



A relationship adrift

India and Canada need to go back to the drawing board and urgently repair ties

The red flags had gone up long before Canadian Prime Minister Justin Trudeau arrived for an eight-day state visit to India. For some time now, New Delhi has been sending messages of protest to Ottawa – especially after his Liberal Party shepherded a resolution in the Ontario provincial legislature calling the 1984 anti-Sikh violence “genocide”; he went on to attend a rally in Toronto organised by Khalistani groups. More recently, Mr. Trudeau’s office and the Ministry of External Affairs differed over the details of the visit. While New Delhi would have preferred a shorter, more business-like itinerary beginning with the official engagement in Delhi, Ottawa opted for a five-city tour, with a bilateral meeting with Prime Minister Narendra Modi on the penultimate day. New Delhi would have also liked the delegation to exclude Canadian ministers suspected of sympathising with extremist Sikh groups in Canada, especially as they had already been in India controversially in the past few months – but Ottawa was adamant they be included. Finally, the government wanted Mr. Trudeau to reach out to Punjab Chief Minister Amarinder Singh well ahead of the visit, as the latter had been denied a trip to Canada in 2016 and was understandably offended. But till his arrival, Mr. Trudeau’s office did not confirm a meeting with the Chief Minister. As a result, the controversies that followed the Canadian Prime Minister through the visit had gathered their own momentum. The responsibility lies on both sides, on Ottawa for its tone-deafness to Indian sensitivities, and on New Delhi for failing to press its concerns or have the visit discreetly put off until the differences were resolved. Mr. Modi’s decision to stick to protocol, and not welcome Mr. Trudeau as effusively as he has tended to do for many foreign visitors, was a signal.

The final straw in a visit steadily turning icy was the appearance of Jaspal Atwal at an official reception, which had an embarrassed Mr. Trudeau left explaining how a man who attempted to assassinate an Indian minister in 1986 had slipped into his entourage. In turn, the Indian government was left scrambling for answers on how Mr. Atwal was even allowed into the country. The real casualty amidst all the controversies was the India-Canada bilateral relationship, which has turned frosty after a decade of excellent progress. In this period, the two sides had forged close cooperation on energy and trade, including a civil nuclear cooperation agreement and a commitment from Canadian pension funds to invest in India. India and Canada have much in common as two pluralistic, diverse democracies with very strong people-to-people ties: there is an Indian diaspora of 1.3 million in Canada, besides 100,000 Indian students. The handling of Mr. Trudeau’s visit by both Ottawa and New Delhi doesn’t do justice to these ties; both countries must work to repair the rupture.

The regional mix

Nagaland and Meghalaya go to the polls at a time of unusual political fluidity

Nagaland and Meghalaya go to the polls on Tuesday, nine days after voters in Tripura voted, at a time when there is a change in the nature of political contestation in all three States. If the Tripura campaign was marked by the rise of the Bharatiya Janata Party as a force in the reckoning, regional parties, including newly formed ones, are expected to have a greater say in the elections to the other two States. In Nagaland, former Chief Minister Neiphiu Rio, elected unopposed from a constituency in Kohima district, has added a new wrinkle to the contest by resigning from the ruling Naga People’s Front and joining a new party which he had helped found, the Nationalist Democratic Progressive Party. The NDPP has stitched an electoral alliance with the BJP, ceding 20 of the 60 seats, and is now seen as the main competitor to the ruling NPF, even as the Congress has been reduced to a shell of its old organisational self. The NPF had in any case lured legislators from the Congress and others into its fold during its previous term in power, leaving the legislative assembly with no opposition. This was before differences within the Front cropped up, resulting in the resignation of Chief Minister T.R. Zeliang in February 2017 and the appointment of Shurhozelie Liezietsu, and the return of Mr. Zeliang to the post again in July 2017 after yet another upheaval. These internal differences, besides Mr. Rio’s exit, have weakened the NPF in the bipolar contest between the NPF and the NDPP-BJP. Interestingly, the BJP has said that its relations with the NPF are intact, indicating it is hedging its bets till the results are out. The contest is less of a battle of agendas than a clash of personalities – which does not augur well.

In Meghalaya, the polling takes place against the backdrop of extremist violence: Nationalist Congress Party candidate Jonathone Sangma was assassinated on February 18. There appears to be a keen contest between the ruling Congress party and the National People’s Party, founded by former Lok Sabha Speaker P.A. Sangma and now led by his son Conrad. A coalition of ethnic parties concentrated in the Khasi-Jaintia Hills is expected to play spoiler. The BJP is a bit player in Meghalaya, but it has forged an alliance with the NPP in Manipur and may play a larger part if the party and other regional forces manage to oust the long-standing Congress regime. With unemployment and a sluggish economy being major issues, the Congress has sought to run on its record of bringing back peace to the State. As things stand in both Meghalaya and Nagaland, it will be no surprise if post-election realignments among political parties, rather than the existing equations, decide the nature of the governments that will be formed.

Can banking recover?

We need stricter adherence to sound banking rules and more transparency from public and private players



JAYATI GHOSH

The bank frauds involving Punjab National Bank (PNB) and the companies associated with businessmen Nirav Modi and Mehul Choksi as well as the Rotomac case couldn’t have come at a worse time. The Indian banking system is already reeling under the pressure of growing NPAs, or non-performing assets (less politely known as loans that are not going to be repaid), which will touch nearly ₹10 lakh crore by March this year. This does not include the ₹6 lakh crore already written-off. This has already caused a slowdown in disbursement of bank credit, in turn affecting productive investment.

Failure at many levels

What has been revealed so far could be only the tip of the iceberg. The sheer ease with which fraudulent practices have been carried out and the length of time over which they continued suggest that the rot is much deeper. Other banks could have provided large loans without due diligence, which other companies then received without intent to repay; this means that many more loans gone bad could soon surface.

These revelations cannot bode well for the ruling party or for a Prime Minister who had promised to be the nation’s “chowkidar” to prevent any such loot. But let us step away from the politics. It is now clear that the scams are fundamentally and overwhelmingly a failure of regulation.

This failure has occurred at many levels. At the level of the bank, it is impossible to believe that only a handful of employees (the cur-



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rent fall guys) have been implicated. Senior management and auditors did not track these problematic transactions for years. The Reserve Bank of India (RBI) did not monitor banks properly and created opacity with new financial instruments. The Finance Ministry failed in its oversight and regulation. And successive Central governments, including the present one, did and have not done anything to address the obvious problems that were festering, and made them even worse.

Using LoUs

The PNB scam relied on the existence of an unusual financial instrument, the letter of undertaking (LoU). This is a bank guarantee that enables a bank’s customer to raise short-term credit from another Indian bank’s foreign branch. It has to be another Indian bank, because the LoU as a form of underwriting other borrowing does not exist in other countries and is not even recognised by foreign banks. It was created by the RBI as an additional incentive to importers who could then avail of cheaper credit abroad, even though import credits already exist.

These LoUs – which are equivalent to providing credit and should be recorded as contingent liabilities – were not so recorded. When loans are not repaid – in this case

vast amounts borrowed from other banks based on these LoUs were apparently siphoned off to shell companies controlled by the Modi-Choksi combine – the buck stops with the issuing bank. What was intended to be trade credit was misused, with no record and monitoring of the spending from those loans. There is talk of sums in excess of ₹20,000 crore being involved in this case as these businessmen were alleged to be so influential that they were even able to game the SWIFT system for foreign exchange transactions.

This case involves pure criminal fraud, but there is a thin line between fraud and the many large defaults that plague the system. Commercial bank lending is massively skewed: according to the RBI, in March 2016, 11,643 borrowers accounted for 38% of all bank loans; large corporate borrowers had the overwhelming share (84%) of bad loans. Just 12 large outstanding NPA accounted for as much as ₹250,000 crore.

The issue of crony capitalism that was much criticised during the United Progressive Alliance government is alive and well under this government. Finance is one of the many ways in which concessions and advantages are distributed. Some favoured companies are not declared wilful defaulters even when the government’s own investigating agencies find that they are diverting funds. Those declared as

Justin Trudeau’s discovery of India

While mutual interests can drive India-Canada ties, there needs to be greater sensitivity shown to India’s core concerns



RAJIV BHATIA

Through his week-long state visit, Canadian Prime Minister Justin Trudeau tried hard to expand his understanding of India and foster closer India-Canada relations. Controversies about the Khalistan issue and an unusual programme could make it easy to portray this visit as a “disaster”, “fiasco” or “bad trip”. But, doing so is neither fair nor accurate, judging by the immediate outcomes.

At age 11, Mr. Trudeau first visited India in 1983, accompanying his father, Canadian Prime Minister Pierre Trudeau. On his India mission last week, Justin Trudeau received valuable help from his family. From the moment their plane landed in Delhi on February 17, with the Trudeau couple and their three beautiful children giving a perfect ‘Namaste, India’ shot, until their departure, the Indian public saw more of them than any other foreign VIPs in recent years. Enhancement of awareness among Indians about Canada through creative public diplomacy is no small achievement.

The Trudeaus wore ethnic Indian costumes with grace and rare ease. Many liked it, others did not. But, the motivation of Canada’s first family was good. By doing this, they proclaimed their love for India, and showed respect for its diversity and recognition of the significant role the Indian diaspora plays in Canada’s economy and public life.

Central controversy

The Canadian delegation should have avoided the controversy concerning the Khalistan movement, but it was self-inflicted. It stemmed from the ruling Liberal Party’s soft approach on extremist and separatist activities in Canada. In its quest for votes of sections of the Sikh community in Canada, India’s basic interests were surprisingly given short shrift by the Liberals. The silver lining now is that Mr. Trudeau returns home amply enlightened and chastened about India’s red lines. Deeper friendship is possible when Canada reins in anti-India elements.

From the Indian viewpoint, the most important agreement signed during the visit is the “Framework for Cooperation between India and Canada on Countering Terrorism and Violent Extremism”. It commits the two nations to combating this phenomenon in all its “forms and manifestations”, and to facilitate “effective coopera-



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tion” on security, finance, justice, law enforcement and operations. Through further interaction, New Delhi is certain to ensure and monitor closely that Ottawa delivers on this commitment. Progress in this realm will spur positivity in other domains of mutual cooperation. It was reassuring that Mr. Trudeau reiterated his support for a united India.

Regional, bilateral issues

A close commonality of views emerged on several regional issues. The two Prime Ministers called for dismantling the infrastructure of support to terrorism “from across borders of Afghanistan”, a clear reference to Pakistan. The Maldives government was urged “to ensure early resumption of the political process.” On Myanmar, the need for voluntary, safe and sustainable return of the Rohingya refugees was stressed.

wilful defaulters are neither punished nor prevented from leaving the country. In fact their names are not even made public, so they can continue to access loans from other banks. Some insolvent companies are made to sell their assets which are then purchased at throwaway prices by relatives or associates of the defaulting owners. Despite claims to the contrary, shell companies held by influential people continue to enable the siphoning of assets and money laundering in various forms.

Privatisation no answer

Many analysts within and outside government have responded to these scams by pointing the finger at public sector banks, claiming that they are more vulnerable to influence peddling and crony capitalism. The current mess has also become an excuse to demand the privatisation of state-held banks. This completely misses the point since privatisation would actually make things much worse for Indian banking.

The key issue is one of poor regulation, and not ownership. Indeed, the reason why the current scam has not led to a widespread run on the PNB and other banks is precisely because of the sovereign guarantee that, despite everything, still generates trust in the public banking system.

Poorly regulated private banks are even more prone to scams and failure as the financial sector is rife with information asymmetries and market imperfections. Private profit orientation generates incentives for managements to exploit loopholes in the rules and engage in risky behaviour, as examples by U.S. and European bank behaviour leading to the great financial crisis of 2008-09 show. The bailouts they then require tend to be even more expensive for the public exchequer because bank runs have to be prevented.

More importantly, Canada and India showed a common perspective on freedom of navigation and over-flight “throughout the Indo-Pacific region” and respect for international law, including the United Nations Convention on the Law of the Sea. Canada implicitly shared India’s reservations on China’s mega Belt and Road Initiative. The two sides agreed on their analysis of the situation in the Korean Peninsula. They considered peacemaking as “an effective response to global challenges”. Finally, Mr. Trudeau extended strong support for India’s membership of the Nuclear Suppliers Group.

Bilateral cooperation, progressing fairly well on a wide spectrum, is likely to blossom further, thanks to the joint initiatives agreed during the visit. A business leader saw India-Canada cooperation anchored on five Es: economy, energy, education, entertainment industry linkages, and empowerment of women. While trade is rather limited (about \$6 billion in 2016), investment in both directions has been increasing steadily. Mr. Trudeau announced that understandings reached last week would result in additional investment of over \$1 billion. Progress on two government-level agreements, one on investment and the other on trade was minimal as expected, but the two leaders directed officials to intensify their negotiations.

In India, in the decade before the nationalisation of banks in 1969, there was an average of more than 35 private bank failures every year. After the liberalising reforms of the 1990s, the collapse of the private Global Trust Bank and Centurion Bank (among others) resulted in mergers, with the losses being borne by public sector banks. Private banks such as Axis and ICICI also face large NPAs, often with the same companies that are defaulting on public banks. Kotak Mahindra Bank and several others have been found guilty of providing unsecured loans and ever-greening, practices that the PNB is now accused of. In fact, because of the opacity of banking practices, public banks are actually easier to regulate.

So why has banking regulation in India failed to this extent? It is not only mala fide intent and corruption but also an overall approach to economic policy. The RBI may have been too occupied in counting old currency notes and dealing with the other damaging consequences of demonetisation to pay enough attention to its real job – of bank regulation. But more significantly, this government, like the previous one, has created incentives for all banks to privilege large high-profile corporate borrowers and be relatively lax on their repayment in the mistaken belief that this would encourage sustained income growth. This context makes it easy for some players to game the system.

Recovering from this will require stricter adherence to sound banking rules and more transparency and accountability from both public and private players. But most of all, these would apply to the regulators themselves and the government that frames all this.

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India’s need for continued uranium exports from Canada and for state-of-art technologies relating to clean energy and renewables came through vividly in discussions. The decision to expand the scope of Ministerial Energy Dialogue is noteworthy. Besides, a new Canada-India Track 1.5 Dialogue on Innovation, Growth and Prosperity was launched. This aims to establish contours of convergence through sustained research and brainstorming among experts, officials and business people.

The way ahead

As a capital, technology and innovation-rich economy and an open, inclusive and multi-cultural society, Canada is highly relevant to India. It is sharpening its role as a Pacific Ocean power. India’s commitment to peace and prosperity in the Indo-Pacific should deepen geopolitical affinity. Thus mutual interests are likely to impel the two nations to strengthen their strategic partnership. However, for this vision to turn into reality, the Canadian leadership needs to demonstrate greater sensitivity to India’s core concerns than what Mr. Trudeau could muster last week.

Rajiv Bhatia, a former diplomat, is Distinguished Fellow at Gateway House

LETTERS TO THE EDITOR

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Reaction and reality

In all fairness, Union Finance Minister Arun Jaitley has been cautious in dealing with the situation arising out of the bank scams (“Jaitley hints at tightening of laws”, February 25). His approach, which has been to analyse the malady and go to the root of the problem, is appropriate. He has not indulged in political mudslinging. Nevertheless, it is clear that the in-built checks and balances in the banking system have not worked. The government has the responsibility to safeguard the trust reposed in public banks by depositors and honest borrowers. It is said that banks have advanced money to a few thousand individuals and institutions which accounts for about 80% of loans. This number

is manageable and the government can ask banks to act on this. An out-of-box idea would be to ask all borrowers to deposit their passports with the respective banks as a precautionary measure. The passport issuing authority can ensure this.

K.C. KALKURA,
Kurnool, Andhra Pradesh

■ Regular duties such as checking, monitoring, supervising, detecting, auditing, reviewing, and watching, if performed with diligence at every layer, would more than suffice to avert any scam. There is no need to “tighten laws” or introduce new rules. The Minister’s regret that for any systemic failure, politicians are held responsible is indefensible. If the political class claims credit for achievements and

accomplishments, then it also has to take ownership of failures too.
R. SRIDHARAN,
Chennai

■ Mr. Jaitley has ruled out privatisation of public sector banks citing numerous challenges. However in the backdrop of the huge scam in the PNB that has taken its toll on other public sector banks, doubts about this persist among vast sections who still root for the public sector character of banks. It is pertinent to point out that the Chief Economic Adviser has favoured privatisation. The dichotomy on this is too glaring to be missed. ASSOCHAM has also declared its total support to privatisation while blissfully ignoring the monumental size of NPAs on account of the corporate sector which is at the root of the problem. It

is disconcerting to note that the mass transfers of public bank employees now being resorted to goes against the spirit of time-tested transfer settlements, agreements and bipartite agreements with bank unions. This is to divert the issue and shift the blame to lower level cadre.

J. ANANTHA PADMANABHAN,
Tiruchi

An icon

The sudden demise of actor Sridevi is shocking. The “first female superstar of Indian cinema” leaves behind a rich legacy of films in Tamil, Telugu, Malayalam, Hindi and English. Malayalam cine goers will not forget her role (in her early career) in the Malayalam film *Poompatta* for which she won the Kerala State film award for “Best Child Artist”, in 1971.

K.A. SOLAMAN,
Alappuzha, Kerala

■ Sridevi’s stellar performance in the much acclaimed Tamil film *16 Vayathinile* (1977), arguably one of her best, alongside actor Kamal Haasan and directed by debutant Bharathiraja, is still considered to be the bellwether of films depicting rural lives and the travails of a teenage girl. The film was critically acclaimed and went on to be a huge commercial success due to its wide appeal and still forms part of curriculum in film institutes for its multifaceted innovation. Besides bagging a National Award, the film was also the springboard for Rajinikanth, Bharathiraja and Ilaiyaraaja in the entertainment industry. It’s sad to note that none of the obituaries, by way of tweets or otherwise, has mentioned this film, which to me is the soul of not only

Sridevi but also of countless teenage girls in rural India.

PREMNATH D.,
Melbourne, Australia

■ The sudden and untimely passing of the great actor is a monumental loss to the Indian film industry. Her versatility in a series of diverse roles has been universally acknowledged and admired as it reflected the ground realities. She struck a reasonable balance between the demands of cinema as an art form and the dictates of the box office. Sridevi will continue to live through her works in the minds of her countless fans across the world and prove an inspiration for the next generation of artists.

NIRANJAN SAHOO,
Puri, Odisha

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