SPECIAL REPORT

ON THE SPOOR OF THE VIRUS

INSIGHTS

SYNERGIA FOUNDATION

JUNE 2021 | EDITION IV | WEEKLY

CRYPTO CHINA

EXPERT INSIGHTS

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MUST READ

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THE CLASH OF CRYPTOS

With China introducing its own digital tender (eRMB) and clamping down on other cryptocurrencies, it is evident that it is asserting control over the digital economy

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On May 19th, 2021, China effectively banned all dealings in cryptocurrency. The National Internet Finance Association of China, the China Banking Association, and the Payment and Clearing Association of China, under the directive of the Public Bank of China (PBOC), issued directives asking financial and payment institutions to stop all services related to crypto trading and mining.

They were additionally given orders to closely follow and monitor the flow of money related to cryptocurrency. The directive stated that the highly speculative nature of the cryptocurrency market has rebounded and has caused huge financial setbacks to ordinary citizens. According to the directive, this volatile market has been infringing upon "the safety of people's property and disrupting the normal economic and financial order.

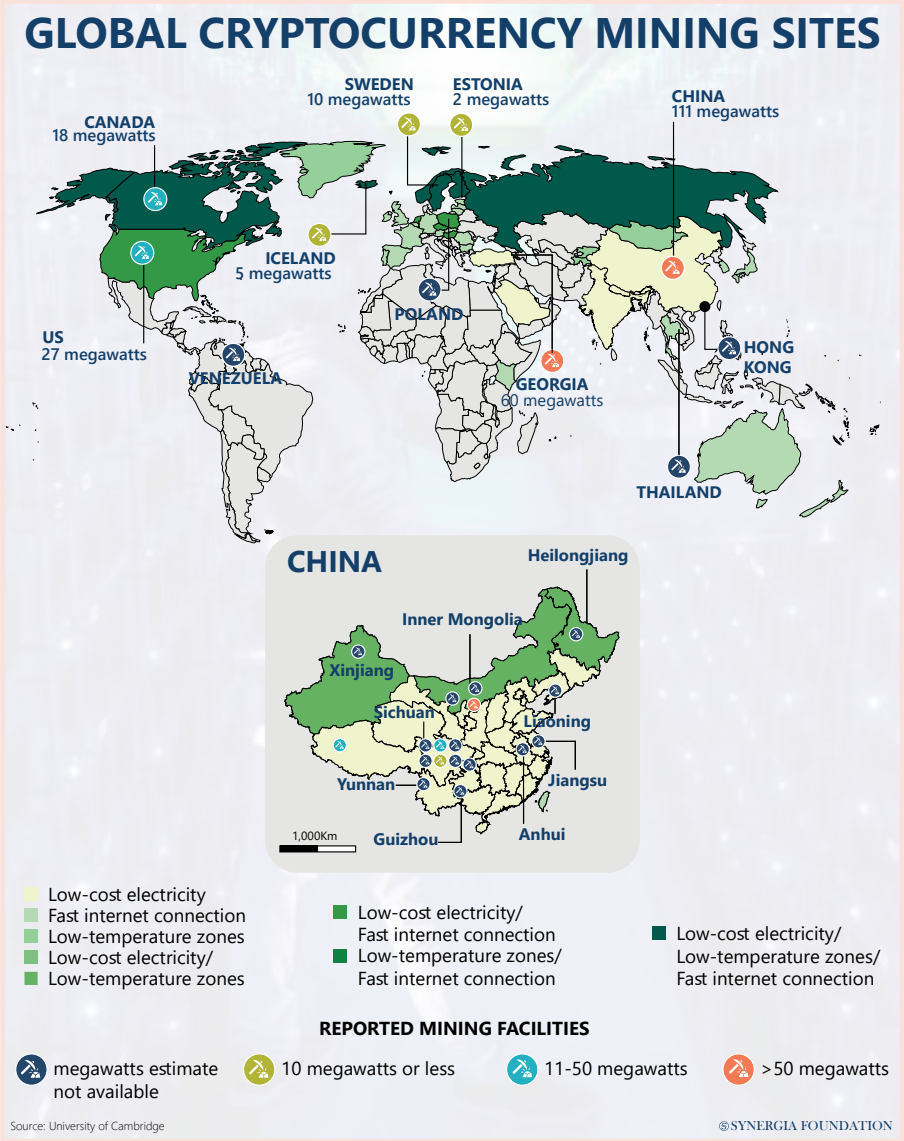
This is not the first time China has cracked down on the cryptocurrency market. Ever since 2013, when cryptocurrency was acknowledged as a virtual commodity eligible for trade and exchange, there have been regular attempts at regulating the market.

In 2017, China had already banned ICOs (Initial Coin Offerings) and crypto exchanges. However, it had allowed individual holdings along with the trade of cryptocurrency and the flow of money that came with it, be it the exchange of yuan for crypto or vice versa. However, with the latest all-consuming ban, the policy of China with respect to the crypto market has gone from a policy of containment to a policy of active restriction.

FIAT VS BITCOIN

The transactions are publicly recorded on a blockchain, and the scarcity that provides value to currency is assured through the process of mining. Another important factor with crypto money is that it has no borders. Meanwhile, fiat currency derives its connotation of sovereignty and legitimacy from the respective country's national bank.

The Fiat currency is valued against a global standard according to which its value can go up or down, depending upon the stability and growth of that currency's domestic economy. While counterfeiting and black money are definite concerns,



the regulatory nature of the central bank gives control to the state to govern, administer and even restrict cash flow and exchange, when and where needed. This key factor is missing in cryptocurrency. It is a currency that is transnational. Cryptocurrency cannot be influenced by any economy or nation, no matter how strong it might or might not be economically. Anyone with the right technical knowledge and energy resources can mine and trade in cryptocurrency across borders. There is no sovereign body or sovereignty attached to cryptocurrency.

Pioneers and enthusiasts of cryptocurrency mostly uphold Libertine economic principles. They ardently believe that state-backed fiat economy will ultimately collapse, making private alternative modes of currency the future.

CHINESE FEARS

It is this fundamental decentralised non-sovereign nature of cryptocurrency that China is attacking by banning crypto trade and introducing a state-backed legal digital tender.

DIGITAL RENMINBI

As the crypto fever grips global markets, China has rolled out its virtual currency through live pilot programmes across the country. Officially known as the 'e-CNY', this digital renminbi is part of larger efforts to create a centralised digital payment system that supplements private electronic mechanisms like 'Alipay' and 'WeChat'.

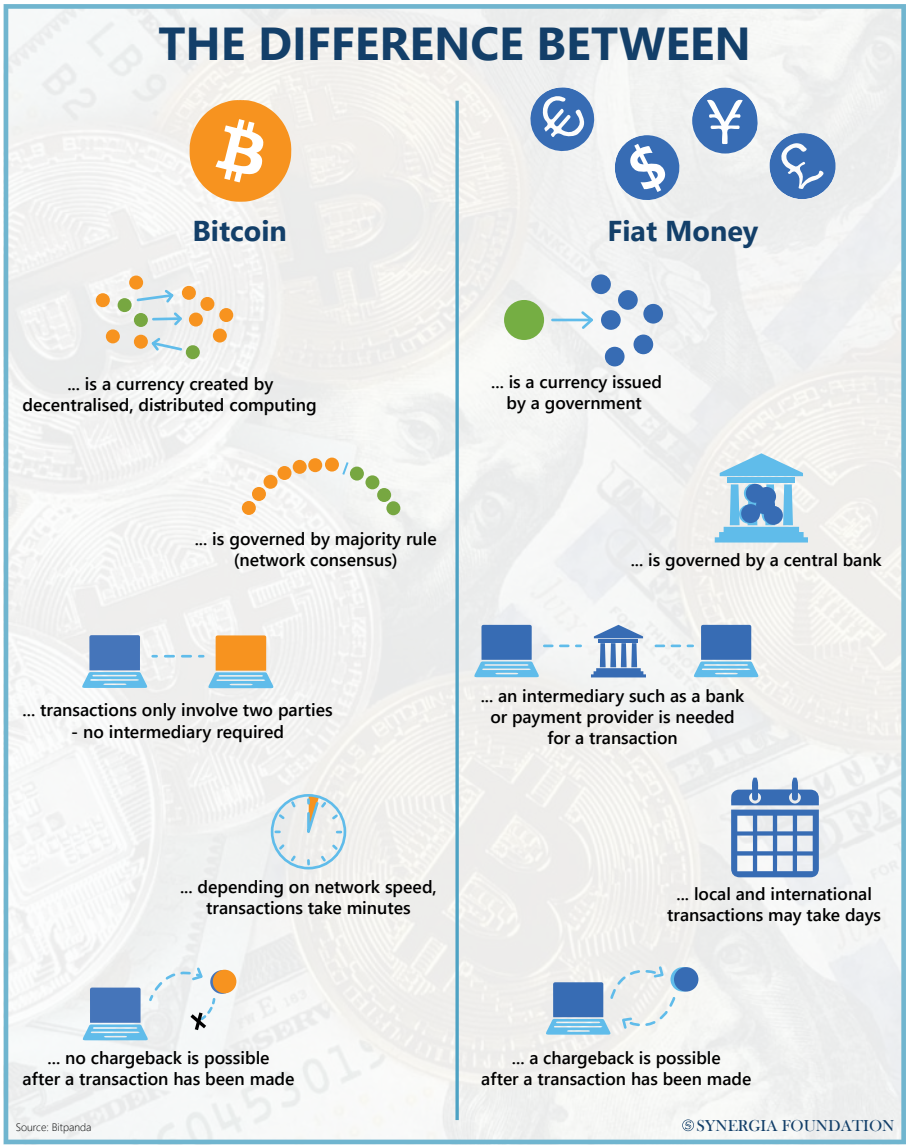
Currently, this digital tender is issued by the People's Bank of China (PBOC) to an authorised group of state-owned commercial banks and other financial institutions, which then allocate it to the end-users. While the trials were initially carried out through randomly chosen participants in Shenzhen, Suzhou, Xiong'an and Chengdu, they have now been extended to bigger cities like Beijing and Shanghai. Apart from being used in designated retail stores, the e-CNY can be employed towards the payment of utilities, transport, and government services.

At present, China has signalled that the digital money will be used for domestic retail payments, with international applications being prioritised for later. Nevertheless, the PBOC has been working with central banks in Thailand, Hong Kong, and the United Arab Emirates to explore the use of e-CNY in cross-border trade. Reports also indicate that China may try to make it possible for foreign athletes and visitors to use the digital renminbi during the Winter Olympics in Beijing.

Pindar Wong

He is the Chairman of VeriFi (Hong Kong) Ltd, and also co-founder of the first licensed Internet Service Provider in HK in 1993. He also leads the 'Belt and Road Blockchain Consortium'.

> "The money of the future will not only be used by humans, and that's important to consider while designing CBDCs. In the smart cities of the future that are driven by data, we will see architectures that have people's money, machine's money and algorithms' money."



Led by Chinese fintech companies like Alipay and Tencent, digital payment services in China have the highest growth rate of e-transactions. It is the perfect time for China to roll out its own version of Central Bank Digital Currency (CBDC). The conceptualisation of digital e-Renminbi and the use of Digital Currency Electronic Payment (DCEP) was on the map since 2013 as part of China's BRI project.

For instance, China expanded bilateral local-currency swap programmes to over 20 countries and established renminbi settlement banks in eight Belt and Road nations, seemingly to promote renminbi use. It encourages monetary exchanges between trading and partnering countries as DCEP or renminbi in order to gain a foothold over the U.S. dollar in the global market. China aims to fashion renminbi as a contender in SWIFT's interbank financial system. SWIFT facilitates most of the global banking transfers. With its own CBDC and through DCEPs, China hopes to counter and challenge the dollar's global hegemony as the standard of world currency.

GLOBAL CRYPTO MARKETS

The Chinese concern for its public due to the volatility and unpredictability of cryptocurrencies cannot be contested. While having had a record increase in value of almost 300% in the past months, Bitcoin suddenly nosedived in the last few weeks up to 31% sending shock waves across the crypto market. The China ban has only added to the low stock value as prices continue to free fall. It is too early to infer whether the developments in China with respect to the crypto ban and the new digital tender would evoke a response from India. India's position on cryptocurrencies has always been ambiguous. In 2018, the RBI had banned the buying and trade of cryptocurrencies, a decision which the Supreme Court then overruled.

Subsequently, the 2019 government panel headed by the then Economic Affairs Secretary Subhash Garg also called for the ban of private cryptocurrency holdings and exchange but kept the possibility open for an official digital currency backed by the RBI. It is being speculated that a bill is to be introduced in Parliament with respect to the status of cryptocurrency and whether it should be allowed with a regulation or outrightly banned.

Assessment

Increasingly, cryptocurrencies are emerging as forebearers of financial vulnerability as they pose a detection problem and can facilitate illegal activities, including tax evasion. With countries across the globe seeking tax compliance from those who transact more than $10000 worth of cryptocurrencies, they will continue to lose their attractiveness and fall in their worth.

Only time will tell whether China can truly replace SWIFT. As of now, most inter-country exchanges, even those happening in relation to the BRI projects, happen through the medium of the dollar. And even though China contributes roughly a fifth of global GDP, the renminbi represents only 2 per cent of international transactions.

An upshot of the ban is that it will also shut down cryptocurrency mining hubs that run on large amounts of electricity, mostly derived from fossil-fuelled power plants. This will significantly reduce energy consumption and help China in reducing its carbon footprint.

INSIGHTS
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ON THE SPOOR OF THE VIRUS

The western world led by the United States claims to have uncovered fresh data which traces the origin of Coronavirus to a Chinese lab

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In a surprising move in the first week of this month, President Biden publicly gave credence to a theory that was earlier advanced by his predecessor but was widely debunked by the Democrats. The needle of suspicion as to the origin of the Coronavirus was again being pointed towards a lab leak in China, occurring either deliberately or accidentally.

W.H.O. FINDINGS

A theory widely discussed in 2020 was that the COVID virus was a bio-weapon which had accidently escaped the safe environs of a P4 lab. However, this was labelled as "conspiracy theories" by several eminent scientists who wrote an open letter to the respectable Lancet journal concurring to the Chinese claim of "a zoonotic spillover."

The World Health Organisation (WHO) led investigating team on a four-week long mission to find the origin of the Coronavirus released its report in March this year. It found that the data examined in China was insufficient to answer the critical question as to when, where and how the virus began spreading. China had resisted the visit of such a team, calling it unfair and having pre-conceived intentions, but was forced to allow it to deflect growing international outcry.

The report has not been released into the public domain, and extracts from a leaked copy were published by the Wall Street Journal on March 30th. The Chinese have long insisted that the virus originated from outside its borders (hinting at the West) and was introduced into their country (advertently or inadvertently). One possible culprit, as per Chinese reports, could be the U.S. Army team in the Oct 2019 World Military Games held in Wuhan.

However, the WHO team could not find any evidence to support this hypothesis either. In its final deduction, the team declared that the virus "very likely" was a zoonotic transfer from bats to humans via an intermediary mammal. It failed to confirm persistent Chinese claims that the meat in Wuhan's wet market was the primary source, terming such an eventuality as "extraordinary in 2019 where the virus was not widely circulating." With regard to the escape of the virus from a lab, it is said to be "extremely unlikely", and that analyses of the genome of the virus have ruled out it being engineered in a lab. The team recommended closer scrutiny of the data held by Chinese hospitals and blood samples prior to Dec 2019 to come to a better conclusion.

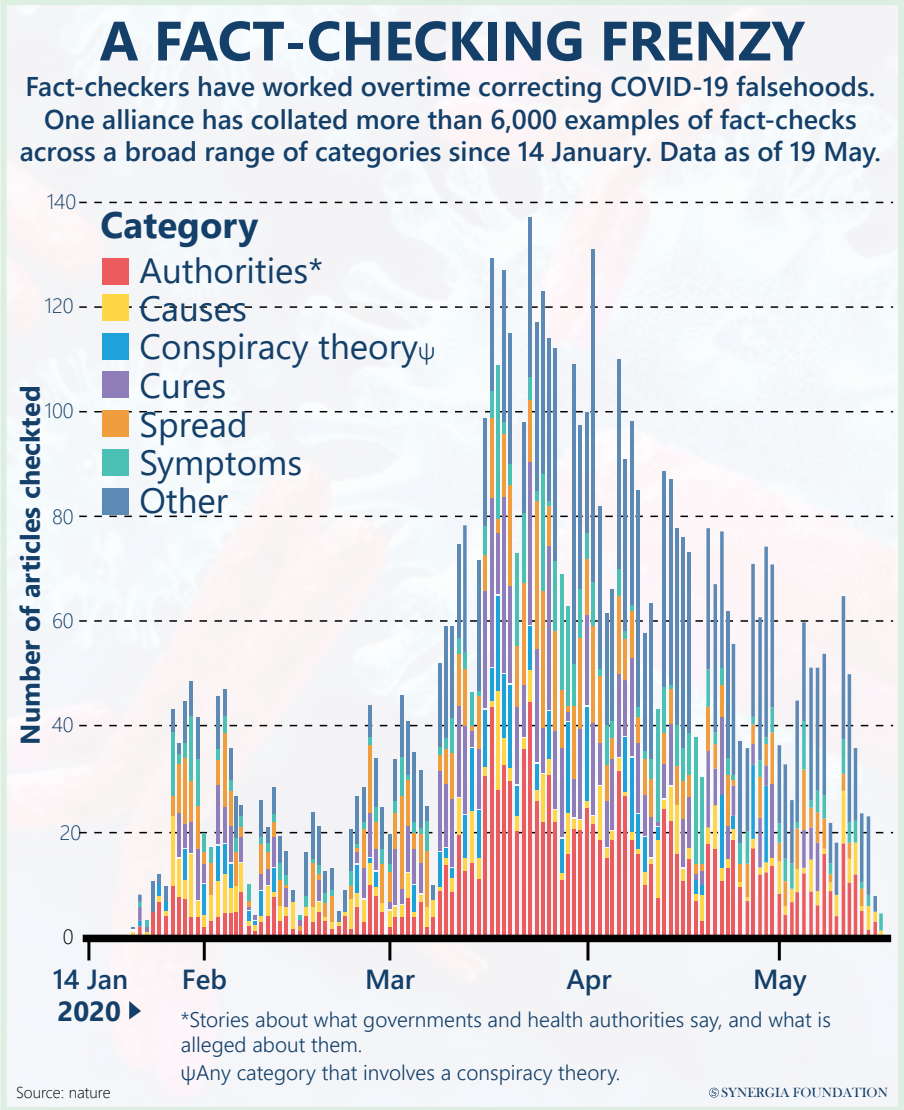
The report has not been widely accepted as most of the research for the team was conducted by state-employed Chinese scientists who presented their findings to the team.

NEW EVIDENCE?

In January this year, reports started appearing in the media that researchers in the Wuhan lab (suspected to be associated with military projects) had fallen sick with COVID-like symptoms much before the outbreak was officially declared. The media story referred to three lab researchers from the Wuhan Institute for Virology who were admitted with pneumonia-like symptoms of COVID-19 in November of 2019.

On May 5th, an article in the prestigious Bulletin of Atomic Scientists quoted David Baltimore, virologist and former president of California Institute of Technology, saying, "When I saw the furin cleavage site in the viral sequence, with its arginine codons, these features make a powerful challenge to the idea of a natural origin of SARS2."

On June 1st, the Financial Times reported that a group of 18 virologists had written to a science



journal that the lab leakage theory merited detailed inquiry as the WHO investigations were "not balanced". The final push to the new call for an investigation was given by some branches of the U.S. intelligence agencies, who are now veering towards a lab leak theory. President Biden has ordered the intelligence agencies to redouble their efforts to uncover the truth. Reacting to the assertions of President Biden, scientists who were members of the original WHO investigation of the virus called for a "second phase of research" on the origin of the virus before the "evidence" (blood samples etc.) spoil and the trail goes blank.

COUNTERVIEW

Expectedly, China has strongly reacted to these accusations. Addressing the Global Health Summit organised by the EU and G20 in May, President Xi Jinping called it politically motivated to malign China. The Chinese representative in the highest decision-making body of the WHO later reiterated that as far as China was considered, the matter was closed, and no further investigation would be supported by China. A fresh enquiry, if any, should be directed at "other countries." Ethan Siegel, a PhD and a science communicator writing in the Forbes Online publication, called the lab leak a conspiracy, claiming that the "virological evidence supporting a laboratory origin of SARS-CoV-2, is enormously flimsy. The idea that we can insert novel genetic sequences into a virus is true, but what happens next isn't generally appreciated." He continued by saying "even if you do get a successful protein, it may not work well in the context of the complete viral organism, as viruses are highly complex, evolved organisms, not a simple toy that can be manipulated like Lego bricks. It may or may not replicate successfully in the target cells of interest, where even viruses that are successful at infecting target cells in tissue cultures may not be successful in the context of a host with a complex, fully functional immune system." Siegal also added that "even if you do get one that's well-enough adapted to its new host, its transmissibility may be altered, rendering an easily-spread virus unlikely, and even if it's a successful virus, it's uncertain that it would pose a lethal threat to the host species."

Ethan Siegel's view was supported by William Schaffner, a professor of infectious diseases at Vanderbilt University Medical Centre, in an article published by National Geographic on June 5th. As per the professor, the theory that SARS-CoV-2 was created as a bioweapon was "completely unlikely."

A bioweapon, to be successful, must target the enemy population without affecting one's own. In contrast, SARS-CoV-2 "cannot be controlled," he said. "It will spread, including back on your own population," making it an extremely "counterproductive biowarfare agent."

Assessment

Regrettably, no new conclusive evidence has been produced by either side to put the controversy at rest, and it is feared that the mystery may never be solved. Only the reality of death and destruction left by the virus in its wake will remain to haunt mankind in posterity.

However, some closure can be hoped for, if China agrees to another multinational investigative team. With unfettered access to its labs and hospital data, we may find the cause so that one can prevent the onset of any future viral outbreaks.

INSIGHTS
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COMING TO GRIPS WITH BIG TECH

India's latest Guidelines for Digital Media Ethics has triggered a storm of contradicting voices with very little clarity on its ultimate benefits

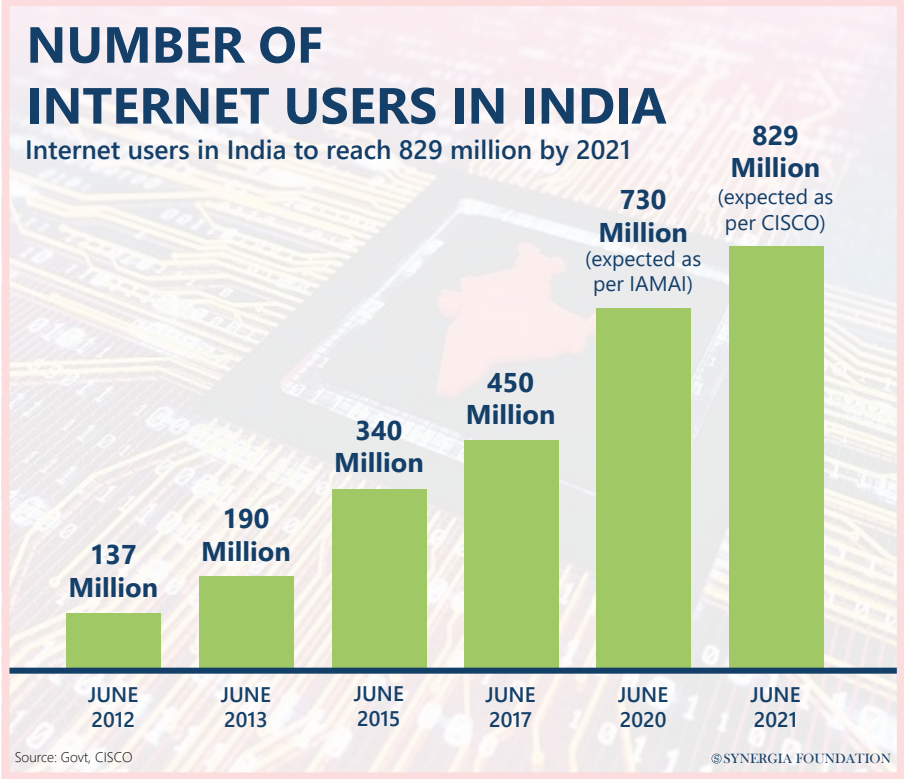
SYNERGIA FOUNDATION
RESEARCH TEAM

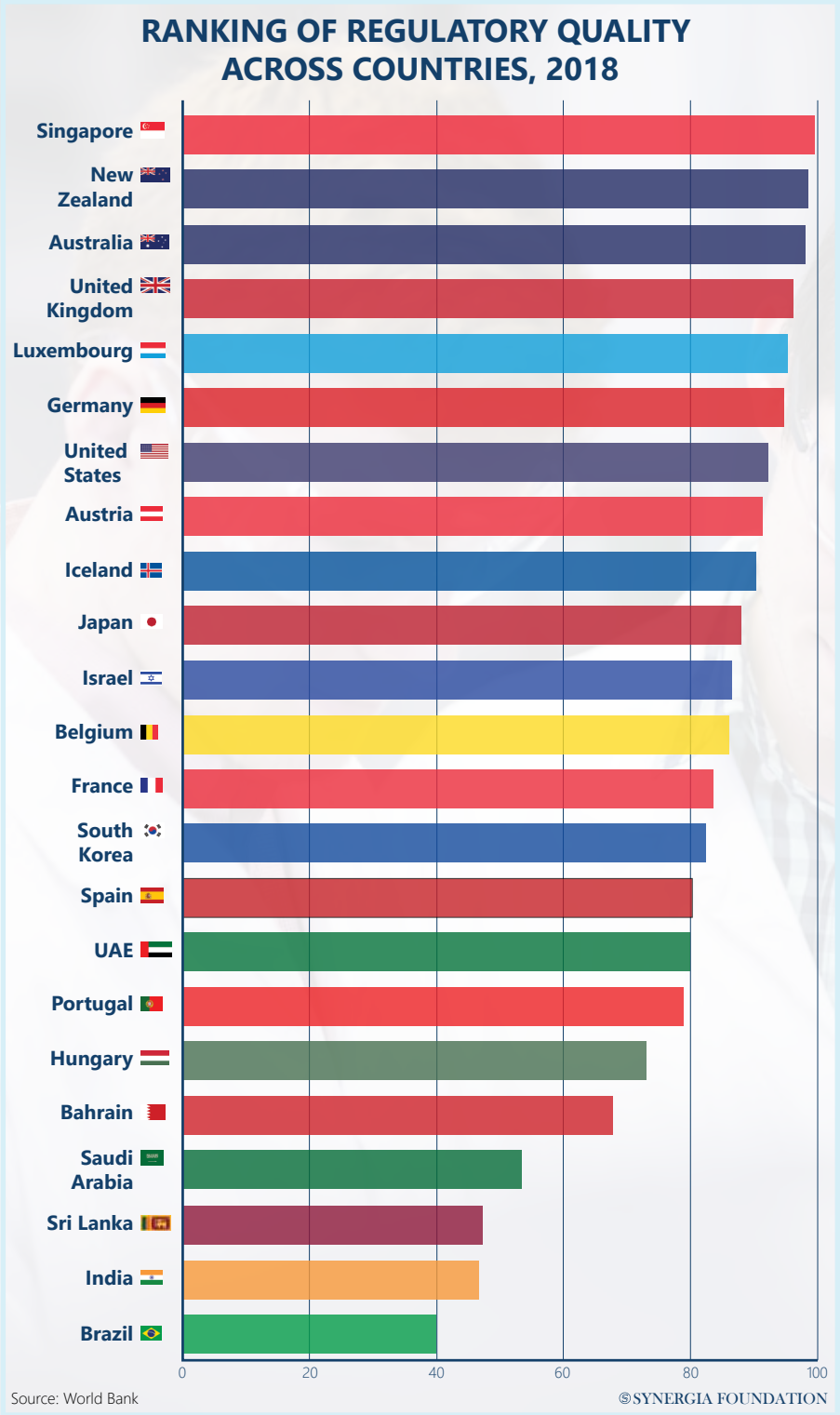
With 60 million active internet users logged in, and counting, India is beyond doubt an attractive market for Big Tech. As the footprint of the internet has expanded and the tribe of users grew, so did the influence of digital platforms both socially and politically.

With the publication of the Intermediary Guidelines and Digital Media Ethics code in February 2021, the stage is set for an imminent showdown between the Indian state and various online intermediary giants like Facebook, Twitter, and Google. This is India's maiden attempt at reining in Big Tech, who till now has been given more or less a free run.

THE GUIDELINES

The new guidelines include rules such as making user consent mandatory before mining or selling personal data (say for ads etc.) and putting up an adversary how and why the data is being obtained. It also lists measures to control contents procured from third parties without consent, child pornography/ paedophilic content, infringement on copyrights etc. It is incumbent upon the platform to detect and remove such content without any delay. With respect to national security, content that 'threatens the unity, integrity, defence, security or sovereignty of India, friendly relations with foreign states, or public order, or causes incitement to the commission of any cognizable offence or prevents investigation of any offence or in insulting another nation' also need to be removed. All intermediaries are required to share necessary information and data if there is a court ruling directing so or if any government





agency wants it for investigative purposes such as 'for the purposes of verification of identity, or for the prevention, detection, investigation, or prosecution, of offences under any law for the time in force, or for cybersecurity incidents.' Implementation of these rules/IT Act 200 will be the responsibility of a Chief Compliance Officer (resident in India) to be appointed by the tech company along with a 24x7 nodal officer who will be in communication with the government and its law enforcement agencies. An important section is the ethics code which is fashioned as a crackdown on 'fake news'. News publishing and news content developers are put under the radar where they would have to regulate their content, set up a regulatory body with other such publishers and thereby remove fake and poorly researched news as well as address grievances from the government and the public as and when demanded.

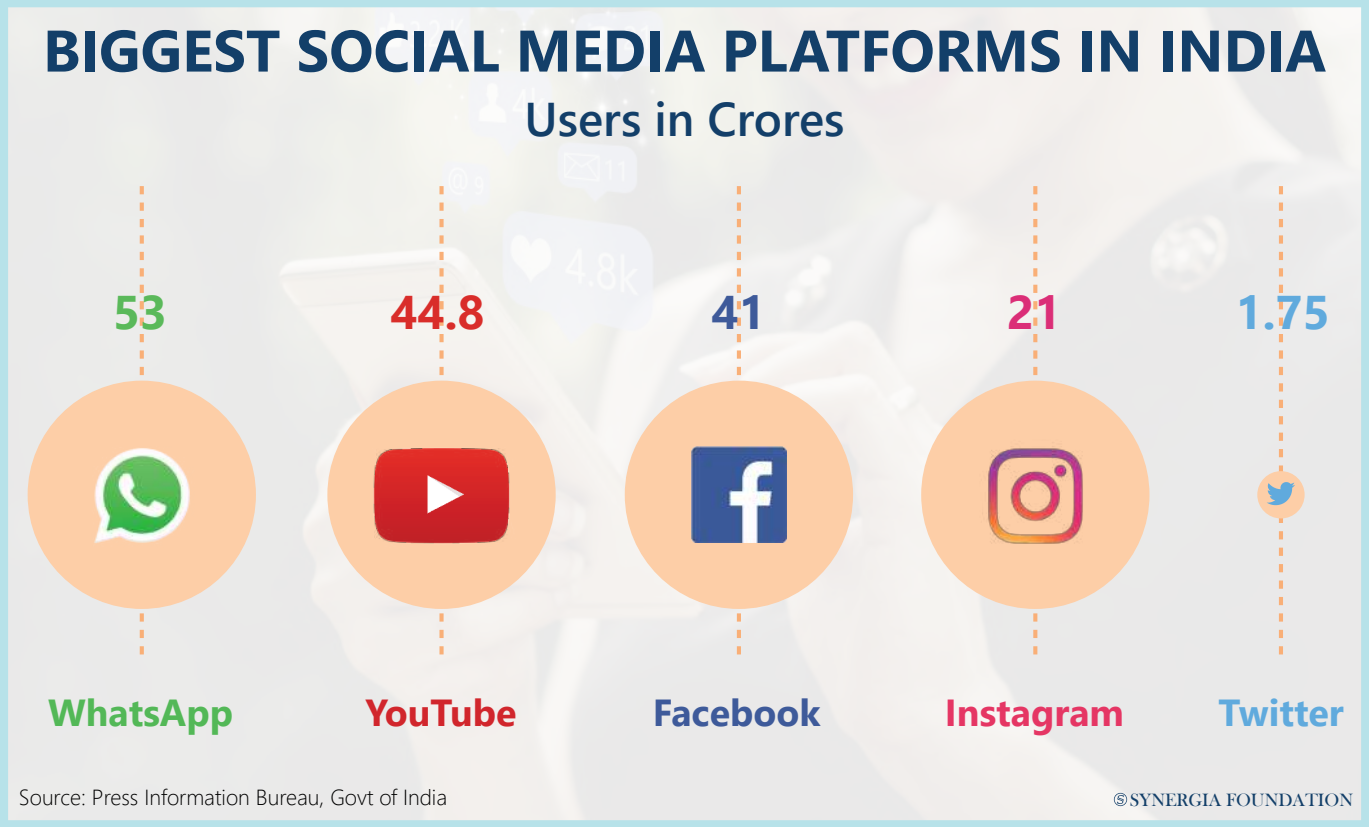
MIXED RESPONSE

While those, both individuals and entities, that have suffered at the hands of unbridled fake/manipulated news circulated through the digital media have welcomed these guidelines, citizens have been disconcerted. It is commonly perceived that the freedom enjoyed to express views through digital platforms is being throttled. The response of Big Tech has been along expected lines. WhatsApp has taken the matter to court, citing that by having an indiscriminate trace on content (to facilitate removal on being ordered), individual privacy is being violated by compromising end-to-end encryption. Google similarly has argued in court that firstly, they are a search engine and not a social media intermediary, so these new rules should not apply to them, and secondly, they have challenged the basis on what will qualify as 'objectionable' content as standards differ from place to place. Till now (except the Indian variant KOO), no high-power intermediary has complied with these rules.

While most online media outlets in India have yet to reveal their strategy, the online news publisher 'The Wire' has moved court against the ethics code. Its petition cites that vague terms such as 'half-truths', 'decency' etc., are open to vast interpretation. It has also claimed that the new code goes above and beyond the scope of the IT Act, 2000.

THE FALLOUT

Governments and big tech have maintained a love-hate relationship for some years now, all over the world. Multiple studies show social media giants influencing public opinion towards the government rather than against it. Even in India, the political parties have used Twitter, Facebook and WhatsApp to reach out to their constituencies and win votes. So, the question arises why the confrontation now?



One prominent reason could be to mitigate the anti-competitive practices these intermediaries engage in, giving no levy for other home-based apps or services to grow. Even though Koo was installed as an alternative to Twitter, it remains largely unknown and rarely used. Activists of Freedom of Expression are concerned that, without clearly defined parameters on what exactly would constitute as being 'against the country', the government can potentially step in with a heavy hand. The loophole of 'open interpretation' gives the power to control and manipulate narratives online.

THE SCENE OVERSEAS

Internationally, particularly in the West and countries like Australia, there is a strong public sense for preserving strict privacy laws and even stronger values of maintaining freedom of expression. Following the Snowden whistleblowing as well as the Cambridge Analytica revelations, the public has grown wary of Big Tech. Most of these states have developed exemplary data protection rules as well as regulations on content development.

The EU set a fine example in regulating Big Tech and its excessive grip on society. After the Cambridge-Analytica plot was unravelled, where it was established that user's sensitive data was used to interfere with elections and warp the voters' sensibilities, most governments and citizens called for strict action. Thus, the GDPR (General Data Protection regulation) rule came into being in 2018. The GDPR is binding on each member states to protect consumer and data identity. Some of its key points include mandatory consent of subjects for data processing, anonymizing collected data to protect privacy, providing data breach notifications, safely handling the transfer of data across borders and requiring certain companies to appoint a data protection officer to oversee GDPR compliance. Australia's showdown with Big Tech is especially interesting. Its new legislation required payment by tech companies for the use of news by publishers on their platform, which in turn generated ad revenues for them. While Google took to negotiation and compromise, Facebook denounced the legislation in totality and took off all the news plugs in Australia. The consequent public backlash forced Facebook to the negotiating table.

The U.S. shies away from encouraging any regulations that constraints the immense revenues of these largely American-owned companies. California took a leaf out of the EU GDPR and was the first to implement a data protection bill (California Consumer Privacy Act).

Assessment

The flurry of rules and regulations being promulgated have caused needless confusion and panic amongst both the common user and the tech companies. Some time is required to study all these regulations in detail and identify their strengths and weaknesses. A comprehensive data protection bill could then be compiled after due public debate.

However, one thing is clear as daylight; the halcyon days of a digital free-for-all for Big Tech (and its consumers) is fast coming to an end as a slew of rules and regulations around the world are being put in place.

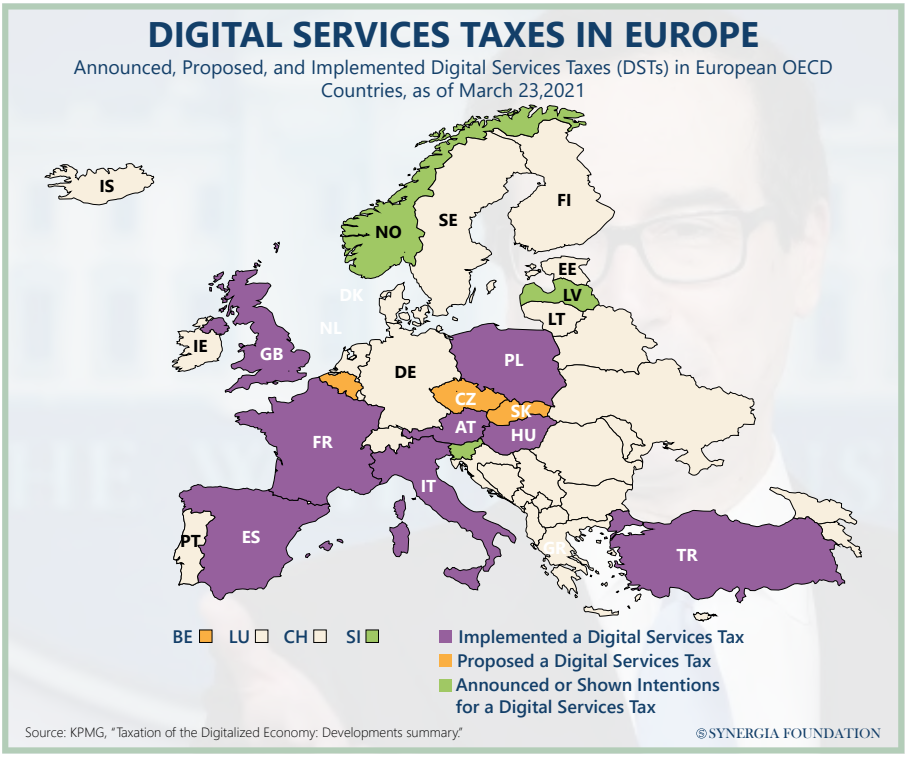
FACE OFF ON THE 'GOOGLE TAX'

As the G7 countries throw their weight behind a global tax deal, the proposed scrapping of digital services levies will prove to be contentious

SYNERGIA FOUNDATION
RESEARCH TEAM

In a concerted bid to reform the global corporate tax structure, the G7 economies have endorsed a minimum levy of 15 per cent on the profits of multinational corporations. Apart from disincentivising the shifting of income to offshore tax havens, this proposal seeks to re-allocate taxing rights by allowing governments to levy companies at their revenue source, irrespective of their physical presence there. In other words, taxes can be imposed in jurisdictions where non-resident sellers have a considerable economic nexus.

While this ability to tax companies at source may prove to be attractive for market economies, it comes with a catch. In return for a global agreement on the reallocation of taxing rights, nation-states will have to revoke their individual digital services tax (DST), which is levied on sales revenues from digital products and services. This is unlikely to go down well with countries like India, where digital services revenues are sought to be taxed through an 'equalisation levy'.



EVOLVING BUSINESS MODELS

The Internet has made it profitable for companies around the world to supply digital products and services across national borders, without establishing a permanent presence in recipient countries. Surfing on the rising wave of the World Wide Web, these evolving markets and novel sources of income have revolutionised traditional business models. For countries looking to tax such transactions, traditional factors like 'domicile', 'habitual residence' or 'registered office' are no longer viable for establishing a taxation link.

Acknowledging these challenges in taxing a digital economy, the Organisation for Economic Co-operation and Development (OECD) has recognised the need to extract a levy in jurisdictions where the companies have a 'significant economic presence', regardless of their physical establishments. However, there have been disagreements about the thresholds for re-allocating this tax.

The Biden administration, in particular, is critical of targeting digital firms alone, as this would disproportionately burden American companies. Instead, it has suggested that the proposed tax be extended to a hundred of the world's largest and most profitable companies, excluding banks and natural resource firms. Meanwhile, the OECD has mooted a €750m revenue threshold, with a specific focus on automated digital services and consumer-facing businesses. Most recently, the G7 economies have favoured taxation of companies with at least 20 per cent profit, exceeding a 10 per cent margin in market countries.

Given that a common multilateral solution has long eluded the international community, countries like India, Austria, Italy, Spain, Turkey, and the United Kingdom have chosen to unilaterally adopt a DST in the interim.

INDIA'S 'GOOGLE TAX'

As Indian citizens increasingly transact on digital commerce platforms, the Union government has found it imperative to tax tech giants. In 2016, it introduced a 6 per cent equalisation levy on advertisement services, which were offered by offshore digital firms to Indian businesses. Popularly known as the 'Google tax', this was later extended to cover almost every aspect of the e-commerce domain, albeit at a much lower rate.

By enacting the Finance Act in 2020, the government sought to levy

DIGITAL TAX POLICIES ARE BECOMING INCREASINGLY COMMON AND CONTROVERSIAL

2015
- OECD published BEPS Action 1 report on Tax Challenges of the Digital Economy.

2016
- India adopts 6% equalization levy on revenues from digital advertising.
- Israel adopts virtual permanent establishment rules.

2017
- Hungary revives 7.5% digital advertising tax.
- U.S. Tax Reform includes overhaul of international tax rules including a minimun tax.

2018
- OECD publishes Interim Report on Action 1
- European Commission proposal for an EU-wide Digital Services Tax.
- Digital Services Tax proposals put forward in Italy, Spain, UK.

2019
- OECD presents two-pillar approach for addressing Tax Challenges Arising from the Digitalization of the Economy.
- France adopts 3% Digital Services Tax.
- Austria adopts 5$ Digital Services Tax on online advertising.
- U.S. proposes retaliatory traiffs to the French DST.

2020
- OECD identifies "automated digital services" and "consumer-facing businesses" as targets for Pillar 1.
- Early OECD analysis estimates $100 billion increase in global tax revenue from Pillar 1 and Pillar 2.
- Numerous digital tax proposals across the world.
- U.S announces trade investigations into 9 countries and the EU for digital tax policies.

Source: TaxFoundation

a 2% charge on all considerations received by non-resident entities that operated digital businesses with a turnover Rs. 2 crores or more. Encompassing business-to-business (B2B) transactions, business-to-consumer (B2C) transactions, e-commerce marketplaces as well as digital services, this tax had served as a separate levy from the existing Goods and Services Tax (GST). It also covered all digital transactions that employed Indian data.

This Google tax, however, was vehemently opposed by Washington. In its view, the DST had unfairly discriminated between Indian companies and non-Indian firms. It also impacted a disproportionate number of American companies, as a majority of the digital players had been based in the U.S. Accordingly, the United States Trade Representative (USTR) conducted an investigation into this 'equalisation levy' and concluded that it was actionable under the American Trade Act, for being "unreasonable, burdensome and discriminatory".

TARIFF REGIME

Having found the DST to "inconsistent with international tax principles", the United States has proceeded to impose punitive measures on a slew of Indian imports. It has declared a tariff of up to 25 per cent ad valorem on aggregate levels of trade, with products like shrimps, basmati rice, cigarette paper, gold, cultured pearls, semi-precious stones and other jewellery being covered under its ambit. The objective is to levy around $55 million in tariffs, which is precisely what the Indian government expects to earn from its equalisation levy, thereby offsetting the advantages that accrue from DST collections. Similar tariffs have also been imposed on other countries with unilateral DST regimes.

After announcing the tariffs, however, the U.S. has immediately suspended them, allowing a period of 180 days to complete the ongoing negotiations on international taxation at the OECD and G20 forums. It hopes to secure a multilateral solution on the issue of digital taxation while wielding the option of imposing tariffs in the future. The immediate suspension could also have been driven by a recognition that trade wars would be damaging in the short term, as economies around the world recover from the ravages of the Covid-19 pandemic. As it is, global supply chains have been rendered vulnerable by the US-China trade war unleashed during the Trump era. Predictably, India has strongly pushed back against the threat of tariffs. It maintains that the right to fix corporate tax rates, whether digital or not, remains its sovereign prerogative. Moreover, it asserts that the DST is not discriminatory, as American companies have been treated on par with other foreign entities. While Indian firms may have been exempted from an equalisation levy, they are still subject to the Income Tax act, owing to their physical presence in the country. In any case, the very purpose of the DST is to level the playing field between Indian businesses that pay corporate taxes in India and foreign e-commerce companies that are not required to do so. Clearly, the stage is set for an imminent showdown between New Delhi and Washington on the thorny matter of DSTs. All eyes will be on the G20 meeting next month, as emerging economies deliberate on a framework for taxing the global digital sector.

Assessment

While recent developments are indicative of a fragmented tax structure, the levying of charges on digital products and services remains a shared concern. Therefore, it would be prudent to view unilateral DSTs as an interim measure until global consensus can be achieved on the taxing of digital players.

Currently, the G7 proposal requires New Delhi to choose between the right to tax MNCs for their revenues made in India and the right to enjoy projected earnings from e-commerce transactions. It remains to be seen how India navigates this binary at the G20 forum. While the importance of taxing global tech firms cannot be denied, the country would be ill-advised to enter an escalating war of retaliatory taxation with the U.S., especially at a time when its own economy is precariously balanced.

A LONG OVERDUE CHANGE

The cliff-hanger of a vote in the Israeli parliament may have finally given the nation a new government, but challenges to its political stability have not vanished

SYNERGIA FOUNDATION
RESEARCH TEAM

The long-suffering electorate of Israel finally got a full-fledged government after four elections over two and a half years, costing millions to the public exchequer. However, it was with a wafer-thin margin that an improbable coalition of centrist, left-wing, right-wing and an Arab party succeeded in ousting the Netanyahu government, which has completed a record 12 years in power. The vote itself, 59-60, is indicative of the fragile nature of this new "government of change".

Naftali Bennet, a 49-year-old tech start-up millionaire and former defence minister representing the ultra-nationalist Yamina (Rightwards) party, will run the premiership of Israel till 2023. He will then hand it over to his coalition partner Yair Lipid, a 57-year-old centrist and a well-known TV anchor. Though his party won only a mere six seats in a 120-seat house, Bennet was the unanimous choice of this disparate coalition.

Benjamin Netanyahu announced in the parliament, "If we are destined to go into the opposition, we will do so with our heads held high until we can topple it."

The narrow victory margin clearly emphasises the role of the Arab party in the coalition as the kingmaker. Led by 46-year-old Mansour Abbas, a dentist by profession, the Israeli Arab party Ra'am, with four seats in the parliament, tilted the balance in favour of the coalition. This is only the second time in Israel's history that an Israeli Arab party has joined a coalition government.

BUSINESS AS USUAL

The new government is faced with a host of challenges, domestic, foreign, and economical.

With the narrow margin of victory, nothing radical or dramatic is expected from the new dispensation. With the strong presence of the far-right, the focus will largely be on domestic issues, both economic and social. Any effort to change the trajectory of Israeli policy on the Palestinian issue would only lead to their prompt collapse and hence, is unlikely to be tinkered with. The inclusion of an Arab party will be immaterial. There was no enthusiasm amongst the Palestinians as Bennet is as staunch a right-winger as his predecessor. He will continue with the Netanyahu policy of annexing the occupied West Bank. In a Jun 04 Reuters article, Bassem Al Sahlhi from the Palestine Liberation Organisation was quoted as saying that Bennet "was no less extreme than Netanyahu."

The changeover is taking place at a difficult time for the new government. While the pandemic has been brought under control by the successful vaccination programme of its predecessors, the economic impacts are far from over.

The just-concluded 11 days fighting with Hamas, which left over 260 dead, mostly Palestinians, has revived calls for investigating Israel for war crimes by the ICC. It has also further widened the gap between Israel and its Arab minority, leading to frequent clashes and bloodletting. The latter constitutes almost 20 per cent of Israel's population.

FOREIGN RELATIONS

With the departure of President Trump, there has been a marked cooling in Israel's relationship with its staunchest ally and benefactor. However, there are limitations in the choices available to the new prime minister to deviate from the foreign policy objectives of his predecessor. While the Biden administration is going out of its way to placate Iran and coax it to re-join the nuclear deal talks, Bennet made his government's intentions clear immediately upon winning the majority vote in the parliament. It does not wish for U.S. to revive the dead deal. Bennett remarked "Renewal of the nuclear agreement with Iran is a mistake, an error that would again grant

legitimisation to one of the darkest and violent regimes in the world." He also emphatically added that," Israel will not allow Iran to equip itself with nuclear weapons."

Prime Minister Netanyahu used his influence in the White House to cobble together normalisation agreements with four Arab countries – UAE, Bahrain, Sudan, and Morocco – allegedly to deflect the criticism on his harsh treatment of the Palestinians and refusal to even discuss a 'two states' solution.

COALITION GOVERNMENT OF OPPOSITE POLES ENDING NETANYAHU'S RULE

The new Israeli government led by Yair Lapid and Naftali Bennett, which is set to end Benjamin Netanyahu's 12-year rule, draws attention as the coalition is formed by eight parties from the left and right wings

COMPONENTS OF NEW COALITION GOVERNMENT

Neftali Bennett and Yair Lapid to hold the prime minister position for two years each

YESH ATID

YAIR LAPID

- Established by former journalist Yair Lapid in 2012
- Supports two-state solution with liberal Zionism and secular view
- Secured 17 Knesset seats in election held on March 23, 2021

YAMINA

NAFTALI BENNETT

- Zionist far-right party with nationalist religious view
- Opposes two-state solution
- Won seven Knesset seats in election held on March 23

YISRAEL BEITEINU

AVIGDOR LIEBERMAN

- Opposes two-state solution and won seven Knesset seats in last election

NEW HOPE

GIDEON SAAR

- Founded by Gideon Saar who left Likud Party in 2020
- Advocates nationalist Zionist views
- Has six Knesset members and opposes two-state solution

UNITED ARAB LISYT

MANSOUR ABBAS

- Established by Palestinians holding Israeli citizenship in 1996
- Won four Knesset seats in election and supports two-state solution

ISRAELI LABOR PARTY

MERAV MICHAELI

- Established in 1965 with center-left political view. Supports two-state solution Has seven Knesset members

MERETZ

NITZAN HOROWITZ

- Far-left party that supports two-state solution and has six Knesset members

BLUE AND WHITE

BENNY GANTZ

- Established in 2019, the party supports two-state solution on the border of 1967 and has eight Knesset members

Source: Andalou Agency

Assessment

Former Prime Minister Netanyahu's singular foreign policy achievement was to convince powerful Sunni Arab countries that Israel was their ideal strategic partner to confront the Shia arc being thrown around them by Iran. Since this came with economic incentives in trade and promises of cutting edge technology, the offer was hard to ignore or refuse. The new government would find it prudent to build upon this foundation.

However, the Netanyahu years, especially during the latter half, saw increasingly divisive politics. This includes doubtful political tactics to continue in office and avoid the inevitable corruption trial. Mr Bennet has the opportunity to breathe fresh life into Israeli politics, bridge the political divide and unite the country. More importantly, the participation of Israeli Arabs in governance is a positive development. To date, such a move would have resulted in the ostracism of the concerned politicians. However, with changing times, the Israeli Arabs are slowly involving themselves in the mainstream. This is an encouraging development.

Mr Netanyahu may be down for the moment, but he is far from out. He has expressed his determination to stay in the fight. If the unlikely coalition that has narrowly managed to sneak into power is not up to the task, Bibi's prediction to return may ring true, sooner than expected.

STRUGGLING TO SURVIVE

Fighting hard to remerge as a nation-state from the disastrous aftermath of Gaddafi's demise, the future of oil-rich Libya remains hostage to external powers

SYNERGIA FOUNDATION
RESEARCH TEAM

Berlin will host the second round of the UN Libya peace talks on June 23. The gathering aims to align the interests of the competing powers and the fledgling Libyan transitional government and hopefully pave the way for elections scheduled for December this year.

Libya also found a prominent mention in the recently concluded G7 summit. Prime Minister Johnson and President Joe Biden conferred on the need for bilateral talks with Libya and Iran, with Johnson requesting the Italian prime minister Mario Draghi to 'support a lasting ceasefire in Libya to provide the foundation for a long-term peaceful democratic transition'.

Libya's transitional government under Prime Minister Abdul Hamid Dbeibah and a presidential council headed by Mohammad Younes Menfi perhaps for the first time felt real hope from this renewed interest by a powerful group of nations promising an invigorating and stable political order, once the foreign interlopers have been shown the door.

RICHES TO RAGS

Libya is a sad example of how a prosperous nation can be ruined by fractious anarchy fuelled by the absence of a strong central government. Even worse, a decade of conflict has turned Libya vulnerable to regional proxies and high-stake diplomacy with a range of emotions and actors.

A form of formal truce has been observed in Libya since October 2020, but the UN envoy for Libya, Jan Kubis, cautioned that progress on removing foreign fighters and uniting divided institutions had stalled.

Muammar Gaddafi governed Libya since 1969, first as the Revolutionary Chairman of the Libyan Arab Republic and after joining the Great Socialist People's Libyan Arab Jamahiriya in 1977 as the 'Brotherly Leader'. A demagogue by all accounts, he rejected the parliamentary representation of people and introduced a political ideology that focused on the notion of 'direct democracy and decision-making of all citizens on all political matters'.

While Gaddafi was far from a benevolent ruler, some credit is due to him for nationalising the oil industry and strengthening military capabilities. He used his oil money in a spree of infrastructure developments, and in its heydays, Libya enjoyed a model health care and education system. Praised in the Arab world for his anti-imperialist stance and his efforts for Arab-African unity, he had ominously predicted that his departure would make Libyans 'slaves again'.

In the 1970s and 80s, Libya became an international pariah, which only worsened when its complicity in the Lockerbie airliner bombing was established. Consequent to the 2011 Arab Springs and actively spurred by external powers that included NATO, a civil war saw the bloody end of the dictator in a roadside ambush.

The ensuing power vacuum absorbed Libya into a decade of violence with warring factions splitting the country-the UN-backed Government of National Accord (GNA) in Tripoli and its opposing Libyan National Army (LNA) in the East.

GATE CRASHERS

The LNA warlord General Khalifa Haftar launched an offensive in April 2019 backed by UAE and Egypt, which petered out in June 2020 once Turkey stepped in behind the GNA with its now-famous armed drones and Syrian mercenaries. With no central authority and a massive influx of weaponry from all quarters, Libya became the happy hunting ground of an assortment of militias and private armies. Then Gen Haftar blocked oil exports from key ports in Eastern Libya, holding the economy to ransom.

The worst was yet to come. As per conservative estimates garnered by the UN, 'more than 20,000 foreign troops and military personnel from Turkey, Russia, Sudan, and Chad' are operating in Libya unchecked. The biggest challenge Libya faces is in removing Russian and Turkey sponsored mercenaries who have blatantly ignored UN calls to go home.

After Syria, Libya is the second arena for Russia-Turkey competition with its vast oil resources being the prize– Turkey behind Fayez al-Sarraj's UN-backed GNA and Russia supporting Haftar. Russian presence in Libya, amplified through the active participation of the Wagner Group mercenaries, is part of its multifaceted strategy in the Mediterranean basin focused on 'reinforcing its military footprint, investing in energy resources, and being political present in the EU's neighbourhood'.

On the contrary, the transitional prime minister Dbeibah is perceived to be an ally of Turkey; reports suggest that the new government has 'pledged to retain a maritime agreement granting Ankara potentially valuable rights'.

UAE and Egypt perceive Turkey's influence and its spread of 'political Islam' as threats to the Middle East and North Africa (MENA) region that unites them in the power play in Libya. With recent energy discoveries in the Eastern Mediterranean, maritime disputes

9 LIBYA PEACE INITIATIVES SHUT DOWN BY HAFTAR

Before resorting recently to calls for a cease-fire and political resolution in the face of repeated losses against the Libyan army, Khalifa Haftar had rejected multiple international attempts for a lasting truce and political process in the country, torpedoing negotiations each time.

DEC. 17, 2015
LIBYAN POLITICAL AGREEMENT

With the signing of the Libyan Political Agreement in Skhirat, Morocco under the initiative of the UN, the Government of National Accord (GNA) was recognized as the sole legitimate representative of the country by the international body.

Haftar opposed the agreement as it would give the GNA the authority to dismiss him from his post.

JULY 25, 2017
PARIS SUMMIT

This summit was hosted by French President Emmanuel Macron. The Parties agreed to a cease-fire and decided to hold elections in the spring of 2018. However, the decision could not be implemented.

MAY 29, 2018
PARIS CONFERENCE

The paris conference was held after the parties failed to implement the decisions taken at the Paris Summit.

Haftar blocked the implementation of the decisions taken at the conference.

NOV. 12-13, 2018
PALERMO CONFERENCE

During this conference hosted by Italian Prime Minister Giuseppe Conte in the city of Palermo, the parties agreed to hold elections in spring 2019.

FEB. 27, 2019
ABU DHABI MEETING

No agreement was signed at this meeting held in Abu Dhabi.

APRIL 14, 2019
GHADAMES CONFERENCE

A “National Dialogue Conference” had been expected under the auspices of the UN. However, on April 4, Haftar launched an assault to capture the capital Tripoli.

JAN. 13, 2020
MOSCOW MEETING

One day after a cease-fire that came into effect on Jan. 12 upon a joint call by Turkey and Russia, Haftar left the negotiation table and left Moscow.

JAN.19, 2020
BERLIN CONFERENCE

Just one day after the conference which had been held to begin a permanent cease-fire and political process in the country, Haftar milities bombarded the Libyan capital Tripoli.

FEB. 18, 2020
GENEVA 5 + 5 MILITARY COMMITTEE TALKS

Five security representatives each from the Libyan government and Haftar forces participated in the meeting.

The talks were suspended due to Haftar’s attacks on Tripoli.

Source: Anadolu Agency

between Turkey, Greece, and Cyprus have intermingled with geopolitical tensions created by Turkey, France, UAE, and Egypt.

Strategic interests in Libya and the security of their shared border further drove Egypt’s support for LNA. The UN envoy for Libya, Jan Kubis, outlining the progress since the ceasefire agreement in October 2020, stated that the process for removing foreign fighters and reopening the road connecting Libya’s east and west had stalled since May.

A HOUSE DIVIDED

Neither of the rival groups has been able to gain complete territorial control or muster popular support in Libya. The political-military instability also triggered economic losses, widespread corruption, and near collapse of the health system, which is heavily dependent on imported supplies and equipment. The pandemic exacerbated vulnerabilities to Libyans’ livelihood. The lack of socio-economic solutions pertaining to employment and sources of revenue have left the Libyans pessimistic of any peace talks. The consensus does not feel any benefits will accrue of the entire process. Libya remains a resource-rich nation, but with the never-ending instability, no EU or U.S. oil and gas operator dare to invest in its production. For European nations, Libya has opened the floodgates of illegal migrants fleeing across the Mediterranean. Within the EU itself, there is a split with France being at odds with the EU’s official line by supplying covert military aid to Haftar to advance its own oil interests.

Assessment

The road to peace in Libya is long and bumpy, but if Sarraj and Haftar even agree to meet face-to-face at the upcoming Berlin conference, it would mean significant progress.

The transitional government has been hailed as a ‘historic move’ in the Libyan peace process, although the key to its survival lies in ejecting all foreign fighters and mercenaries expeditiously.

The power play between key nations affects the stability in Libya with each of their interests in oil, migration, and terrorism colliding. The US may be able to exert its influence in stopping UAE, Turkey, and Egypt from shipping armaments into Libya, but remains helpless in the face of Russian intransigence. Without their unilateral cooperation to support the UN efforts, no peace process will succeed in bringing unity and sovereignty to Libya.

A DISASTER WAITING TO HAPPEN

The recent chemical spill off the Sri Lankan coast focuses attention once again on the rising environmental threats from an overcrowding of our oceans

SYNERGIA FOUNDATION
RESEARCH TEAM

The MV X-Press Pearl, a Singapore flagged cargo ship carrying chemicals and raw materials for cosmetics from the Hazira Port in Gujarat, caught fire on Sri Lankan territorial waters following an acid leak from its tanks. The fire raged on for almost 11 days, after which the Sri Lankan authorities, with the help of the Indian Navy was able to put it out. The vessel has since sunk into the Indian Ocean.

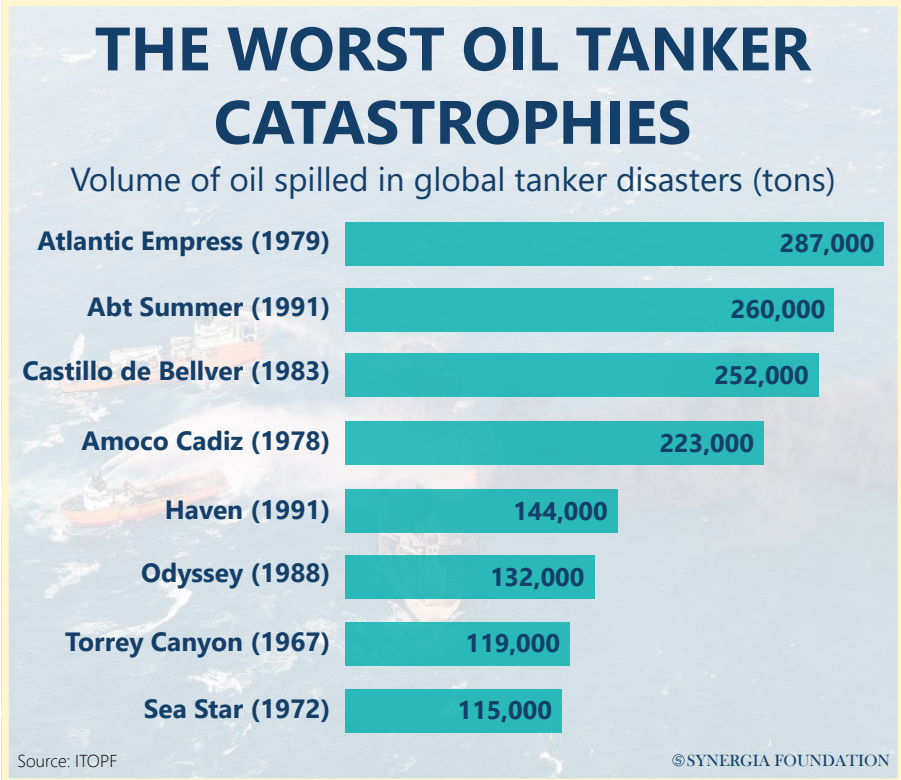
An oil spill was thankfully avoided even though a significant amount of toxic nitric acid and other hazardous waste was dumped into the ocean. The Sri Lankan authorities have described it as the worst ecological disaster the country has ever seen. The marine ecosphere will undoubtedly be harmed and damaged by the amount of toxins in the water.

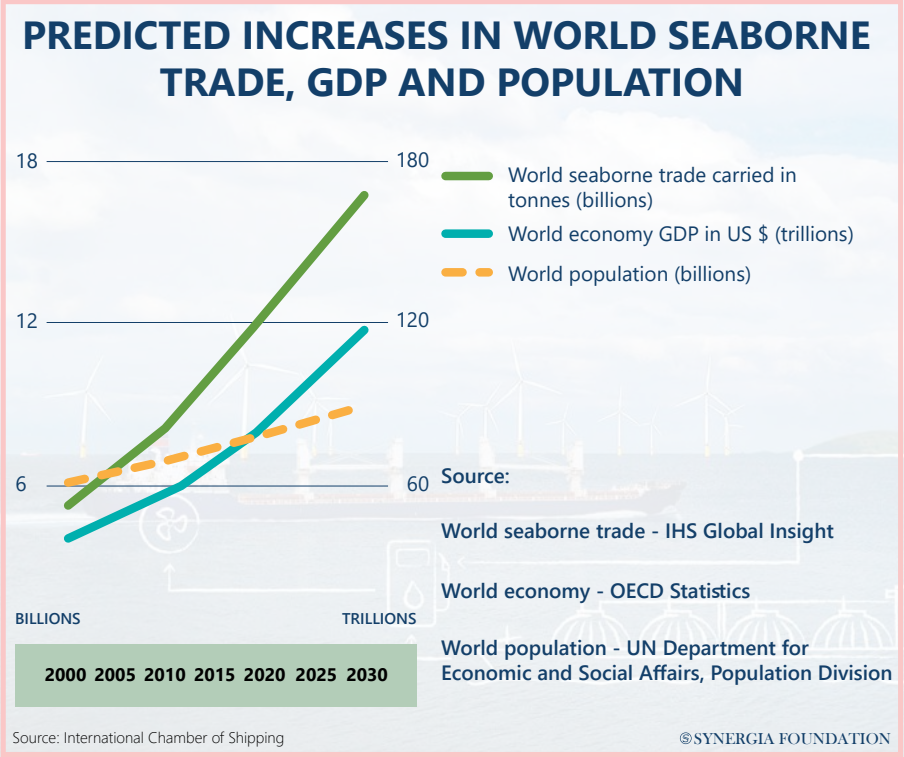
STRESSING OUT THE OCEANS

The shipping industry is the sinew of globalisation through which runs the lifeblood of global commerce. It is a vast industry generating massive revenue and employment for millions of people. The industry's gross output is almost 183.3 billion dollars, as nearly two-thirds of global trade rests on the shipping industry. It has become an integral part of how our society functions and operates.

As per online sites monitoring marine traffic in real-time, over 50,000 merchant ships are traversing the world's ocean and carry over 90 per cent of all non-bulk cargo, including all kinds of dangerous ones. As global demand for raw material, chemicals and oils of all types rises exponentially, the ships are growing ever larger, and the shipping routes more crowded. It takes just one act of human error compounded by machine failure and extreme weather to create a disaster of gigantic proportions.

There is a long string of marine accidents which have severely stressed the marine ecosphere- Amaco Cadiz (1978), Atlantic Empress (1979), Exxon Valdez (1989),





Deepwater Horizon (2010) etc., to name a few. The X Press Pearl disaster is minor in comparison, yet, the chemicals and plastic pellet debris have contaminated the rich fishing grounds along an 80-km (50-mile) stretch of the island's coastline affecting almost 5,600 fishing boats.

In recent years, spills and leaks like the one in Sri Lanka, which affect the environment and sensitive marine ecosystem, have increased. In 2020 itself, nearly 4,000 tons of thick, black fuel oil from a stranded cargo ship seeped into the ecologically crucial area of reefs, inlets and islands that are home to renowned conservation sites and endangered species off the Mauritius coast. Similarly, in Venezuela, there has been a fuel oil spill from a bunker that is twice the size of Mauritius.

ESTABLISHING CULPABILITY

The most important body when it comes to shipping regulations is the United Nations International Maritime Organisation (IMO), responsible for introducing laws and conventions with the participation of all signatory members.

The 1973 International Convention for the Prevention of Pollution from Ships (MARPOL) was created to address pollution caused by the shipping industry through its fuel consumption, vessel discharges as well as accidental spills and leaks.

The question of who takes responsibility and liability when such accidents happen has always been a point of contention in international as well as regional maritime law. As per the International Convention on Civil Liability for Oil Pollution 1969, which came into force in 1975, ship owners are solely liable for pollution damages. The convention, therefore, creates a system of compulsory liability insurance.

A shipowner is exempt from liability only if he proves that the damage (a) resulted from an act of war, hostilities, civil war, insurrection, or a natural phenomenon of an exceptional, inevitable, and irresistible character, or (b) was wholly caused by any act or omission done with intent to cause damage by a third party, or (c) was wholly caused by the negligence or other wrongful act (by public authorities) for the maintenance of lights or other navigational aids.

While physical damage and loss of life are relatively easy to establish, pollution's immediate and long-term fallout can scarcely be estimated by any degree of accuracy. In the case of environmental pollution, damages often involve third parties, and the extent of harm caused is often so enormous, making it even more challenging to assess the exact amount of compensation. Even if payment is assessed, making respective companies honour these commitments is even more strenuous as the costs would be high and the punitive measures for incompliance relatively low. Some smaller companies fold up as they are unable to pay enormous compensation. The IMO has failed in its efforts to achieve a proper parameter when it comes to due compensation for pollution-related damages. The weak enforcement of existing laws has also been blamed by international NGOs like Greenpeace, which has called into question the IMO's commitment to environmental security. These accusations come primarily as the IMO has declined responsibility for the spill in Mauritius and because of its opting out of the Paris Accord. The global shipping industry, too, has opted out of the Paris Accord as it could not commit to goals which asked for a reduction in fuel consumptions and emissions.

SEEKING A SOLUTION

Innovation has been spearheaded to find possible solutions to reduce or mitigate the effects of such maritime disasters.

New generation 'green fuels,' ranging from biofuels to synthetic fuels, will drastically reduce vessel discharge and emissions. According to the Organisation for Economic Cooperation and Development, if these fuels were economically favourable, the industry could utilise fuel without carbon by 2035.

To protect marine life and fragile ecosystems, heatmapping is used to detect and protect sensitive areas of the marine biosphere. As a result, large-sized cargo ships are often advised to avoid or take precautions when passing by such ecologically sensitive areas.

Yet efforts to hold the global shipping industry accountable to proper environmental standards are slow and lacking. There needs to be consistent engagement to find a sustainable solution.

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