



Credit tangle

The RBI's omnibus ban on a legitimate financing instrument is not the solution

A month after the ₹12,800-crore letters of undertaking (LoUs) fraud at Punjab National Bank came to light, the Reserve Bank of India has decided to ban such instruments as well as letters of comfort issued by bankers to businesses for international transactions. While the government has been in fire-fighting mode, unleashing all investigative agencies to probe the fraud, this is the first major step by the central bank on the issue, apart from asking banks to ensure there are no slip-ups between their core banking systems and the SWIFT mechanism used for international money transfers. LoUs are among the most popular instruments to secure overseas credit by importers – known as buyers' credit in banking parlance – because of their attractive pricing. It is estimated that overall, bank finance for imports into India is around \$140 billion, of which over 60% is funded through such buyers' credit. Naturally, industry is unhappy with the RBI decision as this would raise the cost for importers, who will now need to rely on more expensive instruments such as bank guarantees and letters of credit. The move will also impact the competitiveness of exporters who import raw materials for their products.

While the central bank had earlier blamed "delinquent behaviour by one or more employees of the bank" and failure of internal controls for the PNB-Nirav Modi fiasco, RBI Governor Urjit Patel has finally commented on the fraud. Mr. Patel said he had chosen to speak because the central bank also feels the anger and pain over the banking sector frauds that amount to "looting" the country's future by "some in the business community, in cahoots with some lenders". Reiterating that PNB's internal systems failed to take note of the RBI's warnings about such risks, Mr. Patel took on severe criticism about the RBI's inability to detect the fraud. He stressed that the RBI didn't have adequate powers to regulate public sector banks, and it could not remove any of their directors or liquidate such a lender, as it can in the case of private sector banks. He made an eloquent demand that the owner of public sector banks (that is, the government) must consider making the RBI's powers over banks 'ownership-neutral' and say what could be done with these banks. The RBI's stance is valid, as is its discomfort with knee-jerk reactions and the blame games since the fraud came to light. In the very same vein, its omnibus ban of LoUs will impact the \$85 billion buyers' credit market that was mostly conducted in accordance with the law of the land. If an individual or some failed systems of a bank were indeed to blame, why should *bona fide* transactions suffer? Perhaps the RBI could have tightened the norms for LoUs and introduced safeguards based on the latest learnings. It is still not too late to do that.

Rexit and beyond

More proof that propriety, protocol, punditry no longer hold sway in the U.S. administration

Even by his standards for unexpected diktats, U.S. President Donald Trump's decision to fire his Secretary of State, Rex Tillerson, and replace him with CIA Director Mike Pompeo, came out of the blue. Mr. Tillerson, who was the CEO of ExxonMobil Corporation before taking up the role, did not agree with Mr. Trump on fundamental policy matters, the President said. This is widely seen as an allusion to Mr. Tillerson's preference, contra-Trump, for diplomacy as a means of defusing the North Korean crisis. Also implied was a widening chasm between the two men on the merits of the Iran nuclear deal. With Mr. Tillerson's departure, the number of senior officials exiting the Trump administration after a little more than a year has reached at least 24. Less than a week before the long-rumoured "Rexit", White House Chief Economic Adviser Gary Cohn, formerly a Wall Street banker, quit his post over his opposition to Mr. Trump's proposal to levy hefty steel and aluminium tariffs. And, less than a week before Mr. Cohn, White House Communications Director Hope Hicks resigned after admitting to a Congressional panel investigating Russian influence on the 2016 election that she had occasionally told "white lies" on Mr. Trump's behalf. Rumours now swirl that National Security Adviser H.R. McMaster may also soon be ousted. The question at this point is: does the existing coterie of senior White House officials enjoy the confidence of their President to a sufficient magnitude as to ensure that policies can be executed in a meaningful way?

In one sense, there does not appear to be cause for alarm over the incessant departures from the White House. It is quite possible that Mr. Trump has used his first year in office to consolidate his vision and attract the right talent to realise his governance paradigm, essentially rooted in a nationalistic, or "America First", world view. Take the case of Mr. Pompeo: he is far more aligned with Mr. Trump's hawkish approach towards the Kim Jong-un regime than Mr. Tillerson was. There is a case to be made that Mr. Trump's hardline stance is what is ultimately bringing the North Koreans to the negotiating table. Mr. Tillerson, insistent on talks, was likely to have been an impediment to this strategy. The deeper message is that the liberal order of the Obama years is gone. Propriety, protocol and punditry no longer hold sway – Mr. Trump had no quarrel with Mr. Tillerson over the Secretary leaving numerous senior State Department posts vacant, but only cared about the top diplomat's concurrence with his strategy. The President will likely apply this principle – and find himself the right people – in other policy areas as well, such as trade and immigration. Nations that engage with America may glean valuable lessons from this churn.

The strategy of conflict

India must work towards some understanding with Pakistan before the situation on the border spins out of control



HAPPYMON JACOB

A little over two months into 2018, the violence on the Jammu and Kashmir (J&K) stretch of the India-Pakistan border has reached a new high: more than 633 ceasefire violations (CFVs) by Pakistan have been reported by New Delhi which have claimed the lives of 12 civilians and 10 soldiers. Many more have been injured and several civilian habitats along the border destroyed. Till the first week of March, Pakistan reported 415 CFVs by India which have claimed 20 civilian lives (there is no data on Pakistani military casualties).

The calibre of weapons used on the border have also graduated from short-range personal weapons to 105 mm mortars, 130 and 155 mm artillery guns and anti-tank guided missiles. With the rising violence, casualties and upcoming elections in both countries, we may have a perfect recipe for escalation on our hands.

The question we must ask ourselves at this point, then, is this: is this sheer mindless violence, or is there a strategy behind this violence? And if there indeed is a strategy, is it a carefully calibrated one and what are its likely outcomes?

Three strategies

Ever since the ceasefire agreement (CFA) of 2003, New Delhi seems to have followed three broad strategies to deal with the violence on the J&K border. These three approaches – 'talks over bullets', 'talks and bullets', and 'disproportionate bombardment' – have identifiable costs and benefits associated with them.

The years immediately after the 2003 CFA witnessed a great deal of calm on the borders with CFVs dropping to a minimum even though infiltration into J&K and sporadic, minor terror attacks against India continued to take place. There were no major terror attacks, and Kashmir was calm. Bilateral talks drastically reduced violence during that phase. This lasted roughly till 2008.

Another phase when this strategy was evident was following Prime Minister Narendra Modi's visit to Lahore. Thanks to the rapprochement achieved by his visit, the period from December 2015 to February 2016 hardly witnessed any CFVs, despite the Pathankot Air Force base attack in early January 2016.

The benefits of this strategy, adopted mostly by the previous United Progressive Alliance government and briefly by the incumbent National Democratic Alliance government, are evident. Engagement with Pakistan and quiet on the border are strongly correlated. The downside, however, is that New Delhi feels that it tried the strategy of peace and talks several times in the past and failed to get a positive response from Pakistan. This has led to a great deal of bitterness in India.

Failure of this strategy has been due to the periodic terror attacks carried out against India, infiltration into J&K and the rise of militancy in Kashmir, in all of which India sees significant contribution of the Pakistani establishment. While there are benefits of talks, they are neither consistent nor without political costs. Put differently, the costs of 'talks over bullets' strategy, in New Delhi's calculation, seem to outweigh the benefits.

The second strategy has been to engage in talks while proportionately responding to Pakistani provocations. The period from 2010



to 2012 seems to fall in this category. Consider this: the two sides engaged each other in talks during this time and CFVs reduced significantly – India reported 70 violations in 2010, 62 in 2011 and 114 in 2012. In 2010, the two Foreign Secretaries met in New Delhi, followed by the two Foreign Ministers meeting in Islamabad. In 2011, the two Foreign Secretaries met in Thimphu, and in 2012 the Indian and Pakistani Foreign Ministers issued a joint statement in Islamabad.

While the talks went on, the firing on the J&K borders did not come to a complete halt. Both talks and firing persisted, though at moderate levels. The benefits of this game of proportionate response – 'talks for talks and bullets for bullets' – which went on without much fuss are clear: very little risk of escalation, fewer casualties and limited destruction.

However, this strategy comes with major political costs. Hardliners and the opposition in India criticised the Manmohan Singh government of being weak, in particular when the beheadings of Indian soldiers took place in 2013, and reports indicated an increasing spate of what India refers to as BAT (border action team) operations by the Pakistan army. The political costs of not upping the ante against Pakistan seemed to outweigh its military benefits.

The third Indian strategy is disproportionate bombardment of

the Pakistani side using high-calibre weapons while not showing any desire for talks, negotiations or concessions, and shunning Pakistani suggestions thereof. India's reported rejection, in January, of a Pakistani proposal for a meeting between the two Directors General of Military Operations (DGMOs), saying it first wanted to see a drop in infiltration levels is a direct outcome of this strategy. The domestic component of this strategy also involves a great deal of politicisation of the Indian Army's feats on or across the Line of Control, such as the surgical strikes against Pakistan in September 2016.

CFVs since April 2016 and the current state of India-Pakistan relations are largely informed by this strategy. Despite the rising terrorist attacks inside J&K and the increasing CFVs, there has been hardly any dialogue (barring the meeting between the two National Security Advisors in Bangkok, which achieved precious little). India, according to Pakistan, violated the ceasefire 389 times from April to December 2016, and in 2017 over 2,000 times, with the trend continuing this year. India reported 449 violations by Pakistan in 2016, and 860 in 2017.

The benefits of this disproportionate bombardment strategy are too obvious to miss. Its domestic political utility is enormous given the surprisingly few questions being asked of the government about the rising civilian and military casualties. The 'we kill more than they do' argument, combined with the 'surgical strikes' narrative, creates a powerful political discourse laden with potential electoral benefits for the ruling dispensation in New Delhi.

There are inherent costs associated with this strategy. First, the disproportionate bombardment strategy could potentially escalate to worrying levels – a rising toll could reverse popular support for

the current muscular approach. Second, more killing and destruction would also steadily shrink the space available for negotiated outcomes with Pakistan. Finally, the current media frenzy surrounding the border violence and the associated nationalist sentiments could become a worry for the government if and when it wishes to negotiate with Pakistan.

Pakistan's three-fold strategy

Pakistan seems to adopt a three-fold strategy on the J&K border informed by its conventional inferiority vis-à-vis India: keep the violence on the border carefully calibrated without upping the ante; seek meaningful talks on Kashmir to turn down the rhetoric on Kashmir and infiltration into J&K; propose tactical measures to reduce violence on the borders such as DGMO talks and reduction in the calibre of weapons, without giving up its claims and interests in Kashmir. In other words, Pakistan is looking for either conflict management vis-à-vis the J&K border or a major dialogue process to resolve the Kashmir issue.

There is then a clear mismatch between the expectations and strategies of New Delhi and Islamabad/Rawalpindi. Whereas India is looking for an end to cross-border infiltration and Pakistani involvement in Kashmir in return for an end to shelling on the border, Pakistan is desirous of a resolution of or meaningful talks on Kashmir in return for calm borders and cracking down on anti-India terror groups in Pakistan. The two sides must therefore try and find a via media between these two differing sets of expectations if they wish to bring down the violence on the J&K border that is increasingly spiralling out of control.

Happy Mon Jacob teaches Indian Foreign Policy at JNU and curates an online archive on the India-Pakistan conflict

A pattern the BJP cannot ignore

Will the Opposition now come together to field joint candidates against the BJP?



SMITA GUPTA

The bypoll results in Uttar Pradesh and Bihar, taken together with those last month in Rajasthan and Madhya Pradesh, are suggestive of a pattern that the Bharatiya Janata Party (BJP) cannot afford to ignore. The party will not just have to reassess its ground game – and the impact of policies followed by its governments in the States and at the Centre – it will also have to seriously consider the criticism from its parent organisation, the Rashtriya Swayamsevak Sangh, that those in power cannot afford to be arrogant.

Message in the numbers

In 2014, 93 of the BJP's 282 Lok Sabha seats came from U.P. and Bihar. This was a key reason why the BJP swung into action after it lost the Bihar Assembly elections in 2015 to 'persuade' Bihar Chief Minister Nitish Kumar's Janata Dal (United), or JD(U), to return to the NDA fold. It cannot therefore af-

ford any setbacks here if it hopes to return to power in 2019.

For the still-divided Opposition, the success of the Samajwadi Party (SP)-Bahujan Samaj Party (BSP) 'understanding' in breaching Chief Minister Yogi Adityanath's citadel of Gorakhpur and winning Deputy Chief Minister Keshav Prasad Maurya's Phulpur seat has created a template for 2019 – fielding a joint candidate against the BJP nominee in as many constituencies as possible. The efficacy of this model was tested in 2015, when the Rashtriya Janata Dal (RJD), the JD(U) and the Congress joined hands to defeat the BJP in the Bihar elections, reversing the trends of the Lok Sabha polls of 2014 when the BJP capitalised on the multi-cornered contests.

Now, in Bihar, the BJP-JD(U) combine has turned out to be less formidable than predicted, and the RJD retained the Araria Lok Sabha and Jehanabad Assembly seats. The fact that RJD supremo Lalu Prasad is in jail made little difference to voters who saw the change in government as a betrayal of the 2015 mandate; what made a difference was the way in which his son Tejashwi Yadav managed the campaign, and the last-minute exit of former Chief



Minister Jitan Ram Manjhi, who belongs to the poorest Dalit community of Musahars, from the NDA.

The BJP has undoubtedly increased its political footprint since the spectacular victory of 2014. It is in power, on its own or in an alliance, in 21 States. And yet, it has been defeated in a string of Lok Sabha and Assembly bypolls in which its candidates were in direct contest with the winners.

Passing the buck

Today, the BJP – and its apologists – are comforting themselves by saying the defeat of its candidates in U.P. represents a failure of Mr. Adityanath, and is in no way a reflection of voters' assessment of the Narendra Modi government. Neither Mr. Modi nor BJP President Amit Shah campaigned in

this round of elections, they say, as they did in the general elections. Of Bihar, they say, the RJD benefited from "sympathy" for the incarcerated Mr. Prasad.

But ground reports from Gorakhpur and Phulpur suggest otherwise. Dalits, for instance, not just in U.P. but across the country, have been seeking an option after rising instances of anti-Dalit violence. BSP sources say there was pressure "from below on Behenji (BSP chief Mayawati)" to extend support to the SP as there was no BSP candidate in the fray. When Ms. Mayawati told her cadres to defeat the BJP, they did so with enthusiasm. In fact, anti-BJP discontent is being expressed along many axes. The middle class, which tends to be a votary of the BJP, is feeling the pinch with the economic slowdown. Brahmins in U.P. are said to be unhappy that Thakurs, led by Mr. Adityanath, are getting prized government postings. Traders of all stripes, having been hit first by demonetisation, are reeling under the impact of the Goods and Services Tax rollout.

More importantly, the caste alliance that the BJP so carefully stitched together for 2014 and 2017 has come apart. The BJP's alliance partner in U.P. is Apna Dal, a Kur-

mi party; yet the SP's Kurmi candidate defeated the BJP's Kurmi candidate in Phulpur. In Gorakhpur, the SP shattered the BJP's most backward caste coalition by fielding Pravin Nishad, who belongs to a backward community and is the son of Sanjay Nishad, who heads the Nishad Party that enjoys wide support in the Gorakhpur belt. In short, the SP and the BSP have reached out, and successfully for now, to their old following among the most backward castes. Over the years, the SP, from being a coalition of backward castes, had shrunk into a party of Yadavs. Similarly, the BSP had lost most of its backward caste leaders in the run-up to the 2017 U.P. polls, and was limited to a party of Jatavs, to which Ms. Mayawati belongs.

Clearly, there are many lessons in these elections. The BJP will doubtless pay heed to the message sent out by voters, but what of the Opposition? Will its leaders show the statesmanship to sink their differences, overcome their egos and build on the beginning that the SP and BSP – despite a bad history – have made? Only a grand alliance will be able to take on the might of the BJP in 2019.

Smita Gupta is a Delhi-based journalist

LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

Bypoll shock

If the reverses in the Madhya Pradesh and Rajasthan bypolls had put the BJP on the back foot, the U.P. and Bihar bypoll results must have come as a rude shock ("Triple bypoll shock for BJP", March 15). What should rattle the party more is that it lost the Lok Sabha seats previously held by both the U.P. Chief Minister and Deputy Chief Minister. It is becoming evident that the NDA's sheen is wearing off and that voters have begun to see through the government's boasts about its non-existent achievements. It has failed to tackle unemployment and agricultural distress, and has not been able to stop the activities of the fringe. If the SP-BSP combine remains intact till

the 2019, the BJP's prospects in U.P. may be bleak.
C.V. ARAVIND,
Chennai

If we look at the results from a different angle, these losses could be a blessing in disguise for the BJP. Knowing the party, it is going to leave no stone unturned to retain power at the Centre in 2019.

P.U. KRISHNAN,
Ooty

The BSP-SP understanding in U.P. should inspire all the other opposition parties to come together and pose a challenge to the BJP in 2019. But the opposition should not give too much room to the Congress. Under Rahul Gandhi, it lost in Gujarat, despite allying with Hardik Patel, Jignesh

Mevani and Alpesh Thakor. It would be better for the opposition to project a non-Congress leader as a prime ministerial candidate, as voters are not ready to accept Mr. Gandhi. This is the only way the BJP can be challenged.

V.S. GANESHAN,
Bengaluru

The BJP's detractors might be happy. But once the euphoria settles, the question is, what would SP-BSP rule look like? Voters need to think about that. The current win by this disparate alliance will have limited significance in the long run.

S. RAJAGOPALAN,
Chennai

What is Left?

The portrayal of the Left as a potent political force is

amusing ("The Left doesn't need the Congress", March 15). The only communist Chief Minister in the country is Pinarayi Vijayan. Communism is no longer a force to reckon with in either West Bengal or Tripura.

The very idea of communism is unattractive to Indians. Whichever party aligns with the Left is looked at derisively. That being the case, there is no scope for arguing that the Left does not need the Congress to align with. Neither the Left nor the Congress has much relevance in the present political landscape. If anything, perhaps we can speak of how the Congress can survive without the Left.

V. LAKSHMANAN,
Tirupur

Both the Left and the Congress are facing existential crises like never before. With the right wing deepening its roots, we must consider these exceptional circumstances and the two should join hands. Moreover, the

socialist Nehruvian era was the golden age of the Congress. So, the two should complement each other rather than compete.

MAYUKH DEVAIDAS,
Thirissur

MORE LETTERS ONLINE:
www.hindu.co.in/opinion/letters/

CORRECTIONS & CLARIFICATIONS: >>A report on Tamil Nadu government's submissions - on sand import issue - at the Madras High Court was erroneously headlined "HC justifies curbs on sale of imported sand" (March 15, 2018, some editions). It should have read: "Tamil Nadu government justifies curbs on sale of imported sand."

>>A Business page report, "Unions to protest commercial mining" (March 14, 2018), erroneously said that the joint sector Singareni Collieries Company Ltd. (SCCL) was held by the Centre and the Andhra Pradesh government. Actually, it is the Telangana government that holds stake in SCCL jointly with the Centre.

>>In the Business page Explainer, "What was the 20:80 gold import scheme?" (March 14, 2018), gold import figures were erroneously given in million tonnes. They should have been in metric tonnes.

It is the policy of The Hindu to correct significant errors as soon as possible. Please specify the edition (place of publication), date and page. The Readers' Editor's office can be contacted by Telephone: +91-44-28418297/28576300 (11 a.m. to 5 p.m., Monday to Friday); Fax: +91-44-28552963; E-mail: readerseditor@thehindu.co.in; Mail: Readers' Editor, The Hindu, Kasturba Buildings, 859 & 860 Anna Salai, Chennai 600 002, India. All communication must carry the full postal address and telephone number. No personal visits. The Terms of Reference for the Readers' Editor are on www.thehindu.com