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The peaceful settlement of this issue on the basis of international law symbolizes friendship, mutual understanding and goodwill between the two countries. [Page 2](#)

So far, the sanctions effort has failed

Though Obama says that the sanctions that have already applied have been effective, the question whether sanctions will halt Putin in Ukraine stays elusive. [Page 2](#)

Dont see China factor in Modi-Abe meet

There are ideas seeking to elevate Indo-Japanese relations to the status of a de facto alliance and to pursue a strategy of encircling China. This would be worst case scenario for regional peace. [Page 4](#)



AGE OF QUIET DETERRENCE: INDIA MAY STAY NEUTRAL

With the Indian Prime Minister Narendra Modi's visit scheduled from August 31 to September 3rd, India will have to be cautious in involving with the Japan's stance of 'Quiet Deterrence' in dealing with its lingering territorial issues with China for two reasons. One, it would be a direct targeting of China, and secondly it would sent a greater message that India is likely to shed its image as a promoter of international peace. Given the foreign visits of NDA government leaders sequenced in the later half of the month of august, namely Sushma Swaraj visits to Vietnam, Nirmala Sitaramman visitng Mynamar, and PM himself visitng Japan, it is a greater challenge for India to accept

the "quiet deterrence strategy" while furthering the invlovement with ASEAN nations. Accepting the new and bigger roles in South China Sea as an explorer investor to Vietnam and Phillipines and as a negotiator for promoting regional peace, freedom of navigation and access to resources, India may seem tarrgetting China in its foreign policies. Earlier in August 19th New delhi has agreed upon with Singapore, yet another pivotal power in South East Asian region, to step up the defence partnership.

Also during the ARF and EAS Foreign Ministers meetings held on August 10th, Swaraj had called for the implementation of Guidelines to

'India not INTRANSIGENT', Accepts PCA Verdict, shares border with Bangladesh

Contrary to political and strategic views that the new right wing nationalist government of India will act uncompromising in its territorial disputes and may take an escalation in its militaristic affairs, India denounced its four-decade claim for over maritime border in Bay of Bengal. The US Secretary of State John Kerry in one of the recent ASEAN Regional Forum meetings asked the stakeholders to take lessons from resolution of water-related issues between India and Bangladesh and called for settling the dispute through negotiations.

The decision to abide by the decision of the UN Permanent Court of Arbitration in The Hague, which drew a new maritime border in the Bay of Bengal, awarding more than three-quarters of a disputed area to Bangladesh India had sent a world wide message how countries can reach an amicable agreement. The PCA had awarded about 19,500 square kilometers (7,500

square miles) to Bangladesh, some 76 percent of the area under dispute with India. Paul Reichler, a Washington-based lawyer for Foley Hoag LLP who represented Bangladesh said



(Source: Permanent Court of Arbitration)

that "the fact India has accepted this judgment without question puts a little pressure on China, the first country to refuse to participate in arbitration under the UN law of the sea." Though Lawyers for each side presented the panel with maps and treaties dating back to the

colonial era to support their claims, according to court documents,

Bangladesh claimed it was entitled to "special circumstances" because of the concave nature of its coastline—a position that was upheld in the final ruling.

Experts said the ruling by the U.N. tribunal would clear the way for more offshore oil and gas exploration in the region. The cooperation has opened up access to energy exploration for India and Bangladesh, which now account for less than 1 percent of the world's proven gas reserves, according to estimates by BP Plc.

Experts say that land border dispute with China would also be resolved peacefully, building on goodwill from a meeting earlier this month in Brazil between Indian Prime Minister Narendra Modi and Chinese President Xi Jinping. (news courtesy: bloomberg.com)

Sanctions' direct impact affect only less than 1 percent of Russia's economic output: Hufbauer

The U.S. and EU have been trying since March to come up with measures that would impose sufficient costs to make Putin call off his effort to destabilize eastern Ukraine while causing only minimal harm to Russian citizens and European and U.S. economies and businesses. "There have been many attempts over many years to find the silver bullet, or golden sanction, and I'm pretty convinced it doesn't exist," said Gary Hufbauer, a sanctions specialist at the

Peterson Institute for International Economics in Washington. "What does exist are very, very heavy sanctions. That's not what the U.S. and western Europe are doing."

The existing sanctions have cut about \$1 billion from Russia's economy, Vladimir Popov, who advises the Department of Economic and Social Affairs at the United Nations, has estimated. Retaliatory sanctions by Russia, he's said, will have roughly 10 times that

effect on the Eurozone. The alternative of compromising with Putin to withdraw his troops from Ukraine is politically unacceptable in the U.S. and Europe and the concessions to mollify Putin might include an agreement not to enlarge NATO further or bring Ukraine into the organization, pushing Ukraine to further decentralize political power to regional governments and a trade deal that doesn't disadvantage Russia, similar to 1955 Austrian State Treaty. (news courtesy: bloomberg.com)

Sino-ASEAN tensions soon will be US viz-a-viz China: India not to play into

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the 2002 Declaration on the Conduct of Parties in the South China Sea. Further, she chose to object to the US suggestion for a freeze on activities. "This may lead to escalation of tensions in the region". Officials of The ARF meetign has backed Swaraj as well. On the counterpart, China had repeatedly rejected demand for resolution of the issue at a multilateral fora and Chinese Foreign Minister Wang Yi told reporters after the meetings that China will continue to exercise restraint but at the same time will respond to provocations "unequivocally and resolutely." He explained "relevant dispute should be addressed by countries concerned directly through friendly consultations and peace and stability in the South China Sea should be ensured jointly by China and ASEAN countries. Overall the situation in the South China Sea is stable on the whole. There has not been any problem regarding navigation in the South China Sea." But then, China's growing activities in the disputed waters have escalated the tensions. China has maintained always an 'outright rejection' mode on every territorial claims made by Brunei, the Philippines and Vietnam. Last year, it had communicated to the Permenant Court of Arbitration that it does not accept the arbitration initiated by the Philippines.

Lastly ASEAN had urged all parties to exercise self-restraint and avoid actions which would complicate the situation and undermine peace, stability, and security in the South China Sea. This is what exactly US message to

Japan last year as a strategy against maritime security threats posited by China's ever growing ambitions. 'Restraint combined with force of deterrence' - They call it on four elements. First to make clear that the US-Japan alliance is not designed to encircle China, or make it an enemy. Secondly, to make it clear to China that becoming more aggressive will be counter-productive for its own interests; that aggressive acts will dismantle the stability—which was the reason for its rapid development in its "peaceful rise" posture. Third, to build a coalition of the other like-minded countries(read ASEAN) in the region to pursue this strategy and Finally, to bolster deterrence not just militaristically, but by economic and financial dimensions and be rooted in the larger international order.

The strategy is an all in all reverberation of China's strategy of 'reactive assertiveness', a tactic whereby China seeks to induce provocative actions by the other parties in a territorial dispute. Once the other party takes action, China then responds by pursuing strong countermeasures that it has had time to prepare in advance. Through such tactics, China seeks to remold the status quo in its favor. From an Indian perspective, similar was the attitude of Chinese in the Sino-Indian land border disputes. Meanwhile, Japan had announced a reinterpretation of the Article 9 of the country's pacifist Constitution, last month, that would allow Japanese Self-Defense Forces to come to the

aid of allied countries under attack. It has come forth with a message that Japan is looking forward to recognise India as a "friend" of Japan, which will be eligible to reap the benefits of the reinterpretation of Article 9 of the Japanese Constitution. Medias and thinktanks in both the nations had high flung the idea that the unresolved border dispute between India and China which has continued for six decades, and the current aggressive posture by China vis-à-vis Japan over the ownership of the Senkaku Islands has opened up new opportunities for cooperation between India and Japan.

With PM Modi visiting Japan this month, there are ideas seeking to elevate Indo-Japanese relations to the status of a de facto alliance and to pursue a strategy of encircling China. It would be the worst case scenario for regional peace, given the image of Modi as a right-wing nationalist who places enormous importance on national pride, who must take an uncompromising stance on territorial disputes with China. But for India, it is unlikely to discard its long-held principle of nonalignment, because sooner or later the equation may be transcribed into equation in terms of 'US' and 'China'. Infact the increase in tensions are just the signs of the Asia-Pacific becoming a centre of global political economic gravity. The situations of central asia, the crimean crisis, and the low keyed impact of economic sanctions on Russia, all make clues for Indian strategists that involving itself with quiet deterrence strategy India will be contributing to further polarisation of the world.

(Nithin Ramakrishnan with inputs from Security Times, Japan Times, the Diplomat, firstpost, NPO)

Domestic asset prices fictile to global risk aversion shocks: IMF paper

The latest IMF Working Paper finds that as a country's degree of financial integration rises, domestic asset prices are likely to become more susceptible to global risk aversion shocks. It also suggests that More rigid exchange regimes could help dampen the impact on exchange rate, but potentially at the cost of introducing more volatility in other asset markets.

The authors Nasha Ananchotikul and Longmei Zhang uses weekly EPFR(Emerging Portfolio Fund Research) portfolio flows and a Dynamic Conditional Correlation Multivariate GARCH (Generalized Auto Regressive Conditional Heteroskedasticity) framework, and analyzes the effect of capital flows and global risk aversion on the level and volatility of three financial asset prices (stock market returns, bond yields and exchange rate variations) in 17 emerging economies.

The analysis suggests that EPFR flows have a significant effect on asset prices, which was magnified during the global financial crisis. The impact of foreign equity and bond flows on the three asset prices is relatively small during normal times across regions, while it was typically amplified by 5–10 times during the crisis—although this may have also reflected other

concomitant factors such as shrinking market liquidity and/or sell-off by domestic investors. The analysis also shows that global risk aversion has a significant impact on the volatility of EM asset prices, with the magnitude of this effect varying with country characteristics. In particular, the impact of the VIX(Volatility Index) on stock market volatility is correlated with the financial openness of the country, as measured by total financial liabilities as a percent of GDP. The more exposed a country is to external fund flows, the greater is the volatility spillover stemming from higher global risk aversion to the domestic equity market.

Regarding exchange rate volatility, the spillover effect of the VIX unsurprisingly depends on the exchange rate regime, with more managed currencies showing much less sensitivity to global risk aversion. Interestingly, the impact of the VIX on bond yield volatility seems to be amplified in these (managed currency) economies, possibly due to the inability of the exchange rate to serve as a shock absorber.

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