



# GEOPOLITICAL OUTLOOK

**VOLUME-3**

|                                     |         |
|-------------------------------------|---------|
| DECODING THE NEW US-CHINA WAR       | PAGE 1  |
| THREE CONTINENTS, MANY STAKEHOLDERS | PAGE 3  |
| A BATTLE UKRAINE CANNOT WIN         | PAGE 6  |
| A TRADE WAR THAT COULD MATERIALISE  | PAGE 11 |

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# DECODING THE NEW US-CHINA WAR

***Beginning with trade disagreements in 2017, the US-China conflict has devolved into battles about information, territory, and more recently – the coronavirus***

The novel coronavirus has undoubtedly worsened the ties between the United States and China with the former being the most affected country. (As on June 19, the number of cases in the USA is 2.2M and the number of deaths is 102K whereas that in China is 83K and 4K respectively).

The virus spread like a wildfire, beginning from Wuhan Market to spreading to approximately 200 plus countries, areas or territories. The virus has not only caused deaths but has resulted in countries remaining in lockdown for extended time periods as they look for all plausible solutions to control the spread and save lives while also trying to revive the economy.

The virus has no doubt, affected the US' economic growth from both supply and demand end. The economy has been facing disruptions in their supply chain because of the lockdown as a result of which the industries had to be shut down and also because of shortage of raw materials. US, even after imposing tariffs that lead to the trade war, imports raw materials from China which has reduced due to lockdown in China. As a result the entire supply chain has been disrupted; production of goods has reduced and hence the overall supply. Looking at the demand side, there are two reasons for fall in demand. Firstly, people have fear of potential exposure to the virus and are thus reluctant to buy new products and services. Secondly, because of the lockdown, the workers who constitute a major portion of the population are not getting their pay or receiving very less amount. Consequently, the demand for necessities remain intact whereas that for luxuries and comforts have reduced drastically.

Even though the airline industry has been affected worldwide, the tourism industry in the US is expected to experience a backlash as they are expected to lose 1.6 million visitors from mainland China and associated spending of \$10.3 billion (the data is as per projections by a consulting firm in the US). The unemployment graph in the US has also been rising steeply with the unemployment rate reaching close to 20% (As per the US, last time unemployment rate was this high was during the Great Depression of 1929).

The resentment of the Americans towards China has been increasing dramatically, fuelled by the explicit efforts of the Trump administration to pin all the blame of the pandemic, economic slowdown, unemployment on Chinese Communist Party. This comes at a time when Donald Trump is fighting hard to be re-elected in the upcoming elections.

But who is to be blamed for the rising death toll in the US? Some say that China's failed efforts in concealing the danger of the virus has led to death of thousands of people in the US whereas others are of the opinion that Trump's untimely decision to impose lockdown along with inadequate supply of medical kits and delay in testing is responsible for the country topping the list of most affected countries.

The US government is now considering measures to cut their dependence on Chinese supplies of goods of all kinds. The government is aiming to provide financial stimulus and subsidies to provide an impetus to US companies to reallocate their production and procurement operations out of China. Currently, the focus is to get uninterrupted supply of medical kits like masks, sanitizers. But the government is planning to extend this policy to cover all possible domains including telecommunication, information technology and transportation. Earlier, the US had banned Huawei technologies from the 5G networks citing cyber security to be the major reason.

It is no doubt that the coronavirus has weakened China as a manufacturing hub since many countries are planning to stop imports from China and has given an opportunity to countries like the US, India to capitalise and become a major manufacturing hub.

The coronavirus has intensified the cold war among the two nations- one, a major superpower and other, aiming to become one. Every country is keeping an eye on the relations between these two countries which are surely expected to deteriorate even further. The situation is concerning.

# THREE CONTINENTS, MANY STAKEHOLDERS

*The practice of establishing foreign military bases is explored in detail with three not-so-well-known examples*

Military power is inarguably still considered the most important feat of strength of any country. World dominance is achieved by having a strong army and the most powerful weapons. It supersedes economic strength even till now, however, this statement may be argued against by some. However, a country is restricted by its geographical area and may become a powerhouse in the continent it is present in but have no impact in other parts of the globe. This is how foreign military bases come to play. Foreign military bases are basically places in other countries where a world power stations its troops along with a few weapons (perhaps of mass destruction).

The bases are officially always set for noble reasons like peace-keeping missions, protection of a sea from pirate attacks, protecting an ally from a potential threat etc. But the reasons for their establishment is well known even to masses and includes things like having a proximate base near the land of an enemy country, militarization of untapped territories, protection of cargos etc. They are usually built in countries dependent on the foreign country or sometimes even as collaboration between allies.

Unsurprisingly, USA has the largest network of around 40 of such bases. USA and USSR made many bases during the Cold War and often near each other's bases. Now almost all major powers in the world have these establishments. Let's look at some interesting case studies of these bases-

## **DJIBOUTI**

Djibouti is a very small country in western Africa and it is interesting to note that this country is most famous for the number of foreign military bases of countries like China, France, Italy, Japan and USA. The biggest source of tourism in this country is the families of the soldiers stationed here! One would wonder what resources this country has to attract all the world powers towards itself.

The answer is the strategic location of Djibouti, it sits at the horn of Africa near the Suez Canal which is perhaps the busiest sea route in the world and sensitive to attacks by Somali pirates. Also, it is surrounded by many conflict zones like Sudan, Somalia and Yemen where these powerful nations are involved in both sides and need to have a re-enforcement just round the corner.

Djibouti also benefits by earning around USD 300 million per year from these bases as rent and employment for locals. It has in past invited

countries to establish bases on its land and more such projects are in discussion right now. However, it is facing problems balancing its sovereignty and the great western presence. The country also has recently showing signs of becoming a dictatorship, what will the countries who are propagators of democracy do then?



## **JAPAN**

USA has a total of 23 military bases in the territory Japan, its strong ally. With these bases, USA tries to neutralize two of its biggest foes- China and North Korea. They allow USA to register its presence in the South China Sea as well as station heavy weaponry as response to the weapons of mass destructions of North Korea. The missiles stationed there can target the enemy countries not possible from American continent.

## **ARCTIC**

Not particularly 'foreign' as the division of territories in the great North are debatable, the bases made by Russia, USA and other countries in this region is simply for one reason- who takes the resources of the region once the ice melts. The area around the North Pole is much undiscovered as it is not a landmass but ice floating on ocean. Many countries have put forward their claims over the sea on basis on the UN Convention on the Law of Seas (UNCLOS) but the claims overlap leading to bitter fights among all these involved nations.



The Thule Air Base (USA) and Nagurskoye Air base (Russia) are the biggest ones in this region. This militarization and further exploitation ancillary to this has worsened the situation destroying a heritage of the world. Any problem in this area will have far-fetched effects in all parts of the world.

Is there a need of a law similar to the one of Antarctica to protect this region from become a commercial region? This maybe one of the various viable solutions to solve the problem the Arctic is facing.

Overall, foreign military bases usually receive criticism from both sides. A country making bases away from its shore has to incur huge costs, send its personnel outside and suffer fatalities fighting in some other countries fights. Most of the times the benefits of the base are merely emphasizing presence in the region. USA's withdrawal from Afghanistan shows how the US was incurring the high costs aimlessly achieving not much. The bases are also causes of unrest in the host company as they show subordination to another country or loss of sovereign power. It has been a site of attacks by locals. They are also seen as evil because many times they are established to curb civil wars and the soldiers are in conflict with the locals.

# A BATTLE UKRAINE CANNOT WIN

## *Looking back and understanding the timeline of the Crimean conflict*

The Ukraine crisis is a power battle between groups inside Ukraine; one needs to line up with the European Union while the other with Russia. Ukraine had been a significant supporter of the Soviet Union's economy between 1920–1991, but in March of 2014, the current crisis erupted when Russian Special Forces occupied Ukraine's Crimean Peninsula, claiming it was protecting its port access to the Black Sea. Ukraine had intended to build up Crimea's petroleum gas holds in two years in an organization with the United States, and in the event that they had achieved this, Russia would have lost perhaps the biggest client.

Between 2014–2018, a military clash between Ukrainian fighters and Russian-upheld separatists proceeded in eastern Ukraine, and in excess of 10,000 individuals were killed. On November 25, 2018, Russian boats assaulted and boarded three Ukrainian vessels in the Crimean port of Azov close to the Black Sea. It put a tanker to obstruct the port, expressing that Ukraine had abused Russian waters, in spite of the fact that the different sides consented to an arrangement in 2003 to ensure free entry through the waterway. Critics at the United Nations Security Council meeting said Russia's assault was an infringement under universal law.

### Russia

Russia being one of the parties to the crisis is a major stakeholder in the entire scenario. The whole Russian domain can be further divided into 2 major titles that is the Russian Military and the current president-Vladimir Putin. The military had a big role in the annexation of the Crimean region and were given orders by the various minister overtime during the conflict. After the fall of Viktor Yanukovich, military personnel without insignia took control of the region and took strategic positions. They were also responsible for backing the separatists in Donbass region and also supplying heavy military to them while also barging into the Ukrainian Territory. Putin took the Ukrainian revolution to his potential advantage, annexed Crimea, made it seem like a Nobel cause of concern for the people (pro-Russian) living there, deployed Russian troops and support to the Donbass separatists. Putin's standoff over Ukraine supported his fame rating in Russia to 80%. To keep up this popularity, he will keep on clutching Ukraine in spite of the expense. For instance, it would cost Russia more than \$20 billion through 2020 to integrate Crimea. Putin realizes that NATO won't protect Ukraine since it's not a member, and that urges him to keep on the attack.

## Ukrainian Politics

In 2014, Ukraine was under the leadership of President Viktor Yanukovich who failed to sign the agreement with the EU which would have given him political as well as financial support. This deal was corruptly postponed by him which led to the Ukrainian Revolution. This deal was ratified again in 2017 which put the Russian on the disadvantage side. Yanukovich also proposed to solve the issue of the gas pipeline agreement of 2009 and the Russian Black sea. Petro Poroshenko became the President after Yanukovich and handled the crisis situation from 2014-2019, association with EU ratified under his regime, proposed that Ukraine should join NATO. Poroshenko actively and financially supported the [Euromaidan](#) protests between November 2013 and February 2014, leading to an increase in his popularity. After his regime came the present president - Zelensky. He was elected in 2019 and proposed to end the conflict, and is proposing an election in the Donbass region and granting it a special status. He had signed the Steinmeier Formula, a road map to ending the war with Russian-backed separatists in the eastern part of his country. The process, which is overseen by Germany and France, calls for local elections in occupied parts of the Donbas region and its recognition as a special autonomous region. But Thousands of people took to the cobblestone streets of Kyiv and chanted "No to capitulation" following the deal's announcement, arguing that the formula violates Ukraine's sovereignty.

## International Organisations

There are basically two international organizations which has its root connected to this conflict that is NATO - North Atlantic Treaty Organisation and OSCE - Organisation of Security and Cooperation in Europe. Ukraine has always inclined itself towards joining NATO, which will lead to the eastern expansion of NATO and thus a matter of concern for Russia. NATO's aim is to protect the freedom of its members. Its targets embodies weapons of mass destruction, terrorism, and cyber-attacks. If the stability is pressurized, NATO would defend its non-members. On August 28, 2014, NATO announced it had photos proving that Russia invaded Ukraine. Albeit Ukraine is not a member, it had worked with NATO over the years. Russia's invasion of Ukraine threatened nearby members. They worried that the other former USSR satellite countries would be next. The OSCE Special Monitoring Mission to Ukraine (SMM) was deployed on 21 March 2014, following a request to the OSCE by Ukraine's government and a consensus decision by all 57 OSCE participating States. The SMM is an unarmed, civilian mission, present on the ground 24/7 in all regions of Ukraine. Its main tasks are to observe and report in an impartial and objective way on the situation in Ukraine, and to facilitate dialogue among all parties to the crisis. The Steinmeier Formula (being adopted by Zelensky), proposed in 2016 by Germany's then-foreign minister, Frank-Walter Steinmeier, the plan details free and fair elections in the east under Ukrainian law, verification by the OSCE international security organization, and then self-governing status in return.



## **The Crimean region**

When we talk about the Russia Ukraine crisis, we certainly can't ignore the Crimean region. Talking about Crimea, it is a peninsula located on the northern coast of the Black Sea in Eastern Europe that is surrounded by both the Black Sea and the smaller Sea of Azov to the northeast. Crimea was first annexed by the Russians in 1783 and remained a part of it till 1954 when it was transferred to Ukraine by the then Soviet leader Nikita Khrushchev. So naturally, the region was dominated by Russian speaking community as a whole. This is the Russophile dominated region which was again annexed by Russia in the year 2014. Since then the region is administered by two Russian federal subjects - the Republic of Crimea and the Federal state of Sevastopol. The annexation was carried out by a Russian military intervention after the Ukrainian Revolution. The deployed troops took over the Supreme Council which is their parliament and captured strategic sites all across the city. A Crimean Status referendum also took place and finally its independence was announced on 18th March 2014.

## **Russia Ukraine gas dispute**

From 1993 to 2010 there were several gas disputes between the two countries mainly between the Ukrainian oil and gas company and the Russian gas supplier. What initially started as a business issue involving disputes on trade costs and debts soon escalated into trans-political issues involving the political parties from both the ends. Russia supplies about a quarter of its gas to Europe of which 80% goes through Ukraine. Ukraine was accused by Russia in 2005 of skimming this pipeline for its own use which upset both Russia and the EU. Though it was initially declined by them, soon they accepted such an act. In the year 2005-06 the Russian goods were even boycotted and a "Gas War" took place between the two. Thus Russia in order to keep its control made many partial and also complete cuts on the supply of gas through these pipelines over the years. Things got heated up so much that now Russia plans to supply gas to Europe through the Turkish Stream Gas pipeline project.

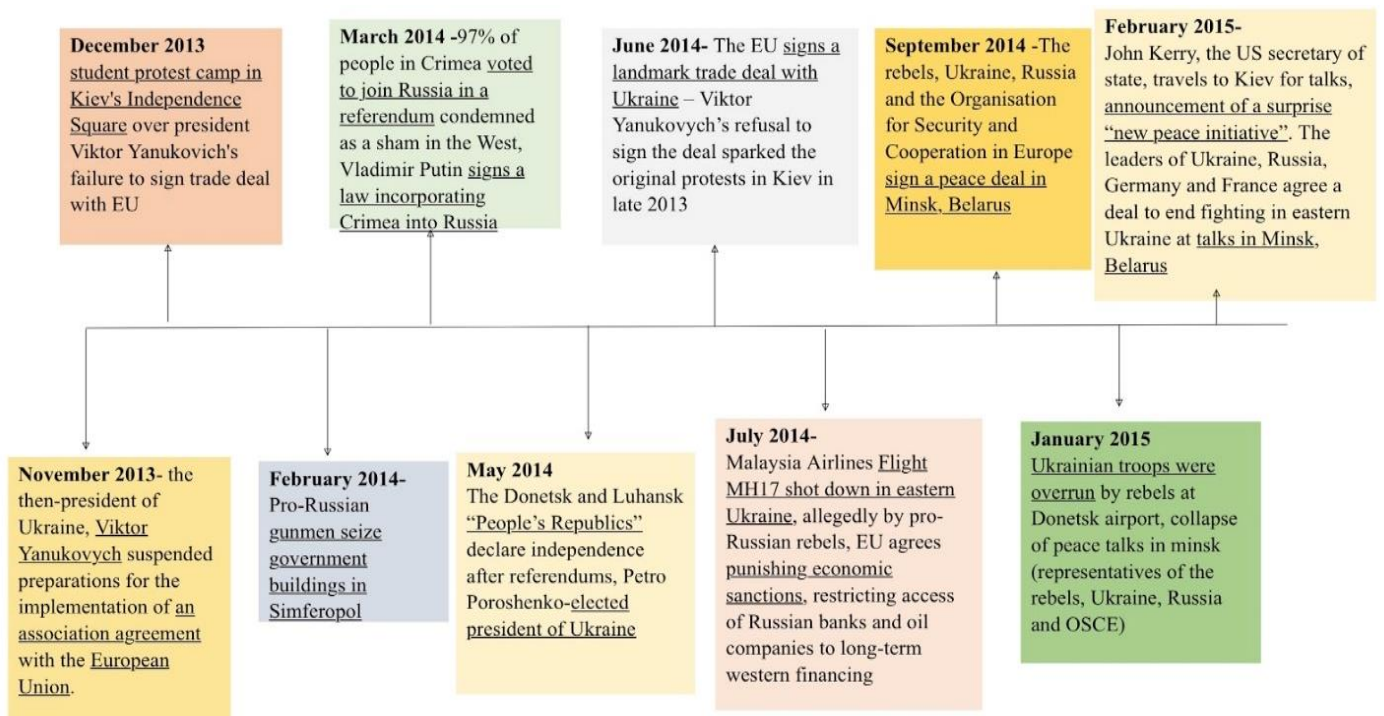
## **The Black Sea Dispute**

When it comes to the dispute between Russia and Ukraine, geography plays a vital role in the events that took place during the crisis. After the annexation of Crimea, Russia took control on both sides of the Kerch Strait which is the only waterway between the Sea of Azov and the Black Sea. The Russians also built a bridge connecting the two sides of the strait. Russia and Ukraine had an agreement that dates back to 2003 about the usage of the waterway which allows both of them to access the strait. Now what happened once is, Ukraine sent two of its ships and a tugboat from its port in Odessa (Black Sea) to its other port in the Sea of Azov. When the ships reached the strait, Russian officials accused them of breaching their territorial waters and thus denied entry. After the ships turned away towards the Black Sea, a Russian ship rammed into the tugboat, jets were scrambled and the crew was fired upon. Ultimately the ships along with the crew were seized by Russia.

## In the recent times

In December 2019, both the presidents came for the first time face to face after peace talks in Paris. Russia and Ukraine have agreed to a “full and comprehensive implementation of a cease-fire” just before the year end. This meeting was a bid to resolve the long running conflict in Eastern-Ukraine between pro-Russian separatists and Ukrainian forces. The two presidents also held joint meetings with French President Emmanuel Macron and German Chancellor Angela Merkel, who have previously tried to broker a peace deal between the divided neighbours.

## TIMELINE OF EVENTS



# A TRADE WAR THAT COULD MATERIALISE

## *An overview of the reasons and stakeholders involved in the potential India-Malaysia trade conflict*

### **Causes of the prospective trade war between the 2 Asian giants:**

- In a September 28 speech to the United Nations, Malaysian Prime Minister Mahathir Mohamad accused India of having “invaded and occupied” the disputed Jammu & Kashmir region.
- Mohamad’s criticism has triggered an informal boycott of Malaysian palm oil, compounded by his refusal to extradite an Islamic preacher, Zakir Naik, who has stirred controversy in both countries by his incendiary speeches. That is no light undertaking. India was Malaysia’s third-largest export destination in 2018 for palm oil and palm-based products, amounting to RMB6.84 billion (US\$1.63 billion). Malaysia’s exports to India totalled US\$10.8bn, while imports totalled \$6.4bn, according to Indian government data.
- Naik, a 53-year-old radical television preacher, fled India ahead of arrest in 2016 and subsequently moved to the largely Muslim Malaysia, where he was granted permanent residency—and protection by Mahathir despite general disapproval in Kuala Lumpur of his inflammatory pro-Muslim rhetoric. Naik’s racially divisive remarks have created much heartburn in both countries. He is wanted by Indian authorities since 2016 for alleged money laundering and inciting extremism through hate speeches.

### **Possible impact of this standoff on the stakeholders:**

#### **Indian stakeholders:**

#### **1. Indian companies involved in the palm oil and/ or edible oil business:**

India has put refined palm oil and palm olein on its list of restricted items on January 8, 2020. Although the Indian government has not imposed an official ban on palm oil imports from Malaysia, the aforementioned move compounded with the fact that Malaysia is the main supplier of refined palm oil to India sends out clear signals regarding India’s intentions. In the event of the Indian government imposing an official ban on the palm oil imports from Malaysia, the Indian oil companies will either have to source their palm oil requirements from countries like Indonesia or substitute palm oil with edible oil supplies from Ukraine.

However, both Ukraine and Indonesia are located at a much greater distance from the Indian peninsula as compared to Malaysia. This may lead to a substantial increase in the freight and transportation costs, in the event of India importing its oil requirements from Indonesia or Ukraine, thus resulting in a considerable increase in the cost of importing palm oil and/or edible oil.

## **2. Two million Indians residing in Malaysia:**

Malaysian Indians account to almost 10% of the total Malaysian population and form the fifth largest community of Overseas Indians in the world. A standoff between the 2 countries will put the fate of these Malaysian Indians in jeopardy.

## **3. Indian government as a whole:**

Till now China is the only major Asian country which acts as “all weather ally” of Pakistan. However the Malaysian Prime Minister’s stance on the Kashmir issue portrays him as being much more inclined towards ties with India’s arch rival. This further weakens India’s diplomatic position in the global scenario.

With Indian government already treading a dangerous rope with Muslim majority countries like Turkey, its current tussle with Malaysia may portray it as being anti-secular and poor at maintaining peaceful international relations. This can be used as a major accusation by the opposition parties in further deepening the ruling party’s pro-Hindu image, thereby dividing the minority vote share.

## **4. Indian companies in Malaysia:**

In the event of a trade war, the Indian companies in Malaysia like Wipro, IRCON International limited, Malladi group etc. will face tougher sanctions and will be stripped of any incentives that they currently receive from the Malaysian government.

### **Malaysian stakeholders:**

#### **1. Malaysian companies involved in the palm oil and/or edible oil business:**

These companies will be the most affected in case the Indian government imposes an official ban on palm oil imports from Malaysia.

Moreover this standoff between India and Malaysia comes merely months after the EU’s decision to ban palm oil. On 13th March,2019, the commission concluded that the cultivation of palm oil, mostly undertaken in Indonesia and Malaysia, results in

excessive deforestation and it should therefore not be eligible to count towards EU renewable transport targets for national governments.

Thus the global palm oil market being an Oligopoly market, these Malaysian palm oil companies will not only lose out on their 2nd largest importer, but will also find it equally difficult to find a substitute buyer.

## **2. Malaysian companies in India:**

In the event of a trade war, the Malaysian companies in India like Global transit Ltd., Infrastructure Development Finance Company, Petronas etc. will face tougher sanctions and will be stripped of any incentives which they currently receive from the Indian government.

## **3. Malaysian government:**

The pro Muslim stance of Mahatir Mohamad and his refusal to apologise for his outrageous comments on the Kashmir issue will portray him as a leader of the Muslim world. This will strengthen Malaysia's position in the Organisation of Islamic Cooperation.

However in the wake of these remarks, the Malaysian P.M seems to have lost political mileage which could otherwise have been gained in garnering support from the sizeable Indian community in Malaysia. Political pundits speculate that the recent resignation of Mahathir Mohamad and the subsequent succession of Muhyiddin Yassin as the next Malaysian Prime Minister could have been spurred by the former's remarks on the Kashmir issue.

## **4. Tourist population from Malaysia:**

The total tourist population from Malaysia amounts to a staggering 3,01,961 people. In the wake of worsening India- Malaysia ties, India stands at the danger of losing out on these Malaysian tourists. This will prove to be a major obstacle in fostering the Indian government's "Atithi Devo Bhava" scheme.

### **Other stakeholders:**

#### **1. Indonesia and Ukraine:**

They are expected to be the biggest direct beneficiaries of the worsening ties between India and Malaysia. This is because India is expected to replace Malaysian palm oil imports partly by buying the same from Indonesia and partly by substituting it with edible oil supplies from Ukraine.

## 2. Pakistan:

Pakistan may try to woo Malaysia to its side on the grounds of the logic that an enemy's enemy is a friend. Malaysia's support will prove to be invaluable as it may act as a major obstacle in India's efforts to get Pakistan blacklisted in the FATF.

Adding to the above, Pakistan may reduce the tariff rates trying to act as a substitute to India in the Palm Oil imports and thus gain the support of Malaysia. Basically this would turn out to be a measure which corners Malaysia getting inclined towards the side of Pakistan in Global Affairs. So, in case a trade war arises between India and Malaysia, "Pakistan as a trade partner" would never be the first preference of Malaysia.

## 3. Extreme possibilities:

- Further the Indian traders' boycott of Malaysian palm oil has fuelled suspicion that the prospect of an impending trade war with Malaysia could have been one of the auxiliary reasons for the Indian government's decision to boycott the Regional Comprehensive Economic Partnership (RCEP). The China led RCEP, whose participants include 10 members of ASEAN and six Asia-Pacific countries, is expected to create an integrated market of 3.4 billion people with a combined GDP of \$49.5 trillion, or about 39% of the world economy.
- Malaysia's geographical location places it at a position to exercise considerable control over the Johore strait (a narrow stretch of water body between Malaysia and Singapore). Thus, Malaysia may further stall India from using the Johore strait, through which lies the shortest route to Indonesia and other countries which lie further south east to India.

## A Final Note

It is found that Greenhouse Gas Emissions from palm oil are 47% lower than the conventional fuels. So even if some immaterial factors like Mahathir's statement or Zakir Naik issue create a spark for a trade war between the Asian countries, the following fact puts off the possibilities for a trade war.

"To expand the market by 2022, India needs 6,750 million litres of biodiesel and 4,500 million litres ethanol per annum. Government data shows ethanol production in 2017-18 was 1,410 million litres."

So even if a trade war happens, Malaysia may use the emerging demand for palm oil as a biofuel to maintain the status quo for its demand of palm oil in the international market.

Further possibilities are that, Malaysia may produce biodiesel from palm oil and then venture into the export of biofuels to the countries in need of Biofuels.