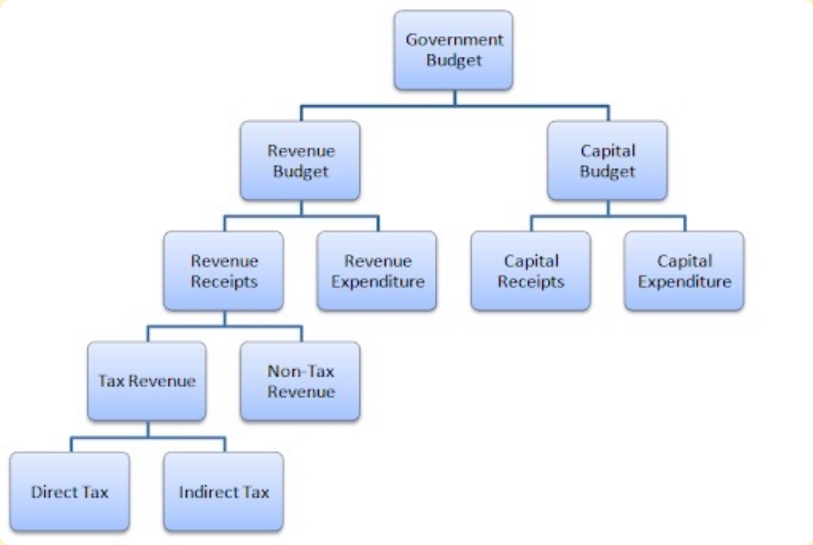
FISCAL DEFICIT



The Union Minister of Finance recently presented the Budget 2020-21 in the Parliament. The central theme of the Budget- "Ease of living for all citizens" was based on three prominent themes:

- Aspirational India - better standards of living with access to health, education and better jobs for all sections of the society
- Economic Development for all - "Sabka Saath, Sabka Vikas, Sabka Vishwas".
- Caring Society- both humane and compassionate; Antyodaya as an article of faith.

Budget and Constitutional Provisions

According to Article 112 of the Indian Constitution, the Union Budget of a year is referred to as the Annual Financial Statement (AFS). It is a statement of the estimated receipts and expenditure of the Government in a financial year (which begins on 01 April of the current year and ends on 31 March of the following year). In addition to it, the Budget contains:

- Estimates of revenue and capital receipts,
- Ways and means to raise the revenue,
- Estimates of expenditure,
- Details of the actual receipts and expenditure of the closing financial year and the reasons for any deficit or surplus in that year, and
- The economic and financial policy of the coming year, i.e., taxation proposals, prospects of revenue, spending programme and introduction of new schemes/projects.

In Parliament, the Budget goes through six stages:

- Presentation of Budget.
- General discussion.
- Scrutiny by Departmental Committees.
- Voting on Demands for Grants.
- Passing of Appropriation Bill.
- Passing of Finance Bill.

The Budget Division of the Department of Economic Affairs in the Finance Ministry is the nodal body responsible for preparing the Budget.

Changes Introduced in 2017

- Advancement of Budget presentation to February 1 (earlier presented on the last working day of February),
- Merger of Railway Budget with the General Budget, and
- Doing away with plan and non-plan expenditure.

Key Words

Receipts: It indicates the money received by the government. This includes:

- the money earned by the government
- the money it receives in the form of borrowings or repayment of loans by states.

Plan Expenditure: All expenditures done in the name of planning (i.e. Five Year Plans) were called plan expenditures. For example expenditure on electricity generation, irrigation and rural developments, construction of roads, bridges, canals, etc.

Non-plan Expenditure: All expenditures other than plan expenditure were known as non-plan expenditure. For example interest payments, pensions, statutory transfers to States and Union Territories governments, etc.

Objectives of Government Budget

- Reallocation of Resources- It helps to distribute resources keeping in view the social and economic conditions of the country.
- Reducing Inequalities in Income and Wealth- Government aims to bring economic equality by imposing taxes on the elite class and spending the collected money on the welfare of the poor.
- Contributing to Economic Growth- A country's economic growth is based on the rate of investment and savings. Therefore, the budgetary plan focuses on preparing adequate resources for investing in the public sector and raise the overall rate of investments and savings.
- Bringing Economic Stability- The Budget focuses on avoiding business fluctuations so as to accomplish the aim of financial stability. Policies such as Deficit Budget (during deflation) and Surplus Budget (during inflation) assist in balancing the prices in the economy.
- Managing Public Enterprises- Many public sector industries are built for the social welfare of the people. The Budget is planned to deliver different provisions for operating such business and imparting financial help.

- Reducing Regional Differences– It aims to reduce regional inequalities by promoting the installation of production units in the underdeveloped regions.

Components of Government Budget

Revenue Budget– It consists of the Revenue Expenditure and Revenue Receipts.

- Revenue Receipts are receipts which do not have a direct impact on the assets and liabilities of the government. It consists of the money earned by the government through tax (such as excise duty, income tax) and non-tax sources (such as dividend income, profits, interest receipts).
- Revenue Expenditure is the expenditure by the government which does not impact its assets or liabilities. For example, this includes salaries, interest payments, pension, and administrative expenses.

Capital Budget– It includes the Capital Receipts and Capital Expenditure.

- Capital Receipts indicate the receipts which lead to a decrease in assets or an increase in liabilities of the government. It consists of: (i) the money earned by selling assets (or disinvestment) such as shares of public enterprises, and (ii) the money received in the form of borrowings or repayment of loans by states.
- Capital expenditure is used to create assets or to reduce liabilities. It consists of: (i) the long-term investments by the government on creating assets such as roads and hospitals, and (ii) the money given by the government in the form of loans to states or repayment of its borrowings.

Other Types of Budgets

- Zero Based Budgeting: Zero-based budgeting is a method of budgeting in which all expenses are evaluated each time a Budget is made and expenses must be justified for each new period. Zero budgeting starts from the zero base and every function of the government is analysed for its needs and cost. Budget is then made based on the needs
- Outcome Budget: Outcome Budget analyses the progress of each ministry and department and what the respected ministry has done with its Budget outlay. It measures the development outcomes of all government programs. It was first introduced in the year 2005.
- Gender Budgeting: The gender-budgeting is defined as "gender-based assessment of Budgets, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality". It is actually budgeting for gender equity. Through Gender Budget, the Government declares an amount to be spent over the development, Welfare, Empowerment schemes and programmes for Females.

Balanced, Surplus and Deficit Budget

- Balanced Budget – A government Budget is assumed to be balanced if the expected expenditure is equal to the anticipated receipts for a fiscal year.
- Surplus Budget – A Budget is said to be surplus when the expected revenues surpass the estimated expenditure for a particular business year. Here, the Budget becomes surplus, when taxes imposed, are higher than the expenses.
- Deficit Budget- A Budget is in deficit if the expenditure surpasses the revenue for a designated year.

Measures of Government Deficit

There are various measures that capture government Deficit:

- Revenue Deficit: It refers to the excess of government's revenue expenditure over revenue receipts. Revenue Deficit = Revenue expenditure – Revenue receipts. The revenue Deficit includes only such transactions that affect the current income and expenditure of the government.When the government incurs a revenue deficit, it implies that the government is dissaving and is using up the savings of the other sectors of the economy to finance a part of its consumption expenditure.
- Fiscal Deficit: It is the gap between the government's expenditure requirements and its receipts. This equals the money the government needs to borrow during the year. A surplus arises if receipts are more than expenditure. Fiscal Deficit = Total expenditure – (Revenue receipts + Non-debt creating capital receipts). It indicates the total borrowing requirements of the government from all sources.
- From the financing side: Gross fiscal deficit = Net borrowing at home + Borrowing from RBI + Borrowing from abroad. The gross fiscal deficit is a key variable in judging the financial health of the public sector and the stability of the economy.
- Primary Deficit: Primary deficit equals fiscal deficit minus interest payments. This indicates the gap between the government's expenditure requirements and its receipts, not taking into account the expenditure incurred on interest payments on loans taken during the previous years. Primary deficit = Fiscal deficit – Interest payments

Fiscal Policy

- Fiscal policy is the use of government revenue collection (mainly taxes but also non-tax revenues such as divestment, loans) and expenditure (spending) to influence the economy.
- Through the fiscal policy, the government of a country controls the flow of tax revenues and public expenditure to navigate the economy. If the government receives more revenue than it spends, it runs a surplus, while if it spends more than the tax and non-tax receipts, it runs a deficit. To meet additional expenditures, the government needs to borrow domestically or from overseas. Alternatively, the government may also choose to draw upon its foreign exchange reserves or print additional money.
- Fiscal policy in India is the guiding force that helps the government decide how much money it

should spend to support the economic activity, and how much revenue it must earn from the system, to keep the wheels of the economy running smoothly.

- Attaining rapid economic growth is one of the key goals of fiscal policy formulated by the Government of India. Fiscal policy, along with monetary policy, plays a crucial role in managing a country's economy.

Main objectives of Fiscal Policy in India

- Economic growth: It helps to maintain the economy's growth rate so that certain economic goals can be achieved.
- Price stability: It controls the price level in the country so that when the inflation is too high, prices can be regulated.
- Full employment: It aims to achieve full employment, or near full employment, as a tool to recover from low economic activity.

Importance of Fiscal Policy in India

- In a country like India, fiscal policy plays a key role in elevating the rate of capital formation both in the public and private sectors.
- Through taxation, the fiscal policy helps to mobilise a considerable amount of resources for financing its numerous projects.
- Fiscal policy also helps in providing stimulus to elevate the savings rate.
- The fiscal policy gives adequate incentives to the private sector to expand its activities.
- Fiscal policy aims to minimise the imbalance in the dispersal of income and wealth.

Deficit Financing in India

- Deficit financing is defined as "borrowings from the Reserve Bank of India against the issue of Treasury Bills and running down of accumulated cash balances".
- When the government borrows from the Reserve Bank of India, it merely transfers its securities to the Bank. On the basis of these securities the bank issues more currency and puts them into circulation on behalf of the government. This amounts to the creation of money.
- Rationale for Deficit Financing: sometimes the government fails to mobilise adequate resources. In this situation, the option of deficit financing is required to meet fiscal deficit targets. If the option of deficit financing is not utilized the government ends up compromising on growth targets.

FRBM Act

The Fiscal Responsibility and Budget Management Act, 2003 (FRBMA) is an Act of the Parliament of India to institutionalize financial discipline, reduce India's fiscal deficit, improve macroeconomic management and the overall management of the public funds by moving towards a balanced budget.

Objectives

- Reduction of fiscal deficit and revenue deficit;
- To achieve inter-generational equity in fiscal management by reducing the debt burden of the future generation;
- Achieving long-term macroeconomic stability;
- Better coordination between fiscal and monetary policy;
- Transparency in fiscal operations of the Government.

Major Provisions of the FRBM Act, 2003

- The FRBM rule set a target reduction of fiscal deficit to 3% of the GDP by 2008-09. This will be realized with an annual reduction target of 0.3% of GDP per year by the Central government.
- Revenue deficit has to be reduced by 0.5% of the GDP per year with complete elimination by 2008-09.
- Reduction of Public Debt
- The government has to take appropriate measures to reduce the fiscal deficit and revenue deficit so as to eliminate revenue deficit by 2008-09 and thereafter, sizable revenue surplus has to be created.
- It mandated setting annual targets for the reduction of fiscal deficit and revenue deficit, contingent liabilities and total liabilities.
- The government shall end its borrowing from the RBI except for temporary advances.
- The RBI was supposed to not subscribe to the primary issues of the central government securities after 2006.
- The revenue deficit and fiscal deficit may exceed the targets specified in the rules only on grounds of national security, calamity and other exceptional grounds to be specified by the Central government.

Amendments to FRBM Act:

- Fiscal Responsibility and Budget Management Act, 2003 was amended in 2012 that mandated the Central Government to lay before the Houses of Parliament, Macro-Economic Framework Statement, Medium Term Fiscal Policy Statement and Fiscal Policy Strategy Statement along with the Annual Financial Statement and Demands for Grants.
- NK Singh committee, that was set up in 2016 to review the FRBM Act, recommended that the government must target a fiscal deficit of 3% of the GDP in the years up to March 31, 2020, subsequently cut it to 2.8% in 2020-21 and to 2.5% by 2023.

UN OFFICE ON DRUGS AND CRIME

Recently, the United Nations Office on Drugs and Crime (UNODC) released a report on 'Synthetic Drugs in East and Southeast Asia: Latest Developments and Challenges'.

According to this report, Covid-19 induced lockdowns and movement restrictions may lead to an initial statistical reduction in drug seizures, but without a real change in terms of supply.

In other words, Covid-19 is unlikely to have any effect on illicit drug supply.

Key Points

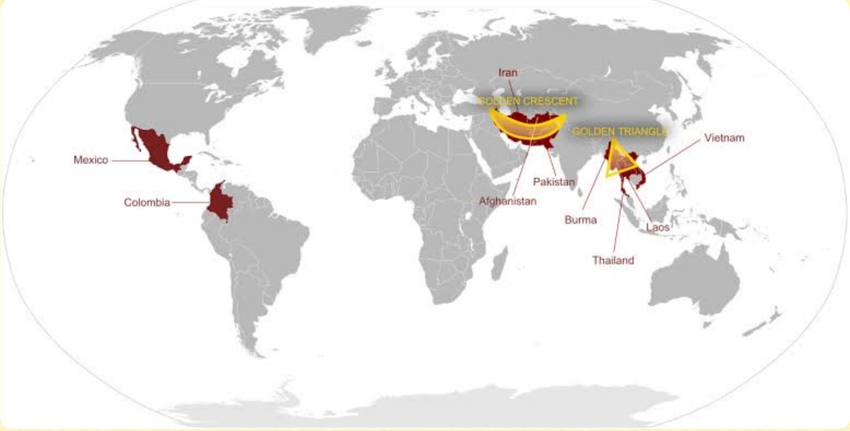
- Shifting of Priorities: Rearrangement of governments' priorities and resources to tackle the pandemic could threaten the efforts to strengthen drug prevention and treatment programmes.
- No Direct Correlation: Not every fluctuation in terms of drug seizures, prices, drug-related arrests or deaths in the coming months would be a direct or indirect consequence of the outbreak.
- Quick and Flexible Response: Active organised crime groups have shown flexibility to respond to shortages of supplies and have raised risk levels on certain trafficking routes.
- Local Capacities: Main synthetic drug of concern in the region, Methamphetamine (also called meth), was manufactured, trafficked and consumed without the need for globalised supply chains.

Indian Context

India reported a substantial increase in seizures of amphetamine-type stimulants (ATS), most of which are suspected to be meth.

The reasons behind the spike are:

- Growth in trafficking of meth from the Golden Triangle overland to Bangladesh, with some routes crossing India.
- The Golden Triangle represents the region coinciding with the rural mountains of Myanmar, Laos, and Thailand.It is Southeast Asia's main



opium-producing region and one of the oldest narcotics supply routes to Europe and North America.
- Use of maritime trafficking routes from Myanmar along the Andaman Sea, some of which cross Indian territorial waters.
- India is in the middle of two major illicit opium production regions in the world, the Golden Crescent in the west and the Golden Triangle in the east.
- Golden Crescent : This region of South Asia is a principal global site for opium production and distribution.It comprises Afghanistan, Iran, and Pakistan.

Challenges

- Easy Borders: The borders are porous and difficult to control in the lower Mekong region so cross-border movements in many places are not significantly hindered by Covid-19 measures.
- Evolving Ways of Trafficking: The methods of containerised trafficking, couriers and body-packing have reduced due to shutting down of borders and trade. However, dealers might come up with other ways limiting the impact of reduced trade.
- Limited Control: There is limited government control in the Golden Triangle, trafficking would continue at high volumes.
- Unaffected Supply: The supply of precursor chemicals is not likely to be disrupted because major organised crime groups source chemicals through direct diversion from industry and not diversion from illicit overseas trade channels.
- Lowest Price Level: The price of meth has dropped to the lowest level in a decade with the surge of supplies. This has in turn increased its affordability and, therefore, use.
- Increased Crime: Changed methods to access drugs and economic hardship might reduce the disposable income of some drug users, and result in increased crime.
- Street dealing of drugs might be significantly impacted and altered due to movement restriction and social distancing.
- Additional Risks: Vulnerable populations of drug users may be exposed to additional risks as funding is re-prioritised, access to programmes and services becomes difficult and activities of treatment providers are hampered as they are dealing with the pandemic.

United Nations Office on Drugs and Crime

- Established in 1997 and was named UNODC in 2002.
- It acts as the Office for Drug Control and Crime Prevention by combining the United Nations International Drug Control Program (UNDCP) and the Crime Prevention and Criminal Justice Division of the United Nations Office at Vienna.
- UNODC publishes the World Drug Report.

Way Forward

- Additional efforts would be required at the national, regional, and international level to

carefully analyse methods and trends to understand changes to drug markets in the wake of the pandemic.
- Moreover, methods or procedures to deal with illicit drug supply, their usage must be institutionalised in order to ensure that fight against this menace is not compromised in face of a pandemic or any other crisis.

100% FDI IN COAL MINING

The Union Cabinet has approved an ordinance to attract investment in coal mining.

- The ordinance amends the Mines and Minerals (Development and Regulation) Act, 1957 and the Coal Mines (Special Provisions) Act, 2015.
- The Mines and Minerals (Development and Regulation) Act, 1957 regulates the mining sector in India and specifies the requirement for obtaining and granting mining leases for mining operations.
- The Coal Mines (Special Provisions) Act, 2015 is an Act that provides for allocation of coal mines and vesting of the right, title and interest in and over the land and mine infrastructure together with mining leases to successful bidders with a view to ensure continuity in coal mining operations and production of coal.

Key Points

- The amendment opens up coal mining to any firm whose office is registered in India.
- Open To All: Earlier, the government used to auction coal and lignite mining licences only to companies engaged in iron and steel, power coal washing sectors. By opening to everyone, the government seeks to democratize the coal mining sector.
- Foreign Direct Investment: The move will promote foreign direct investment in the sector. This will help India gain access to sophisticated technology for underground mining used by global miners.
- This may also bring an end to state-run Coal India Ltd's (a Maharatna company) monopoly in the sector.
- Coal Production: With this move, the government aims at greater participation in commercial mining of coal and targets 1000 Million Tonnes (MT) coal production by Financial Year (FY) 2023 -24.
- The country produced 730 million tonne of coal in 2018-19.
- Import Substitution: The move will boost both production and mining efficiency besides substituting import of coal worth Rs 30,000 crore.
- Despite having the world's fifth largest coal reserves, India imported 235 million tonnes (mt) of coal in 2019.
- Enhanced Competitiveness: The steel industry would get cheaper inputs, leading to an increase in 'competitiveness'.
- The amendment extends the policy of composite mining licence to the coal sector.

- Composite Mining Licence is a prospecting license which is followed by a grant of Mining Lease.
- Earlier, the policy of composite mining licence was in force for unexplored blocks of most non-coal minerals.
- This move will add to the certainty of tenure from the prospecting to the production stages.

Coal in India

- Coal is the main source of energy in India. This fossil fuel is found in a form of sedimentary rocks and is often known as 'Black Gold'.
- Formation: It originates from organic matter wood. When large tracts of forests are buried under sediments, wood is burnt and decomposed due to heat from below and pressure from above. The phenomenon makes coal but takes centuries to complete.
- Classification: Coal can be classified on the basis of carbon content as follows:
- Anthracite: It is the best quality of coal which carries 80 to 95% carbon content. It has the highest calorific value. It is found in small quantity in Jammu and Kashmir.
- Bituminous: It carries 60 to 80% of carbon content and a low level of moisture content. It is widely used and has high calorific value. It is found in Jharkhand, West Bengal, Odisha, Chhattisgarh and Madhya Pradesh.
- Lignite: It is often brown in colour. It carries 40 to 55% carbon content. It has high moisture content so it gives smoke when burnt. It is found in Rajasthan, Lakhimpur (Assam), and Tamil Nadu.
- Peat: It has less than 40% carbon content. It has low calorific value and burns like wood.
- Regulation

Ownership of Mineral

The State Governments are the owners of minerals located within the boundary of the State concerned.
The Central Government is the owner of the minerals underlying the ocean within the territorial waters or the Exclusive Economic Zone of India.

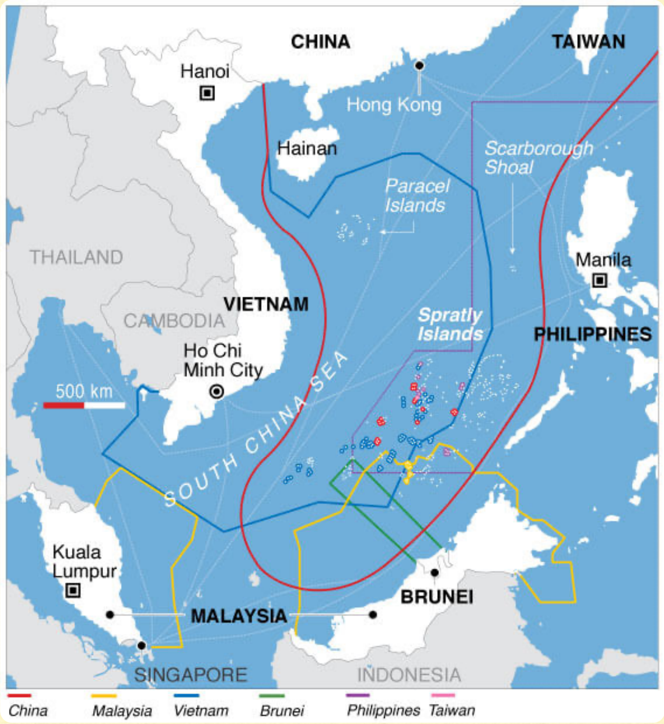
Granting Mineral Concessions

- The State Governments grant mineral concessions for all the minerals located within the boundary of the State, under the provisions of the Mines and Minerals (Development and Regulation) Act, 1957 and Mineral Concession Rules, 1960.
- However, for minerals specified in the First Schedule to the Mines and Minerals (Development and Regulation) Act, 1957 approval of the Central Government is necessary. Schedule I contains minerals such as coal and lignite, minerals of the “rare earths” group containing Uranium and Thorium.
- Also, the Central Government notifies certain minerals as 'minor' minerals from time to time for which the absolute powers for deciding on procedures of seeking applications for and

granting mineral concessions, fixing rates of royalty, dead rent, and power to revise orders rest only with the State Government. Example of minor minerals include building stones, gravel, ordinary clay, ordinary sand.

SOUTH CHINA SEA

- The South China Sea is a marginal sea that is part of the Pacific Ocean that extends from the Strait of Malacca in the southwest, to the Strait of Taiwan in the northeast.
- The littoral countries of the South China Sea are China, Taiwan, Philippines, Malaysia, Brunei, Indonesia, Singapore, Cambodia, Thailand, and Vietnam.
- The South China Sea is a busy international waterway, one of the main arteries of global trade worth more than $5 trillion and is growing year on year.
- It is a rich source of hydrocarbons and natural resources.



The islands of the South China Sea can be grouped into two island chains.

- The Paracels Islands: These are clustered in the northwest corner of the Sea.
- The Spratly Islands: These are located in the southeast corner.

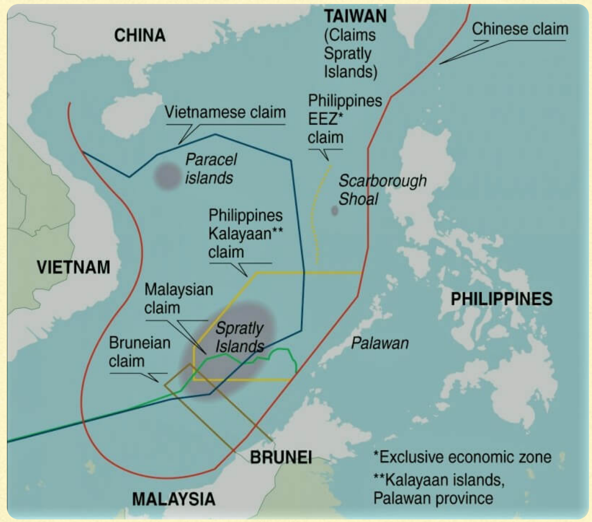
South China Sea Dispute

- The South China Sea is an area of growing conflicts due to territorial claims by different countries.
- With respect to the Spratly Islands, different geographic features are reportedly occupied by claimants such as Taiwan, Vietnam, the Philippines, China, and Malaysia.
- The Paracels Islands are claimed by China, Vietnam, and Taiwan.

History

In the first half of the 20th century, the Sea remained almost quiet. In fact, at the end of World War II, no claimant occupied a single island in the entire South China Sea.

China laid claim to the South China Sea in 1947. It demarcated its claims with a U-shaped line made up of eleven dashes on a map, covering most of the area.



But two “dashes” were removed in the early 1950s to bypass the Gulf of Tonkin as a gesture to communist comrades in North Vietnam.
The remaining ‘nine-dash line’ stretches hundreds of kilometers south and east of its southerly Hainan Island, covering almost 90% of South China Sea.
After 1960’s when the huge reserve of oil and natural gas were discovered in the region, the territorial claims started growing in an unprecedented manner.
The United Nations Convention on the Law of the Sea (UNCLOS), which came into force in 1994, established a legal framework intended to balance the economic and security interests of coastal states with those of seafaring nations.
While UNCLOS has been signed and ratified by nearly all the coastal countries in the South China Sea, based on their own interpretation of the UNCLOS, claimant countries started to legitimize their claims.
In 2002, ASEAN and China came together to sign the Declaration on the Code of Conduct of Parties in the South China Sea to keep disputes away. However, it didn’t achieve the desired outcomes.
In 2009, Malaysia and Vietnam sent a joint submission to the Commission on the Limits of the Continental Shelf (CLCS) for setting out some of their claims. In response to this China submitted a map containing the infamous “nine-dash” line and due to which, there was no headway in the dispute resolution.

PCA-Ruling and implications

Both the Philippines and China laid their claims the Scarborough Shoal which is a little more than 100 miles from the Philippines and 500 miles from China. The Philippines and China are both dependent upon fishing in the South China Sea, specifically in the Scarborough Shoal, for the economic development and livelihood of their people. A tense but bloodless stand-off between China and the Philippines over Scarborough Shoal in 2012, led to China gaining de facto control over the region.
But in 2013, the Philippines raised the dispute with China to the PCA(Permanent Court Of Arbitration), saying China’s claims violated Philippines’ sovereignty under the 1982 U.N. Convention on the Law of the Sea(UNCLOS).
The Permanent Court of Arbitration ruled that Chinese claims over 90 percent of the South China Sea area are illegitimate and under UNCLOS, China is intruding into the Philippines’ sovereign waters as the 9-dash line which includes the Scarborough shoal and crosses into the

Philippines EEZ.
China out rightly rejected the ruling. China prefers bilateral negotiations with the other parties. But many of its neighbors argue that China's relative size and clout give it an unfair advantage.

ASEAN and South China Sea

One of the fundamental principles of the Association of Southeast Asian Nations (ASEAN) has been to resolve regional disputes by peaceful means. But over the years, the position of ASEAN on the South China Sea disputes has weakened its image internationally and failing to resolve this issue would lead to questions being raised about its credibility as an effective regional organization.

The US and the South China Sea

The U.S. has no claim in the South China Sea, but has been highly critical of China's assertiveness and insisted on free navigation of commercial vessels in the South China Sea is vital for regional and international trade.
It conducted joint military patrols with the Philippines and Japan, Australia, and Indonesia.
US also increased the financial support for enhancing the military capabilities of ASEAN and East Asian countries as well strengthened bilateral defense collaboration with these countries.

India and the South China Sea

India remained acutely conscious of its official position of neither being party to the disputes nor taking sides for many years. But with increasing ties with East Asian countries (Act East Policy), India indirectly started raising concerns about Chinese illegitimate claims in the South China Sea. India believes that the disputes in the Southeast Asian littorals are a litmus test for the international maritime law.
In the aftermath of the Hague Tribunal's verdict on the South China Sea, India obligated to take a principled stand on the issue of freedom of navigation and commercial access enshrined in the UNCLOS.

Despite China's protests, India continues its oil exploration in Vietnam's exclusive economic zone(EEZ) in the South China Sea from where ONGC Videsh Limited supplies oil to Vietnam. India also supports a negotiated settlement of Brunei's maritime dispute with China and has inked defense cooperation agreement that would provide an institutional foundation for more collaborative work on maritime security and secure India's energy lanes to Brunei.

SUMMARY

The South China Sea have been witnessing a lot of unfortunate conflicts in terms of economic interests, civilian security, and the environment in the recent past. The illegal construction of artificial islands and nuclear power plants on these fragile islands in the region raises severe environmental threats to the South China Sea.

The South China Sea situation will only be settled when the bordering countries change their mindsets from one of sovereignty and sole ownership of resources to one of functional cooperation and cooperative management. India's rising clout in the region due to enhanced economic cooperation would go a long way in resolving the disputes.

FIVE EYES

Five Eyes Economic Pact targetting China

The biggest intelligence network of the world, Five Eyes alliance want to end Western reliance on China. The intelligence partners want to form a deeper relationship with each other to create trusted supply chains. With an eye on China, the US Congress has sought to add three other democratic countries--India, Japan and South Korea--

at par with its FVEY intelligence sharing. In addition to this, various leaders of the Five Eyes have confirmed that the alliance will be used for both economic as well as strategic purposes.

Dependency on China

As per the UN's international trade data, amongst all the Five Eyes alliance countries, Australia is the most dependent country and imports 595 different goods from China, ranging from pens, pharmaceuticals to garlic.

New Zealand is ranked as the second most dependent country and imports 513 different kinds of goods from China followed by the United States which exports 414 different kinds of goods from China. The United States is dependent on China in 16 categories ranging from rare earth materials, medicines, etc.

Canada is the second last dependent country and exports 367 kinds of goods from China. The United Kingdom is the least dependent country amongst the Five Eyes and imports only 229 different goods from China.

India is also dependent on China to fulfil 90% of its API requirements. As per data compiled by the Deutsche Bank's dbDig, China is likely to reach tech parity with the United States between 2025-2030.

How will Five Eyes end reliance on China?

The Five Eyes alliance is planning to create a trusted supply chain to end the reliance on China. The alliance will start manufacturing and selling commercial goods in the member countries. This will include every stage from the supply of materials to its production, distribution and sale. The successful supply chain is very crucial for any company planning to compete with other companies.

What is the Five Eyes network?

The Five Eyes (FVEY) network is an intelligence alliance between Australia, Canada, New Zealand, United Kingdom and the United States. As per a former NSA contractor Edward Snowden, the Five Eyes is a 'supra-national intelligence organization' and is not accountable to the laws of its countries.

History of Five Eyes

In 1943, after World War II ended, the United States and the United Kingdom signed an agreement to continue sharing the intelligence inputs between them. The agreement was known as the British-U.S. Communication Agreement (BRUSA) which was later renamed as the United Kingdom-United States of America Agreement (UKUSA).

The Five Eyes was primarily formed to handle the global threats mainly from the Soviet Union, China and several other eastern European countries. In the following years, Canada, Australia, and New Zealand were added and the agreement is known as Five Eyes Alliance. Canada became a part of Five Eyes in 1948 while Australia and New Zealand became its part in 1956.

Norway in 1952, Denmark in 1954 and West Germany in 1955 joined the Five Eyes Network as third parties.

Country-wise coverage of the Five Eyes

1- United Kingdom: The United Kingdom closely monitors Europe, European Russia, Middle East, and Hong Kong.

2- United States: The United States focusses on the Middle East, China, Russia, the Caribbean and Africa.

3- Canada: Canada monitors Russia and China.

4- Australia: Australia is responsible for South and East Asia.

5- New Zealand: New Zealand is responsible for monitoring Southeast Asia, South Island at Waihopai Valley, south-west of Blenheim, and on the North Island at Tangimoana.

Other Networks

The Nine Eyes network consists of the UK, the US, Canada, Australia, New Zealand, Denmark, France, the Netherlands and Norway.

The Fourteen Eyes network consists of the UK, the US, Canada, Australia, New Zealand, Denmark, France, the Netherlands, Norway, Germany, Belgium, Italy, Spain, and Sweden.

Previously, the Five Eyes was in the news when an Australian newspaper 'The Daily Telegraph' made a 15-page dossier public. The dossier comprises the detailed investigation on the deadly COVID-19 pandemic which was first identified in China's Wuhan.