

Date: 21 Sep 2024

## Indus Water Treaty & its Current Challenges

(Staunch the breach: The Hindu, 21-09-24)

### What is the Indus Water Treaty between India and Pakistan?

- The Indus Water Treaty is a water-distribution agreement between India and Pakistan, brokered by the World Bank and signed in 1960. Key aspects of the treaty include:
- Allocates the waters of six rivers in the Indus system between the two countries
- Gives India control over the eastern rivers (**Ravi, Beas, and Sutlej**)
- Grants Pakistan rights over the western rivers (Indus, **Chenab**, and **Jhelum**)
- Allows India limited use of western rivers for irrigation, transport, and power generation
- Establishes the Permanent Indus Commission for conflict resolution where both the countries meet at least once annually.
- Considered a rare example of successful water-sharing cooperation between the two nations and it has survived multiple wars and conflicts between India and Pakistan

### What are the current challenges of the Indus Waters Treaty (IWT)?

- India has issued its fourth notice to Pakistan since January 2023, demanding renegotiation of the 1960 treaty
- India has called off all meetings of the Permanent Indus Commission (PIC) until Pakistan agrees to talks.
- The dispute resolution process for the Kishenganga and Ratle projects has been at an impasse since 2016
  - Kishenganga and Ratle projects are hydroelectric power plants being developed by India
  - Kishenganga project is on the Kishenganga River, a tributary of the **Jhelum River**. It is located in Jammu and Kashmir, with a capacity of 330 MW
  - Ratle project is on the **Chenab River** in Jammu and Kashmir and designed to generate 850 MW of power
  - Pakistan claims these projects violate the Indus Water Treaty (Remember Pakistan rights over the western rivers (Indus, **Chenab**, and **Jhelum**))
  - India maintains the projects are within the treaty's parameters (Remember the treaty allows India limited use of western rivers for power generation & irrigation)
- World Bank allowed two parallel dispute resolution processes, complicating matters
- Pakistan escalated disputes over Kishenganga and Ratle projects to both a neutral expert and Permanent Court of Arbitration (PCA).
  - However, India has boycotted PCA hearings at The Hague
  - On the other hand, Pakistan has boycotted neutral expert proceedings
- Political rhetoric has intensified, with leaders using water issues for partisan politics

### How does the IWT dispute reflect broader India-Pakistan relations?

- The deterioration of the IWT process mirrors the unravelling of bilateral relationships
- There is no political engagement or trade between the two countries
- The 2021 LoC ceasefire agreement is in danger due to terror attacks and deaths of Indian Army personnel
- Concluding any new agreement on the IWT will be more difficult in the current climate

### What are the potential ways forward for the IWT?

- Pakistan's invitation for the SCO Heads of Government meeting (October 15-16) could present an opportunity for talks
- New issues like climate change and renewable energy needs necessitate a re-opening of the 64-year-old Treaty
- Resolving current disputes while addressing new challenges will be crucial for saving the treaty
- The way forward will determine if the two countries can preserve what was once called "one bright spot" in international relations

*Can you answer the following question?*

*Analyze the current challenges facing the Indus Waters Treaty between India and Pakistan.*

### Pivot to watch: US Fed Rate Cut

(The Hindu, 21-09-24)

#### What is the recent decision by the U.S. Federal Reserve?

- Cut interest rates for the first time in more than four years
- Lowered benchmark interest rate by half a percentage point
- Signaled expectation of at least another quarter point reduction in 2024
- Decision made with a 17 to 2 majority in the Federal Open Market Committee (FOMC)

#### Why did the Fed make this decision?

- To maintain strength in the labor market while achieving moderate growth
  - Lower interest rates make borrowing cheaper for businesses, encouraging investment and expansion. This can lead to job creation and help maintain a strong labor market
- Lower rates signal confidence that inflation is under control. It allows for a more balanced approach to economic management after a period of aggressive inflation fighting
- By carefully managing the rate, the Fed aims to achieve a "Goldilocks" economy - not too hot (high inflation) or too cold (deflation)
- Balance the Fed's dual mandate of maximum employment and price stability
  - Lower rates can boost economic activity, supporting employment • At the same time, careful rate management helps maintain price stability by avoiding excessive inflation or deflation

#### How might this decision impact emerging market economies (EMEs)?

- Bring relief from the effects of previous rate increases and strong U.S. dollar
  - Lower U.S. interest rates typically lead to a weaker dollar, making EME currencies relatively stronger. A weaker dollar can also boost the competitiveness of EME exports in global markets
- Potentially **decrease debt service burdens** and inflationary pressures for EMEs
  - Many EMEs have dollar-denominated debts; a weaker dollar reduces the local currency cost of servicing these debts
  - Lower U.S. rates can lead to lower global interest rates, potentially reducing borrowing costs for EMEs in international markets
- May support a broader **revival of capital flows** to emerging and developing economies
- India likely to see an **increase in foreign portfolio** investor inflows, especially in debt markets

- More significant relief expected for economies in Africa and Latin America

**What are the potential implications and risks of this rate cut?**

- Limited impact on India's economy, according to the Chief Economic Adviser
- May improve EMEs' ability to invest in vital public infrastructure and services
- Could be interpreted as a cautionary signal of troubled times ahead
- Global economic uncertainties, including conflicts in Europe and West Asia, add complexity to the decision's impact

*Can you answer the following question?*

*Analyze the potential impact of the U.S. Federal Reserve's recent interest rate cut on emerging market economies, particularly India.*

