premiums have yet to be determined, but for suppliers they would be a "fraction" of the amount paid by the operator.

#### **What happens if there is a disaster?**

The Indian government would cover additional costs of up to 300 million IMF Special Drawing Rights (\$420 million), in line with international practice. Beyond that, India would need to join the IAEA Convention on Supplementary Compensation for Nuclear Damage (CSC), due to enter force in April. By ratifying the convention, India would gain access to international funds with risk shared according to how many nuclear plants a country has.

#### **What is the status of the agreement?**

India will sum up the agreement in a memorandum that lays out relevant law, precedent and rulings. It is not a legal document or treaty.

### **Civil Nuclear Deals with Other Countries**

**Russia** Russia has an ongoing agreement of 1988 with India regarding establishing of two VVER 1000 MW reactors (water-cooled water-moderated light water power reactors) at Koodankulam in Tamil Nadu. 2008 agreement caters for provision of an additional four third generation VVER-1200 reactors of capacity 1170 MW each. Russia has assisted in India's efforts to design a nuclear plant for its nuclear submarine. In 2009, the Russians stated that Russia would not agree to curbs on export of sensitive technology to India. In Dec 2009 with Russia gives India freedom to proceed with the closed fuel cycle, which includes mining, preparation of the fuel for use in reactors, and reprocessing of spent fuel.

**France** After Nuclear Suppliers Group agreed to allow nuclear exports to India, France was the first country to sign a civilian nuclear agreement with India in 2008. In 2010 framework agreements were signed for the setting up two third-generation EPR reactors of 1650 MW each at Jaitapur, Maharashtra by the French company Areva. The deal caters for the first set of two of six planned reactors and the supply of nuclear fuel for 25 years.

**Mongolia** India and Mongolia signed a civil nuclear agreement in June 2009 for supply of Uranium to India. The MoU on development of cooperation in the field of peaceful uses of radioactive minerals and nuclear energy was signed by senior officials in the department of atomic energy of the two countries.

**Namibia** In September 2009, India and Namibia signed agreement on civil nuclear energy which allows for supply of uranium from the African country. Namibia is the fifth largest producer of uranium in the world. The Indo-Namibian agreement in peaceful uses of nuclear energy allows for supply of uranium and setting up of nuclear reactors.

**Argentina** In October 2009, India and Argentina signed an agreement on civil nuclear cooperation. Taking into consideration their respective capabilities and experience in the peaceful uses of nuclear energy, both India and Argentina have agreed to encourage and support scientific, technical and commercial cooperation for mutual benefit in this field.

**Canada** Civil nuclear cooperation agreement was signed in June 2010 which will provide access for Canada's nuclear industry to India's expanding nuclear market and also fuel for India's reactors. Canada is one of the world's largest exporters of uranium and Canada's heavy water nuclear technology is marketed abroad with CANDU-type units. In November 2012, India and Canada finalised their 2010 nuclear export agreement, opening the way for Canada to begin uranium exports to India.

**Kazakhstan** In April 2011, India and Kazakhstan signed an agreement for Cooperation in Peaceful Uses of Atomic Energy that envisages a legal framework for supply of fuel, construction and operation of atomic power plants, exploration and joint mining of uranium, exchange of scientific and research information, reactor safety mechanisms and use of radiation technologies for healthcare. Kazakhstan would supply India with 2100 tonnes of uranium. India and Kazakhstan already have civil nuclear cooperation since January 2009 when Nuclear Power Corporation of India Limited (NPCIL) and Kazakh nuclear company KazAtomProm.

**South Korea** In July 2011 India and South Korea signed a nuclear agreement, which will allow South Korea with a legal foundation to participate in India's nuclear expansion programme, and to bid for constructing nuclear power plants in India.

**Australia** In 2014, India and Australia signed a civil nuclear agreement which allows the export of uranium to India. Australia is the third largest producer of uranium in the world. The agreement allows supply of uranium for peaceful generation of power for civil use in India.

## Islamic State

### About IS

Sunni jihadi militant organisation currently centered within Syria and Iraq

Intense turmoil in Syria and Iraq created socio-political vacuums in which Islamic State (IS), previously known as the Islamic State in Iraq and al-Sham (ISIS) raised unprecedently.

Its roots lie in Jordan and Afghanistan and date back to at least 1999.

IS has evolved considerably since then, transforming from a small and loosely structured body with broad international ambitions to a vast organization focused on governing as an Islamic state across nation state boundaries.

Made two attempts for Islamic state building in 2006-2008 and in 2013. 2013 attempts has proven more sustainable.

By its impressive advances in Iraq and Syria, IS is more successful organization than al-Qaeda.

On June 29, 2014, Islamic State in Iraq and al-Sham (ISIS) announced the restoration of the caliphate under the leadership of Abu Bakr al-Baghdadi. Group henceforth is known as Islamic State (IS) and Baghdadi as Caliph Ibrahim.

IS commands as many as 31,000 fighters, approximately 20,000-25,000 of which are core, ideologically loyal full-time members.

Through its capacity to sustain offensive momentum and maintain consistent material gains, IS has become an impressively versatile organization, operating simultaneously as a terrorist, insurgent, and light infantry force.

Backed by extreme ideological determination, IS has exploited local dynamics and an environment of instability.

It focuses on financial independence and has multiple sources of income, including oil, gas, agriculture, taxation, extortion, kidnapping for ransom, black market antique selling, and other illicit trades. By September 2014, IS was earning approximately \$2 million per day.

### Objectives

Its explicit objective is to establish and maintain a self-sufficient Islamic state and, as such, IS has attached its ability to rule and govern as a determinant of success.

IS maintains ambitious objectives in both Syria and Iraq, and since the start of coalition strikes, has openly encouraged attacks by its members or supporters in the West. IS has expanded its operations into other Middle Eastern states, including Lebanon, Jordan, Turkey, and Saudi Arabia.

It has effectively establishing a proto-state across Syria and Iraq.

By expanding amidst a tremendous wave of regional instability and by exploiting and exacerbating such conditions, IS successfully gained military power, a multiplying international membership, and unprecedented financial resources.

In fundamentally challenging al-Qaeda's place as the recognized leader of transnational jihadism, it continues to attract recruits from across the globe.

### Philosophy

ISIS ideology is based on Wahhabism.

**Wahhabism** is a religious movement or form of Sunni Islam. It is considered as orthodox, ultraconservative, puritanical form of Islam. It describes an Islamic reform movement to restore pure monotheistic worship. It is a form of Islam practised in Saudi Arabia that developed only in the 18th century. Reformers were convinced that if Muslims were to regain lost power and prestige, they must return to the fundamentals of their faith, ensuring that God – rather than materialism or worldly ambition – dominated the political order. There was nothing militant about this fundamentalism; rather, it was a grass-roots attempt to reorient society and did not involve jihad.

One of the most influential of these revivalists was Muhammad Ibn Abd al-Wahhab (1703-91), a learned scholar of Najd in central Arabia. He was especially concerned about the popular cult of saints and the idolatrous rituals at their tombs, which, he believed, attributed divinity to mere mortals. He insisted that every single man and woman should concentrate instead on the study of the Quran and the "traditions" about the customary practice of the Prophet and his companions. He opposed Sufism and Shiaism as heretical innovations.

According to ISIS's caliph, Abu Bakr al-Baghdadi the philosophy of ISIS is influenced by Indian/Pakistani thinker Abul A'la Maududi who was originator of contemporary term Islamic state.

The philosophy is:

- ✓ God alone is the ultimate judge of a person
- ✓ Natural world is governed by laws that are expressions of the power of God
- ✓ God alone is the sovereign which is The Islamic Way of Life
- ✓ The state and the divine thus fuse together, so that as God becomes political, and politics becomes sacred.
- ✓ Central to Maududi's thought is his understanding of the French revolution, which he believed offered the promise of a state founded on a set of principles as opposed to one based upon a nation or a people. For Maududi this potential withered in France; its achievement would have to await an Islamic state.
- ✓ Universal citizen, separated from community, nation or history, lies at the heart of ISIS vision of citizenship in Islam.

To establish caliphate and its consolidation, ISIS followed five-step process—hijra (migration), jama'a (congregate), destabilize taghut (tyrants), tamkin (consolidation), and khilafa (caliphate)—has now been completed. The most significant challenge that remains is to successfully consolidate and govern what could now amount to a proto-state without falling victim to its own ideology.

IS is a revolutionary actor whose entire modus operandi is to project a goal of radical political and social change. For precisely this reason, IS operates as a tightly controlled and bureaucratic organization.

### 15 Years of evolution for ISIS

- ✓ 1999-2003: spread from Jordan to Afghanistan
- ✓ 2003-2004: initiating Iraq Insurgency; started with series of attacks in Iraq. It emphasized on to undermine Western occupying forces while simultaneously sparking a sectarian conflict between Shia and Sunni
- ✓ 2004-2006: More consolidation in Iraq; its prominence and extensive international recruitment networks, increasingly represented the center of a growing jihadi umbrella in Iraq, incorporating other similarly minded groups. In September 2004 IS pledged allegiance to al-Qaeda and Osama Bin Laden. From that point onwards, it was known as al-Qaeda in Iraq (AQI).



- ✓ Tension between Al Qaeda and ISIS
- Through the late 2000s, al-Qaeda remained determined that ISI continue as its subordinate by ordering it to attack specific targets. But by 2010-2011, the relationship had eroded significantly.
- Zarqawi's (leader of IS) relationship with al-Qaeda was fraught with tension as AQI was brutal and mass targeted Shia civilians. This approach was opposed by al-Qaeda in Afghanistan and Pakistan.

Zarqawi thought society had been corrupted and needed cleansing through terrifying violence, al-Qaeda insisted on combating apostate regimes and avoiding, where possible, damaging the image of the jihadi project.

AQI wanted fast results through dramatic and unforgiving brutality, al-Qaeda, at least following the U.S. invasions, was adopting a more patient strategy.

Nonetheless, al-Qaeda encouraged AQI to establish an Islamic state in Iraq.

- ✓ 2007-2009: Having operated as a model insurgent force in the mid-2000s, ISIS had initially been moderately successful, seizing territory and establishing localized governance structures. But these were rejected by local groups. These groups organized strikes against ISI's leadership ex: Sahwa councils backed by U.S.-led coalition. Consequently, ISI suffered significantly during 2007-2009.

- ✓ 2009-2011: restructuring & recovery

In 2011, local opposition to IS weakened due to initiation of U.S. military withdrawal from Iraq. This boosted ISI's confidence and local recruitment. Nonetheless, continued pressure forced ISI into a process of rapid operational learning. ISI began to exploit existing political and social divisions. With U.S. military withdrawal, local Sahwa militias were growing disenchanted with Nouri al-Maliki's Shia-led central government due to its lack of support and unpaid wages.

By mid-2010, ISI was offering larger salaries than the government and recruiting Sahwa members. By early 2010, ISI also sought to rebuild its senior leadership. ISI began launching well-planned, large-scale assaults on prisons where their leaders were being held.

ISI had become far more Iraqi in terms of its membership. This improved its social grounding, and operations at the provincial and local levels were designed with community dynamics in mind. It also gave ISI an enhanced ability to acquire intelligence sources within the Iraqi security apparatus.

- ✓ 2011-mid-2014:

In 2011, with the Arab Spring in full flow, ISI continued the process of expansion and professionalization. It significantly escalated its military operations in Iraq, both geographically, incorporating southern Shi'ite areas and the Kurdish north, and in terms of scale, carrying out 20-30 attacks in multiple provinces. These intense and wideranging attacks aimed not only to inflict material damage on the government but to diminish the morale of Iraq's security forces. ISIS launched Operation Soldier's Harvest aimed to undermine the capacity and confidence of security forces through targeted attacks and intimidation. Then ISIS initiated "Breaking the Walls" with the principal objective of freeing its imprisoned members. ISI launched eight major attacks on Iraqi prisons over the following year.

On June 29, 2014 ISIS announced establishment of the caliphate. On the same day the group published videos titled "Breaking the Borders" and "The End of Sykes-Picot" that

showed the physical destruction of a land barrier demarcating the Syria-Iraq border and a militant touring a captured Iraqi border post adjacent to Syria.

- ✓ Another important facet of IS's success is its effective use of social media and exploitation of international media attention. Exploited Facebook, Twitter, Android application.

### Spread

- ✓ It has formed Caliphate in Syria and Iraq and working on its consolidation.
- ✓ In 2015 it has announced provinces in Egypt, Yemen, Saudi Arabia, Libya and Algeria.
- ✓ It's also spread in Lebanon, Jordan, Saudi Arabia, Syria, Turkey.
- ✓ In North Africa: Minimal presence in Libya, Tunisia, Algeria, Nigeria's Boko Haram group proclaimed to be part of Islamic Caliphate
- ✓ Pakistan's Tehrik E Taliban, Terrorist groups from Phillipines, Indonesia supported ISIS

### Foreign Fighter Blowback

Judging by recent statistical studies, there are likely to be at least 15,000 foreign fighters in Syria and Iraq from at least 90 different countries.

Considering the unprecedented scale of this foreign fighter flow, the issue of "blowback" or citizens returning to their home countries to carry out terrorist attacks has generated a great deal of attention.

Last few prominent terrorist attacks in Western world involved individuals with travel experience in foreign conflict zones—Syria, Kenya, and Somalia.

Rising concerns have led European countries to intensify domestic security measures in 2014. Similarly after attack in France the European countries are keeping close watch on elements contribution in growth of radicalization.

Individuals outside Syria and Iraq can demonstrate their loyalty to IS by carrying out attacks at home. IS has urged supporters around the world to attack citizens of countries involved in airstrikes against IS.

### Impacts on Indian security

According to ISI North-West India is part of Islamic State of Khorasan. Islamic State of Iraq and Syria (ISIS) declared war on various countries including India, the internal security establishment has already begun preparing for a threat that is as yet being seen as not immediate but hardly very distant.

Terrorist groups from across the Line of control, like the Lashkar, Jaish, Harqat and IM, if they have a strong bond with ISIL or Al-Qaeda, then there will be a higher level of threat.

While intelligence agencies are closely tracking developments in the middle-east along with mounting surveillance on Indians reported to be fighting alongside ISIS in Iraq and Syria.

Ministry of Home Affairs (MHA) is a spillover of the sectarian strife in the region to India.

Conflict between Shias and Sunnis erupting in the immediate future or later in the country is not being ruled out.

India stressing on exploring strengthening bilateral security relations with neighbouring countries.

ISIS has the capacity of attracting young men and that is a concern for India. ISIS flag was carried by men at a public park after Eid prayers. Mehdi Masoor Biswas aka '@ShamiWitness', an engineer was arrested in December. He confessed that he was handling the pro-jihad tweeter '@ShamiWitness' for the last many years that became a source of incitement and information for new ISIS recruits.

As NATO troops withdraws the jobless militants will be turned towards India. ISIS is latest and most lethal entrant, encouraging multi-city multiple attacks on India. Since 2001, some forces in the Pakistan Army tried to shift the focus of terrorist groups from the Af-Pak region to India and were even linked to the commando-styled Mumbai attacks of 2008.

Haqqani Network is collaborating LeT and al-Qaeda to hit Indian interests in Kabul and Kashmir. With the rise of IS, there have been sporadic protest marches in urban Kashmir, where Kashmiris have hit the streets, wielding the black IS banner.

Influx of Wahhabi preachers in India since 2013 to radicalise 7,000 registered madrassas in India is major threat. These institutions can be prepared as potential recruitment grounds for the likes of al-Qaeda, IS and Taliban.

According to India's Intelligence Bureau 25,000 Wahhabi scholars from 20 countries visited eight Indian states and addressed 1.2 million, preaching conservative, hardline Islamic doctrine and implementation of Sharia law in its strictest form.

Competition between al-Qaeda and IS to stretch their area of influence and enlist support of disgruntled Indian Muslims leads to radicalization of youth and more threat to internal security.

India's National Investigation Agency busted al Jihad's activities in rural West Bengal in October 2014, and classified documents indicated that Indian Mujahedeen terrorists mulled ties with al-Qaeda and Taleban to attack India.

Some Indian Muslim youths have already responded to IS chief Abu Bakr al-Baghdadi's call in Syria, and hundreds are on their way to join any of whom could bring IS ideology back into India.

Apart from direct threat to India ISIS is also threat to Indian community abroad specially in countries where ISIS is active. More than 40 men are being kept hostage by different militant groups including ISIS.

### Solutions

More immediately, local, regional and international states can adopt a series of policies aimed at:

- ✓ Countering IS's financial strength and ability for governance and social services to civilians
- ✓ Neutralizing IS's capacity for military mobility and re-deployment of manpower
- ✓ Target IS's senior leadership and military command and control structure
- ✓ Weakening and delegitimizing IS's effective use of social media for recruitment
- ✓ Stabilize the existing conflict dynamics in both Syria and Iraq

To defeat ISIS altogether, one must treat it as more than a terrorist organization. A counterstrategy must incorporate counter-terrorism practice but also involve aspects of economic, political,

diplomatic, social, and religious policy. Effectively countering IS will take a long time and, crucially, will require local actors taking the lead with the support of Western states.

For Syria, the existing policy of bolstering moderate opposition groups by provision of training, weaponry, and intelligence should be accelerated and expanded.

Russian and Iranian military assistance to the Syrian government shall be reduced. Long-term stability will be better served by ensuring a peaceful transition in Damascus.

In Iraq, existing contracts for military assistance to the government should be honored, but further assistance should be made strictly conditional.

Relationships developed with Sunni tribes during the occupation of Iraq should be reconstituted and used as sources of leverage against IS.

Cut off IS's revenue stream: Much of IS's income is earned through the illicit production, refining, and sale of oil. A wiser strategy would be to target the transportation infrastructure used to truck the oil to customers. This would have the added benefit of cutting off key nodes of IS communication and command and control.

Disrupt the mobility of IS manpower and resources

Target IS's leadership

Counter IS's social media presence. Organization's religio-political doctrine could be challenged and its motivations undermined through the emplacement of "mole" accounts.

Stabilize Iraq and Syria: IS feeds off instability and perceptions of victimization, repression, and humiliation. By removing such conditions, IS would soon find itself a fish out of water. Regarding Syria, the international community

On a multilateral level, security cooperation with regional states should be intensified, based around enhancing domestic counterterrorism, border control, and surveillance capabilities. The conflicts in Syria and Iraq have sparked sectarian and, in some cases, ethnic tensions throughout the Middle East and these are likely to remain for many years to come.

The threat of foreign fighter blowback is realistic. The scale of foreign fighter recruitment into Syria and Iraq has been extensive enough that Western intelligence agencies must now prioritize it.

## ECONOMY

### Transfer Pricing Adjustments

Transfer pricing is pricing cross-border transactions entered into between two or more companies of the same multinational group. Thus, transfer pricing is the setting of the price for goods and services sold between controlled (or related) legal entities within an enterprise.

For example, if a subsidiary company sells goods to a parent company, the cost of those goods is the transfer price. Legal entities considered under the control of a single corporation include branches and companies that are wholly or majority owned ultimately by the parent corporation. Certain jurisdictions consider entities to be under common control if they share family members on their boards of directors. It can be used as a profit allocation method to attribute a multinational corporation's net profit (or loss) before tax to countries where it does business.

Transfer pricing results in the setting of prices among divisions within an enterprise.

The transferring price of multinational corporations can be divided into three kinds:

- ✓ Capital circulation transferring price, which means that in the internal trade, multinational corporations improve the goods price imported from a parent or other subsidiaries in order to make the profit exported by the form of loan payment
- ✓ Tangible assets transferring price, which means the allocation price of rental and transfer of tangible assets such as machines and equipments in the multinational corporations.
- ✓ Intangible assets transferring price, which refers to the price that multinational corporations provide intangible assets such as management, technology and consulting service.

Transferring price provides a lawful and effective means for the multinational corporations to overcome trade barriers, reduce the tax burden, reduce transaction risk and improve economic efficiency; and make the multinational corporations achieve a competitive advantage in the market. Therefore, transferring price strategy is the favorable leverage for the multinational corporations to realize the centralized control, unified deployment of human, finance and material all over the world, and also the necessary tool to realize their global strategy.

#### How it benefits MNCs?

1. Multinational corporations often artificially raise or lower transaction price and transfer the profit from the countries with higher tax rates to the countries with lower tax rates so that they can minimize corporate income tax burden by the use of national differences in tax rates, preference of free port, and other relevant laws and regulations about regional customs union.
2. The multinational corporations still often use lower transaction price between internal enterprises to reduce the base of paying customs, or use regional customs union or the relevant preferential provision in the agreement to evade custom.

3. Transfer pricing is used by MNCs to dodge different risks such as volatile exchange rates, market price control by government, political coup in host countries etc.
4. In order to improve the competitiveness of overseas subsidiaries, the multinational corporations often provide extremely low transferring price in granting their subsidiaries raw materials, components or finished products and so on, so that their subsidiaries can have a price advantage, improve the business reputation, and increase the market competitiveness.
5. Multinational corporations misuse transferring price to obtain extra illegal income, which is contrary to the principle of tax fairness.
6. The transferring price of the multinational corporations sharply deteriorates the international income and payments in the host countries. Use of transferring price can increase the overall profit of foreign businessmen thereby drive the foreign businessmen to import goods that can produce domestically, which will cause the host country to increase imported goods.
7. Undermines the market environment with fair competition as multinational corporations formulate lower internal transferring price so that subsidiaries can sell products with a price that is less than a normal price and is even a production cost.
8. Harms the industries in the host countries, affects the policy environment, macro control in host country

#### Why important to India?

- ✓ More than 60 percent of global cross-border transactions are undertaken between related parties
- ✓ Tax regimes in different countries differ significantly from one another
- ✓ Almost all countries have different tax rates even these gaps are now getting narrower
- ✓ Conflicts between all parties involved (taxpayers and tax authorities)

This is further accentuated by the increasingly complex nature of intercompany transactions that, at one extreme, could be just a simple arrangement of providing certain services under a captive service model, and to another extreme involving a complex arrangement to jointly develop and exploit certain intellectual property.

While the Indian tax system has always enjoyed a reputation of being a difficult one, the foray of transfer pricing disputes has further elevated our status.

Transfer pricing closely follows business decisions and intentions underlying an intercompany transaction. Therefore, it is important to understand the business rationale and relevant facts and circumstances while analysing the transfer prices adopted for a particular intercompany transaction. Each business is different, the people involved (management) are different and the business rationale is different from transaction to transaction – these are just some of the reasons why no two cases can be looked at in the same manner while considering transfer pricing disputes. The decision to price a particular intercompany transaction depends on several factual criteria and circumstances that are peculiar to that case. Given the highly fact intensive nature of these

decisions, each transfer pricing dispute must be analysed separately considering the facts and circumstances that are relevant only to that case.

Clearly India cannot afford to continue living with the current state of affairs where:

- ✓ Any significant intercompany transaction is faced with a high risk of protracted litigation
- ✓ Every transfer pricing dispute takes more than five years to be resolved with several cases where companies are waiting for more than seven years to finalise their tax liability from these transactions.

Currently, a taxpayer has to wait for more than five years from the completion of any crossborder transaction with a related party, for a verdict of the Indian Revenue on the aspect of transfer pricing implications. This uncertainty and lack of clarity in matters relating to transfer pricing has pushed back several large investment proposals of foreign MNEs in India, thus having a negative impact on the Indian economy and also the Indian tax administration.

The Authority for Advance Rulings has been in existence in India for a long time with an objective to provide certainty about the tax impact of a transaction which has been undertaken or is proposed to be undertaken by a non-resident applicant. However, there is no such mechanism available for providing certainty on transfer pricing matters.

### **Current Issues**

The case pertains to 2009-10 and 2010-11, wherein Vodafone India Services Private Limited, a wholly-owned subsidiary of Vodafone Teleservices (India) Holdings Ltd, Mauritius, issued shares to the parent company at a premium of Rs 8,509 per share. It received a consideration of Rs 246.30 crore from the parent company. According to VISPL, this was an “international transaction”. However, the transfer pricing officer (TPO) made an addition of Rs 1,397 crore to VISPL’s total income, alleging that the company had underpriced the shares. The dispute resolution panel upheld the TPO’s decision. However, the Bombay High Court in October 2014 quashed the TPO’s order and said the tax can be charged only on income and in the absence of any income arising, the issue of applying the measure of arm’s length pricing to transactional value/ consideration itself does not arise.

### **Government’s Stand**

Signalling a stable and investment-friendly regime to investors, the government decided not to appeal against the Bombay High Court order granting tax relief to Vodafone.

Cabinet also decided to accept all other orders of courts, ITAT (Income Tax Appellate Tribunal), DRP (Dispute Resolution Panel) in cases of other taxpayers where similar transfer pricing adjustments have been made and the courts, ITAT, DRP have decided or decide in favour of the taxpayer.

The government's decision, taken with a view to avoid fruitless litigation, will provide a breather to several multinationals which are engaged in similar tax disputes with the Income Tax department. Besides Vodafone, these companies include Shell, IBM and Nokia.

This is one step towards stable tax regime and doing away with complexities.

The official statement said the decision would bring greater clarity and predictability for taxpayers as well as tax authorities and put an end to the uncertainty prevailing in the minds of foreign investors and taxpayers in respect of possible transfer pricing adjustments in India on transactions related to issuance of shares.

### **Solutions**

Government has certainly demonstrated its awareness of the situation and its willingness to address it:

- ✓ Through Finance Act of 2009 - introduction of safe harbour provisions and institution of DRP as an alternative mechanism to address disputes in this area
- ✓ Through the proposal to introduce Advance Pricing Agreement (APA) as part of the Direct Tax Code (DTC) which is posed to be effective from 2012

### **Advance Pricing Agreement**

OECD Transfer Pricing Guidelines for MNEs and Tax Administrations (OECD Guidelines) define an APA as An arrangement that determines, in advance of controlled transactions, an appropriate set of criteria for the determination of the transfer pricing for those transactions over a fixed period of time.

An APA is an arrangement between the taxpayer and the tax authority covering future transactions, with a view to solve potential taxation disputes in a cooperative manner. The taxpayer and tax authority mutually agree on the transfer pricing method to be applied and its application for a certain future period of time. An APA is thus a pre-transaction.

APAs can be used for any class of intercompany transactions, e.g., dealings in goods/services, financing arrangements, transfer and use of tangible/intangible assets, etc. However, as can be seen in country specific chapters below, different countries apply different criteria to accept cases for APAs.

## **Full Capital Account Liberalisation/Convertibility**

According to Reserve Bank of India (RBI) deputy governor H R Khan, India is not ready for opening its capital account fully to foreign investors at this point in time as the pros and cons of such liberalisation are a contentious issue.

### **What is capital account convertibility?**

In a country's balance of payments, the capital account is transactions that lead to changes in the overseas financial assets and liabilities. Capital Account includes investments abroad and inward capital flows.

Capital Account Convertibility (CAC) or a floating exchange rate means the freedom to convert local financial assets into foreign financial assets and vice versa at market determined rates of exchange. This means that capital account convertibility allows anyone to freely move from local currency into foreign currency and back. It also implies conversion of overseas financial assets into domestic financial assets.

It would mean freedom for firms and residents to freely buy into overseas assets such as equity, bonds, property and acquire ownership of overseas firms besides, free repatriation of proceeds by foreign investors.

<h2>Exchange Rate Systems</h2>	
<p><b>Fixed Exchange Rate</b></p> <ul style="list-style-type: none"> <li>▪ <b>Advantages</b> <ul style="list-style-type: none"> <li>▪ Minimizes International Trade/Investment Risk</li> <li>▪ Elimination of Destabilizing Speculation</li> <li>▪ Requires Discipline in Economic Management</li> </ul> </li> <li>▪ <b>Disadvantages</b> <ul style="list-style-type: none"> <li>▪ Large holdings of foreign reserves are required</li> <li>▪ Fixed rates can also be unstable (devalue/revalue)</li> <li>▪ Loss of Freedom in terms of Internal Policy (interest rates)</li> <li>▪ Countries are vulnerable (and dependent) on the economic conditions of other countries</li> </ul> </li> </ul>	<p><b>Floating Exchange Rate</b></p> <ul style="list-style-type: none"> <li>▪ <b>Advantages</b> <ul style="list-style-type: none"> <li>▪ Countries are more protected from the economic conditions of foreign countries</li> <li>▪ Central Bank interventions are not needed</li> <li>▪ Freedom in internal operations</li> </ul> </li> <li>▪ <b>Disadvantages</b> <ul style="list-style-type: none"> <li>▪ Promotes currency speculation</li> <li>▪ Exchange Rate Risk               <ul style="list-style-type: none"> <li>▪ Investors and MNCs must spend considerable resources to protect against</li> </ul> </li> <li>▪ Inflation</li> </ul> </li> </ul>

### Positive Impacts on Economy

- ✓ Once a country opts for capital account convertibility, there is a surge of capital flows. Countries facing constraints on savings and capital can utilise such flows to finance their investment.
- ✓ The inflow of capital can help augment domestic resources and boost growth.
- ✓ Local residents would be in a position to diversify their portfolio of assets.
- ✓ Investors can insulate themselves better from consequences of any shocks in the domestic economy.
- ✓ Global investors can seek higher returns by sharing risks using CAC.
- ✓ CAC offers countries better access to global markets
- ✓ It results in the emergence of deeper and more liquid markets.
- ✓ CAC brings greater discipline as governments emphasize on reducing excess borrowings and rendering fiscal discipline.

**Concerns Involved**

- ✓ Main problem is the outflow of speculative short-term flows.
- ✓ As the local assets flows outward in term of foreign currencies this leads to higher interest rates.
- ✓ Increase in interest rate could de-stabilise country's economy.
- ✓ Volatility in exchange and interest rates due to capital inflows can lead to unsound funding and large unhedged foreign liabilities.
- ✓ Thus Full CAC without prudent macro-economic policies and ensuring financial reforms will be a disaster for any economy.

**Experience of some of countries**

The initial experience is of improvement in their balance of payments position.

In Malaysia, Indonesia, Mexico and Argentina, the surge in capital flows meant a widening of their current accounts.

Inflation was also subdued for some time and the reserves were also bolstered.

But after the current account deficit could be not sustained, some of these countries introduced some controls.

Mexico and Argentina reintroduced controls in the 1980s.

Chile also introduced controls after it faced a crisis in 1980s.

However, all of them subsequently opened up.

**Capital Account Convertibility Status in India**

India follows approach that easing of capital controls would be marked by removal of capital outflow restrictions on NRIs first, corporates next, followed by banks and freedom for residents in the last stage.

So policy in India is freedom to take out proceeds relating to FDI, portfolio investment for overseas investors and NRIs besides leeway for firms to invest abroad in JVs or acquisition of assets, and for residents and mutual funds to invest abroad in stocks and bonds with some restrictions.

Currently India allows foreign investors to buy upto \$81 billion of Indian debt while there are no limit restrictions for stock market investments.

**Pre-requisites for Capital Account Convertibility in India**

Two Tarapore Committees were appointed by Reserve Bank of India (RBI). First to study the implications of executing CAC in India. Second to look into proposal to reevaluate the earlier stand.

**First Tarapore Committee**

First Tarapore Committee report was submitted in 1997 proposed a three-year time period (1999-2000) for total conversion of Rupee. According to the Committee, this was possible only when the following few conditions are satisfied:

- ✓ The average rate of inflation should vary between 3% to 5% during the debt-servicing time
- ✓ Decreasing the gross fiscal deficit to the GDP ratio by 3.5% in 1999-2000

According to report:

- ✓ The logic for the introduction of complete capital account convertibility in India is to ensure total financial mobility in the country.
- ✓ It also helps in the efficient appropriation or distribution of international capital in India.
- ✓ Such allocation of foreign funds in the country helps in equalizing the capital return rates not only across different borders, but also escalates the production levels.
- ✓ CAC it brings about a fair allocation of the income level in India as well.

The forecasts made by the Tarapore Committee regarding Indian CAC are as follows:

- ✓ A prescribed average inflation rate of 3% to 5% will exist for a three-year time period, from 1997-98 and 1999-2000.
- ✓ The non-performing assets will experience a decline to 12%, 9% and 5% by the years 1997-98, 1998-99 and 1999-2000 respectively.
- ✓ By 1997-98, there will be a complete deregulation of the structure of interest rate.
- ✓ The gross fiscal deficit will fall from 4.5% in 1997-98 to 4.0% in 1998-99 and further to 3.5% in 1999-2000, with respect to the GDP.

### Implementation

India is a country with partial convertibility. However, some important measures as suggested by first committee were taken:

- ✓ The Indian Corporates were allowed full convertibility in an automatic route up to the \$ 500 million overseas ventures. This means that the limited companies were allowed to invest in foreign countries.
- ✓ Indian corporates were allowed to prepay their external commercial borrowings via automatic route if the loan is above \$ 500 million.
- ✓ Individuals were allowed to invest in foreign assets, shares up to \$ 2, 00, 000 per year.
- ✓ Unlimited amount of Gold was allowed to be imported.

### Second Tarapore Committee

With some of the targets by First Tarapore Committee been achieved, consolidation of banks, a strong export front, large forex reserves and high growth rates it was decided to review stand on CAC.

Second Tarapore Committee was set up in 2006 to set out the framework for fuller Capital Account Convertibility.

In this report, the committee suggested 3 phases of adopting the full convertibility of rupee in capital account.

- ✓ First Phase in 2006-7
- ✓ Second phase in 2007-09

- ✓ Third Phase by 2011

Important recommendations of this committee are:

- ✓ Ceiling for External Commercial Borrowings should be raised for automatic approval.
- ✓ NRI should be allowed to invest in capital markets.
- ✓ NRI deposits should be given tax benefits.
- ✓ Improvement of the Banking regulation.
- ✓ FII (Foreign Institutional Investors) should be prohibited from investing fresh money raised to participatory notes.
- ✓ Existing participatory notes holders should be given an exit route to phase out completely the participatory notes.

At present the rupee is fully convertible on the current account, but only partially convertible on the capital account.

## GDP Calculation Changes

Indian government has introduced two main changes in the process of calculation of GDP:

1. **Gross Value Added** Henceforth GDP calculation will be based on market prices i.e. Gross Value Added (GVA), not on factor costs i.e. GDP at factor cost.
2. **Base year** The base year has been revised. Since January 2010, the base year had been the FY ended in March 2005. From now on, it will be the FY that ended March 2012.

### GDP at Factor Cost Vs GVA at Basic Prices

GVA measures the contribution to the economy of each individual producer, industry or sector. The contribution to the economy of each industry or sector is measured using GVA. GVA is based on the amounts paid by consumers.

GDP at factor cost calculates economic activity based on costs of production.

The difference between two methods arises because price paid by consumers for many goods and services is not the same as the sales revenue received by the producer. There are taxes that have to be paid, which place a wedge between what consumers pay and producers receive.

Thus, if a consumer pays 100 for a meal in a restaurant the owner may receive only 86, the remaining 14 will go to the government in the form of VAT. The term factor cost or basic price is used in the national accounts to refer to the prices of products as received by producers. Market prices are the prices as paid by consumers.

The link between GVA and GDP can be defined as:

$$\text{GVA} + \text{taxes on products} - \text{subsidies on products} = \text{GDP}$$

The concept of GVA is considered to be a better indicator to measure economic activities as it includes not only the cost of production but also product subsidies and taxes.

### Changes in Base Year

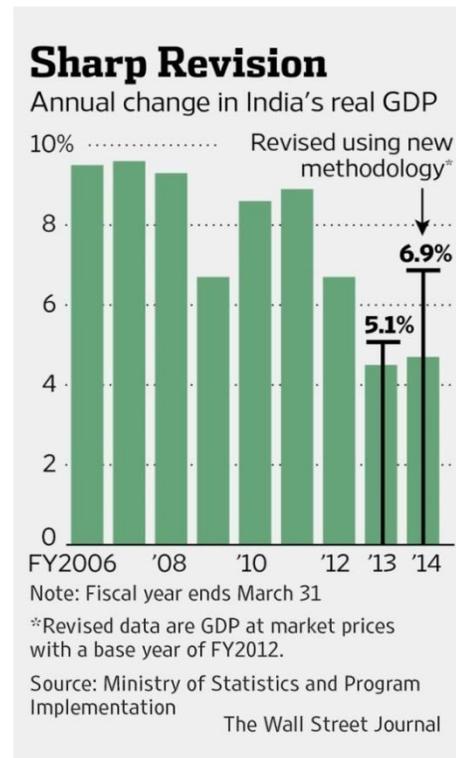
Base year is the first of a series of years in an economic or financial index. A base year is the year used for comparison for the level of a particular economic index. The arbitrary level of 100 is selected so that percentage changes (either rising or falling) can be easily depicted.

For example, to find that rate of inflation (or any other economic index) between 2005 and 2010, one would make calculations using 2005 as the base year, or the first year in the time set.

Any year can be chosen as a base year, but typically recent years are chosen. New, more up-to-date base years are periodically introduced to keep data current in a particular index.

The base year has been revised. Since January 2010, the base year had been the FY ended in March 2005. From now on, it will be the FY that ended March 2012.

The revised calculation also incorporates more comprehensive data on corporate activity and newer surveys of spending by households and informal businesses.



### Impacts on GDP Projections

- ✓ With an updated base year as well as a revised methodology for measuring economic growth, the Indian economy is estimated to have grown at a much faster 6.6 per cent in 2013-14 as against the earlier estimate of 4.7 per cent (old series) growth in gross domestic product at market prices.
- ✓ With factor cost, official growth rate in the year that ended March 2013 was 4.5%. Using the new methodology, growth that year was 5.1% and accelerated markedly in the following year.
- ✓ The updated calculation suggests that manufacturing in March 2014 was a larger share i.e. 18% instead of 15%, while real estate, hotels and financial and business services constituted a smaller share i.e. 51% instead of 60%.
- ✓ Agriculture's contribution grew to 17% from 14% with the revision.
- ✓ GDP revision doesn't significantly affect the ratios of India's public spending and debt to the economy.
- ✓ The revised series to boost India's growth prospects for 2014-15 where the Reserve Bank of India has projected a 5.5 per cent growth rate based on factor cost.
- ✓ India's per capita income rose at Rs 80,388 in 2013-14 from Rs 71,593 in 2012-13 under the new series.

- ✓ National Statistical Commission chairman Pronab Sen said the revised methodology is based on international standards and indicates that growth was not as dismal as was earlier projected to be.
- ✓ In absolute terms, the size of the economy declined in 2013-14 in the new series to Rs 113.5 lakh crore compared to Rs 113.6 lakh crore in the old series.

## Merger & Acquisition in 2014

### Meaning of M and A

A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

Mergers and Acquisitions are key forms of corporate restructuring.

The mergers and acquisitions come into existence from the post independence period in India. But very few M&A took place in India prior to 1990s due to Industrial Development and Regulation Act 1951, FERA Act, MRTP Act.

### Advantages and disadvantages of Mergers and Acquisition (M&A)

The advantage and disadvantages of merger and acquisition are depending of the companies short term and long term strategies and efforts. That is because of the factors likes' market environment, Variations in business culture, acquirement costs and changes to financial power surrounding the business captured.

So following are the some advantages and disadvantages of merger and acquisition (M&A) are:

### Advantages

- ✓ The most common reason for firms to enter into merger and acquisition is to merge their power and control over the markets.
- ✓ Another advantage is Synergy that allow for increased value efficiencies of the new entity and it takes the shape of returns enrichment and cost savings.
- ✓ Economies of scale is formed by sharing the resources and services. Union of 2 firm's leads in overall cost reduction giving a competitive advantage, that is feasible as a result of raised buying power and longer production runs.
- ✓ Decrease of risk using innovative techniques of managing financial risk.
- ✓ To become competitive, firms have to be compelled to be peak of technological developments and their dealing applications. By M&A of a small business with unique technologies, a large company will retain or grow a competitive edge.
- ✓ The biggest advantage is tax benefits.
- ✓ Infiltration into new markets and their exploitation more easily
- ✓ Maximization of shareholders' return
- ✓ Growth in research and development

### Disadvantages

- ✓ M & A leads to higher prices as the resulting firm has monopoly in the market.
- ✓ If not regulated properly the bigger firm can bully the smaller firm leading to erosion of competition in the market.
- ✓ Loss of experienced workers aside from workers in leadership positions. This kind of loss inevitably involves loss of business.
- ✓ As a result of M&A, employees of the small merging firm may require exhaustive re-skilling.
- ✓ Company will face major difficulties thanks to frictions and internal competition that may occur among the staff of the united companies.
- ✓ There is conjointly risk of getting surplus employees in some departments.
- ✓ Merging two firms that are doing similar activities may mean duplication and over capability within the company that may need retrenchments.
- ✓ Increase in costs might result if the right management of modification and also the implementation of the merger and acquisition dealing are delayed.
- ✓ The merger and acquisition (M&A) reduces flexibility. If a rival makes revolution and may currently market vital resources those are of superior quality, shift is tough.
- ✓ High social cost because it is usually observed a reduction in employment resulting from laying off personnel

### Trend in India

Mergers and acquisitions have to be encouraged to promote the size of domestic companies but there is also a need to understand when to draw the red line while implementing the competition law. Need for applying the principle of proportionality while taking into consideration the consequences of competition norms.

After liberalization in 1991, there was a domestic and global competition. This leads to a big wave of M&A. Takeover cases started only in the year 1996 and then onwards this mode of M&A has gained importance. For Example: The Tata Group had 126 M&As deals from April 1998 to March 2008.

The number of deals really picked up in the year 1999 with total of 1453 deals as compared to only 172 deals in 1998.

The years 2000 to 2008 saw decline in the deals due to the global credit crisis.

M&A recorded a rapid increase between 2003 and 2007 registering a compounded annual growth rate of 95% at \$70 billion.

From 2010, robust sector of Telecom, and support of regulatory authority saw highest M&A activity during the year with an aggregate of \$14.6 billion investment powered by the acquisition of Hutch Essar by Vodafone and Tata Tele buying the NTT Docomo of Japan. Oil & gas sector with \$11.2 billion ((Reliance Natural) and Pharma Sector with \$ 6.24 billion led M & A.

This underscored not only India Inc's appetite for going global, but making M & A its critical tool of business strategy for survival and growth.

During the year 2010, Indian companies were involved in a record total of 627 M&A deals, including both cross-border and domestic transactions.

With regard to outbound M&A, Indian companies faced significant challenges in raising finance to fund their acquisition plans.

The challenging macro-economic environment raised concerns of valuation and also impacted the deal closure time.

### Latest Trends

With the increasing number of Indian companies opting for mergers and acquisitions, India is now one of the leading nations in the world in terms of mergers and acquisitions. Among the different Indian sectors that have resorted to mergers and acquisitions in recent times, telecom, finance, FMCG, construction materials, automobile industry and steel industry are worth mentioning. In Indian corporate sector mergers and acquisitions of foreign companies by the Indian companies has been latest trend.

There are different key factors like dynamic attitude of Indian entrepreneurs, buoyancy in economy, favorable government policies, additional liquidity etc. behind the changing scenario of trends of mergers and acquisition in India.

The IT and ITES sector have already played a dominant role in global market. The other Indian sectors are following the same trends. The increase participation of the Indian companies in the global corporate sector has further facilitated the merger and acquisition activities in India (As shown).

The top 10 acquisitions made by Indian companies worldwide (Till June 2012):

Acquirer	Company	Country	Value (\$ ml)	Industry
<b>Tata Steel</b>	Corus Group plc	UK	12,000	Steel
<b>Hindalco</b>	Novelis	Canada	5,982	Steel
<b>Videocon</b>	Daewoo Electronics	Korea	729	Electronics
<b>Dr. Reddy's Labs</b>	Betapharm	Germany	597	Pharmaceutical
<b>Suzlon Energy</b>	Hansen Group	Belgium	565	Energy
<b>HPCL</b>	Kenya Petroleum	Kenya	500	Oil and Gas
<b>Ranbaxy Labs</b>	Terapia SA	Romania	324	Pharmaceutical
<b>Tata Steel</b>	Natsteel	Singapore	293	Steel
<b>Videocon</b>	Thomson SA	France	290	Electronics
<b>VSNL</b>	Teleglobe	Canada	239	Telecom

### M & A in 2014

In a sign of increasing business confidence in India, mergers & acquisitions (M&A) activity deals peaked in 2014 at a total of \$ 50.47 billion against \$ 38.17 billion in 2013.

According to the 10 Grant Thornton India LLP Annual Deal Tracker, of the total \$ 38.11 billion (\$ 28.16 billion ) were M&A deals while private equity deals were at \$ 12.36 billion (\$ 10 billion).

In about 10 years, India has grown from a market of US\$ 16 billion worth of deals to \$ 50 billion which is a huge jump.

Momentum of M&A activity is likely to grow on the back of business optimism and the fact that there is ample room for consolidation in several sectors as there are still many fringe players.

According to the report, M&A activity saw increase in the inbound and domestic segments which together contributed over 80 per cent of the total M&A values. The value of inbound deals in 2014 rose 35 per cent to \$11.82 billion while the value of domestic deals in 2014 increased over 189 per cent to \$ 16.316 billion with over 20 deals valued at over US\$ 100 million each although volumes of domestic deals rose to 253. Cross border deals including Inbound and Outbound grew 123 per cent to \$17.81 billion of which inbound deals were up 35 per cent at \$ 11.8 billion. Outbound deals declined by a third to \$5.98 billion.

Indicating renewed M&A interest, Indian companies struck as many as 38 deals worth over USD 1.1 billion in the US in 2014 after a lull in the preceding year.

Around 20 Indian firms had signed merger and acquisition (M&A) deals in US in 2013 while one-fourth of the total 268 outbound acquisitions were made in the US between October 2013 and December 2014.

Among these M&A deals struck in 2014, the major ones are:

- ✓ Deal between Tech Mahindra and Lightbright Communications Corp (USD 240 million)
- ✓ Deal between Aurobindo Pharma USA Inc and Natrol Inc (USD 232.5 million)

### Role of CCI

Competition Commission of India is a body of the Government of India responsible for enforcing The Competition Act, 2002 throughout India and to prevent activities that have an adverse effect on competition in India. It was established on 14 October 2003. It became fully functional in May 2009.

The Competition Act, 2002, as amended by the Competition (Amendment) Act, 2007, follows the philosophy of modern competition laws. The Act prohibits anti-competitive agreements, abuse of dominant position by enterprises and regulates combinations (acquisition, acquiring of control and Merger and acquisition), which causes or likely to cause an appreciable adverse effect on competition within India.

Objectives of Act are sought to be achieved through the Competition Commission of India (CCI). CCI consists of a Chairperson and 6 Members appointed by the Central Government.

It is the duty of the Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India.

The Commission is also required to give opinion on competition issues on a reference received from a statutory authority established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues.

The competition watchdog has tightened its rules to ensure that companies do not escape its scrutiny through innovative structuring of mergers and acquisitions. The Competition Commission of India (CCI) has clarified that it will look at the substance of the transaction and not just the structure while approving any merger.

Most of the combinations involving Indian companies or having presence in India have to get CCI nod.

## HISTORY

### Heritage City Development Scheme (HRIDAY)

National Heritage Development and Augmentation Yojana (HRIDAY) seeks to preserve and rejuvenate the rich cultural heritage of the country. India is a diverse land of languages and religions and we need to preserve the legacy of all kinds. HRIDAY is a step towards reviving the soul of cities hosting rich heritage.

HRIDAY seeks to promote an integrated, inclusive and sustainable development of heritage sites, focusing not just on maintenance of monuments but on advancement of the entire ecosystem including its citizens, tourists and local businesses.

With 32 UNESCO recognized natural and cultural heritage sites India ranks second in Asia and fifth in the world. Urban development efforts should aim at blending nature and culture for a better future.

Development of heritage cities will help in exploring the tourism potential of country.

#### Features

- ✓ Rs.500 cr would be provided in the first phase
- ✓ 12 cities selected in the first phase
- ✓ It is a Central Scheme, Central government will meet the entire expenditure under the scheme.
- ✓ States and local urban bodies to supplement their resources for rapid development of heritage cities.
- ✓ Involvement of NGOs, spiritual organisations and private sector for effective implementation of the scheme.
- ✓ Sanction letters to the 12 cities for spending over the next two years were given under HRIDAY scheme.
- ✓ Amount distributed based on city population.

Cities in first phase are:

- |                          |                        |
|--------------------------|------------------------|
| 9. Varanasi              | 15. Kanchipuram        |
| 10. Amritsar             | 16. Vellankini         |
| 11. Warangal (Telangana) | 17. Amaravati (AP)     |
| 12. Ajmer                | 18. Badami (Karnataka) |
| 13. Gaya                 | 19. Dwaraka (Gujarat)  |
| 14. Mathura              | 20. Puri               |

## MISCELLANEOUS

## R.K. Laxman



Passed away

His 'Common Man' cartoons depicted agony of common man due to different events such as political upheavals, space research, price rise, joblessness, life on the footpath, slum-dwellers, changing cities, water scarcity etc.

According to him, Common Man quietly watching the world represents the silent majority of India, who have no voice.

Laxman's trademark is his portrait of the Common Man — a small figure with a bulbous nose, caterpillar eyebrows, the bushy hair behind the ears below a bald pate, and a moustache like a brush. His dress is unchanging — a dhoti, long shirt and checked coat. His mien suggests a determined staying power.

He was winner of many awards, including the Padma Bhushan in 1973 and the Padma Vibhushan, Magasesey Award.

## Subash Ghising

Passed away

Led movement for the autonomy of Darjeeling

Ghising organised a movement for an autonomous Darjeeling province

In 1988 autonomous Darjeeling hill province was agreed upon between the Centre and the agitating group

Formed Gorkha National Liberation Front (GNLF) in 1980

Ghising, as executive head of the Darjeeling Gorkha Hill Council (DGHC), came in for sharp criticism from his own followers and community. He was ultimately dislodged by one of his most trusted colleagues, Bimal Gurung, who rebelled and formed the Gorkha Janmukti Morcha (GJM) in 2007, threatening to wage yet another war for a more autonomous province. Ghising moved to Jalpaiguri and led to rapid deterioration of his health.

### **Gorkha National Liberation Front**

Gorkha National Liberation Front (GNLF) is a political party in the Darjeeling District of West Bengal, India. It was formed in 1980 by Subhash Ghisingh with the objective of demanding a Gorkhaland state within India. During 1980s, GNLF led violent campaign for the creation of a separate Gorkhaland state in the Nepali-speaking areas of northern West Bengal including Darjeeling, Dooars and Terai.

On 22 August 1988, the GNLF, under Subhash Ghisingh, signed the Darjeeling Hill Accord, which created the Darjeeling Gorkha Hill Council (DGHC) in exchange for the GNLF giving up its demand for Gorkhaland.

GNLF administered DGHC with Subhash Ghisingh as the chairman of the council from 1988 to 2004 for three successive terms.

A Memorandum of Settlement (MoS) was signed between the Central Government, the State Government and the GNLF for the establishment of a Sixth Schedule tribal council called the Gorkha Hill Council in the DGHC area on 6 December 2005.

### **Shekhar Sen**

Appointed as Chairman of Sangeet Natak Akademi