



Pre-emptive strike

As inflationary trends harden, the RBI's rate hike will quell uncertainty in the markets

At the end of an unusually long three-day meeting, the Monetary Policy Committee of the Reserve Bank of India opted for a hike in key interest rates by 25 basis points – the first such increase in four and a half years. This hike, the first during this NDA government's tenure, was approved unanimously by the six-member committee, citing worries about hardening inflation trends and a firming up of growth recovery at home. Global uncertainties affecting emerging markets in particular have played a role as well – be it rising tensions over trade wars initiated by the Donald Trump administration or the strengthening dollar or further rate hikes by the Federal Reserve that could strengthen the exodus of global capital from emerging markets such as India. Already, between January and May, outflows from foreign portfolio investors have reached their highest level in 10 years, and by June 4, \$6.7 billion was pulled out on a net basis from the domestic capital market. The rupee, along with other emerging market currencies, is hurting too, but RBI Governor Urjit Patel dismissed suggestions that the rate hike was a bid to stem outflows. The MPC, he asserted, is driven purely by its inflation management mandate, and there is no contradiction between the rate hike and the committee sticking to its neutral policy stance.

To be sure, while retaining its growth projections for 2018-19 at 7.4%, the MPC has revised upwards its inflation projections for the year since its April meeting – from 4.7-5.1% in the first half and 4.4% in the second half to 4.8-4.9% and a significantly higher 4.7%, respectively. This should worry a government gearing for parliamentary elections next year. Though seasonal food inflation spikes are delayed, input cost pressures have hardened owing to a spurt in global commodity prices, led by fuel. Moreover, inflationary expectations among producers as well as consumers have gathered steam. Crude oil prices have been the biggest factor at play, rising 12% from \$66 a barrel when the MPC met in April to \$74 a barrel. The committee said this rise is “sharper, earlier than expected and seems to be durable”, and termed it a major upside risk to its earlier inflation projections. Industry has expressed concern, but effective borrowing rates and bond yields had been firming up even before this rate hike. The government has, surprisingly, welcomed the RBI's stance as one that could help steady the markets and dampen uncertainties. The RBI's neutral stance, as Mr. Patel pointed out, allows it to keep all options open. But a reversal in rates is unlikely till global headwinds clear up and the mandarins in New Delhi work out a viable strategy to minimise the inflation transmission from global oil prices that is exacerbated by their taxation policy for fuels.

Defend the deal

Iran should cooperate with Europe and China to work around U.S. sanctions

Iran's notification to the UN that it would launch a plan to increase its uranium enrichment capacity illustrates the risks associated with the U.S. withdrawal from the nuclear deal last month. The Joint Comprehensive Plan of Action, reached among the five permanent members of the UN Security Council, besides Germany, the European Union and Iran, in 2015, curtailed Tehran's nuclear programme in return for the lifting of international sanctions. But after President Donald Trump withdrew the U.S. from the agreement and threatened to impose new sanctions on Iran, its survival is in question. For now, the other signatories say they remain committed to the agreement. But almost a month after Mr. Trump announced his decision, they are yet to come up with a framework to salvage the deal. The latest Iranian announcement is perhaps aimed at turning the heat up on European powers to come up with guarantees that the deal's benefits will be in place even with U.S. sanctions. According to the deal, Iran can enrich uranium, but under tight restrictions. Iran now says it would open a centre for the production of new centrifuges at its Natanz facility, which could be used for enrichment. Tehran could argue that it is not technically violating the agreement as long as it does not produce centrifuges. But the move to open a production facility, that too soon after Supreme Leader Ayatollah Ali Khamenei called for preparations to speed up uranium enrichment, could be seen as a provocative step by the remaining parties to the agreement.

Instead of such posturing, both Iran and Europe would do well to shift their focus to preserving the integrity of the agreement. If Europe remains politically committed to the agreement as it claims, there have to be proper measures to circumvent the impact of U.S. sanctions. It is not yet clear whether European companies will make any significant investments in Iran, or even continue to do business in the country, once U.S. sanctions start targeting them. Earlier, European countries had discussed providing companies that do business with Iran special financing from the European Investment Bank and passing legislation to protect them from U.S. sanctions – but no decision has been taken so far. The EU says it can create conditions for Iran to continue to benefit from the deal but is wary of giving any guarantee. Iran has made it clear that the U.S. withdrawal should not affect its oil exports and access to the SWIFT international bank payments messaging system. The way forward is to continue a dialogue to find an economic and legislative package that would shield European companies and Iranian economic interests from U.S. sanctions. For that, Europe has to assure Iran it will stand up to U.S. pressure, as Iran remains cooperative and compliant with the terms of the 2015 agreement.

No longer seeing eye to eye?

With India recalibrating its relations with other powers, the India-U.S. equation is not quite balancing out



SUHASINI HAIDAR

At his speech at the Shangri-La Dialogue in Singapore last week, billed as a major foreign policy statement, Prime Minister Narendra Modi spoke of India and the U.S.'s “shared vision” of an open and secure Indo-Pacific region. Yet his words differed so much from those of U.S. Defence Secretary James Mattis, who spoke at the same event, that it seemed clear that New Delhi and Washington no longer see eye-to-eye on this issue, and several others as well.

Oceanic gulf

To begin with, Mr. Modi referred to the Indo-Pacific, a term coined by the U.S. for the Indian and Pacific Oceans region, as a natural geographical region, not a strategic one, while Mr. Mattis called the Indo-Pacific a “priority theatre” and a “subset of [America's] broader security strategy” for his military command, now renamed the Indo-Pacific Command. While Mr. Modi referred to India's good relations with the U.S., Russia and China in equal measure, Mr. Mattis vowed to counter China's moves in the Indo-Pacific, and referred to the U.S. National Defence Strategy released this January, which puts both China and Russia in its crosshairs as the world's two “revisionist powers”.

The divergence in their positions, admittedly, are due more to a shift in New Delhi's position over the past year than in the U.S.'s,

when Mr. Modi and President Donald Trump met at the White House. A year ago, the Modi government seemed clear in its intention to counter China's growing clout in its neighbourhood, especially post-Doklam, challenge the Belt and Road Initiative (BRI), and back a Quadrilateral grouping of India, the U.S., Japan and Australia to maintain an open Indo-Pacific. Today, the Doklam issue has been buried, the BRI isn't as much a concern as before, and the government's non-confrontational attitude to the Maldives and Nepal indicates a softened policy on China in the neighbourhood. Meanwhile, Mr. Modi now essays a closer engagement with Chinese President Xi Jinping and a relationship reset with China after the Wuhan meeting.

The Quad formation, which is holding its second official meeting today in Singapore, has also been given short shrift. India rejected an Australian request to join maritime exercises along with the U.S. and Japan this June, and Navy Chief Admiral Sunil Lanba said quite plainly last month that there was no plan to “militarise” the Quad. Contrast this with India's acceptance of military exercises with countries of the Shanghai Cooperation Organisation (SCO), the Russia-China led grouping it will join this week in Qingdao, and one can understand some of the confusion in Washington. Pentagon officials, who had come to accept India's diffidence on signing outstanding India-U.S. foundational agreements, are now left scratching their heads as India publicly enters the international arena in the corner with Russia and China, while proclaiming its intention to continue energy deals with Iran



and Venezuela in defiance of American sanctions.

Era of summits

In a world where summits between leaders have replaced grand strategy, the optics are even clearer. Mr. Modi will have met Mr. Xi and Russian President Vladimir Putin four-five times each by the end of the year, if one counts informal and formal summits, as well as meetings at the SCO, BRICS and G-20. In contrast, nearly half the year has gone in just scheduling the upcoming 2+2 meet of Indian and U.S. Ministers of Defence and Foreign Affairs.

Trade protectionism is clearly the other big point of divergence between India and the U.S., which have in recent months taken each other to the World Trade Organisation on several issues. There has been a surge in disputes between the two countries: on the new American steel and aluminium tariffs, the proposed cuts in H1B professional visas and cancellation of H4 spouse visas, on India's tariffs and resistance to U.S. exports of dairy and pork products, on Indian price reductions on medical devices, and Reserve Bank of India rules on data localisation on Indian servers for U.S. companies.

The row over Harley-Davidson motorcycles is a case in point, where what should have been a

small chink in the relationship has ended up denting the discourse quite seriously. When Mr. Trump announced to Harley executives and union representatives in February last year that he would stop countries “taking advantage” of them, no one in New Delhi paid much attention. Over the year, Mr. Trump grew more vocal in this demand, including twice during meetings with Mr. Modi in Washington and Manila, calling for India to scrap its 75-100% tariffs, given that the U.S. imposes zero tariffs on the import of Indian Royal Enfield motorcycles. Mr. Modi tried to accommodate U.S. concerns, and even called Mr. Trump on February 8 this year to tell him that tariffs were about to be cut to 50%. But after Mr. Trump divulged the contents of their conversation publicly, trade talks were driven into a rut. Officials in Washington still say that if India were to slash its rates, it would see major benefits in other areas of commerce, while officials in New Delhi say that with Mr. Trump having gone public with Mr. Modi's offer, it would be impossible to back down any further. In fact, a new cess has taken tariffs back up to 70%.

The biggest challenges to a common India-U.S. vision are now emerging from the new U.S. law called Countering America's Adversaries Through Sanctions Act and the U.S.'s withdrawal from the Iran nuclear deal with the threat of more secondary sanctions. Both actions have a direct impact on India, given its high dependence on defence hardware from Russia and its considerable energy interests in Iran. In particular, India's plans to acquire the Russian S-400 missile system will become the litmus test

of whether India and the U.S. can resolve their differences. Clearly the differences over a big ticket deal like this should have been sorted out long before the decisions were made; yet there is no indication that the Trump administration and the Modi government took each other into confidence before doing so.

In the face of sanctions

Defence Minister Nirmala Sitharaman's avowal of the S-400 agreement, and Foreign Minister Sushma Swaraj's open defiance of U.S. sanctions on Russia, Iran and Venezuela at separate press conferences this month couldn't have helped. It also didn't help that owing to Mr. Trump's sudden decision to sack Rex Tillerson as Secretary of State in March, the 2+2 meeting in April, which may have clarified matters, was put off. The truth is, building a relationship with the Trump administration in the past year has been tricky for both South Block and the Indian Embassy in Washington, as more than 30 key administration officials have quit or have been sacked – they have had to deal with three National Security Advisers, two Chiefs of Staff, as well as two Secretaries of State as interlocutors.

It is equally clear that the India-U.S. equation isn't balancing out quite the way it did last year, when Mr. Modi and Mr. Trump first announced the idea of the “2+2” dialogue. Ms. Swaraj, Ms. Sitharaman and their American counterparts have their work cut out for them during their upcoming meeting in Washington on July 6. If a week is a long time in politics, in geopolitics today a year is an eternity.

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Does Modi swing elections?

We need more data before making easy correlations to explain popular verdicts



NISSIM MANNATHUKKAREN

Prime Minister Narendra Modi conducted a roadshow while inaugurating an Expressway and made an indirect campaign speech at a rally in a neighbouring district just a day before the Lok Sabha by-election in Kairana, Uttar Pradesh, on May 28. The Bharatiya Janata Party lost Kairana.

In the Modi era, a BJP victory in any Assembly election is attributed to the “Modi magic”. This is due to the unprecedented time Mr. Modi devotes to campaigning in State elections. For example, Mr. Modi participated in 34 rallies in Gujarat, 31 in Bihar, 24 in U.P., and 21 in the Karnataka Assembly elections. After the BJP secured 104 seats in Karnataka, commentators again lauded the “Modi magic” and “wave” for taking the BJP past 100 seats.

Complex realities

Problematically, these are anecdotal conjectures, unfounded on systematic post-poll surveys probing the effect of a Modi rally on last-minute voter decisions. In Gujarat, for example, the Lokniti-Centre for the Study of Developing Socie-

ties (CSDS) conducted a post-poll survey which found that 43% of respondents decided their candidature in the last two weeks, and more of them voted for the BJP than the Congress. This tilted an evenly balanced election (as seen in the last CSDS prepoll survey) towards the BJP. The CSDS researchers believe that it is “quite obviously” Mr. Modi's campaigning which saved the BJP from defeat.

In Karnataka, most opinion polls conducted before Mr. Modi began his rallies got the vote share correct, and the seats wrong. Siddaramaiah was the most popular Chief Minister choice, yet the Congress lost its majority in the Assembly. The exit polls had given contradictory results. Given the unreliability of opinion/exit polls, how do we treat them as conclusive evidence? This is the problem of attributing BJP's performance, especially in Karnataka, to the Modi magic before cogent studies.

Complex elections in a complex and diverse country like India are reduced here to a national charismatic leadership, at the expense of local, caste, class/economic, factional factors (surveys find development and a candidate's work as the most important voting issues, not leadership). The fact that the Congress increased its vote share to 38% (almost 2% over the BJP, and translating into nearly 7 lakh votes) during an ostensible Modi



wave is discounted here. Mr. Modi himself claimed that the performance in Karnataka was “unprecedented and unparalleled.” But the BJP had won more seats in 2008 (110) before the Modi magic.

This is not to argue that Mr. Modi's popularity does not matter; after all, he is the most popular national leader at present, and by a huge distance. But the crucial question is, how does this influence voter decisions? The arguments of Modi magic after each election are also cyclical because they begin with what they are supposed to explain. By this logic, is the Kairana loss due to the failure of the Modi magic?

Moreover, they ignore the material basis: immense resources spent in creating the “magic”: full-page advertisements in newspapers, the amount spent on electioneering (supposedly the highest in Karnataka), etc. This itself is made possible by 90% of corporate donations going to the BJP recently. If the Modi magic is so overwhelm-

ing, why is an unprecedented ₹4,343 crore budget needed for publicity by the Modi government? And why does it need “the divisive innuendoes, falsehoods and fear mongering” (according to CSDS researchers) of the Modi campaign in Gujarat which supposedly swung the election?

Some truths

Instead of anecdotal evidence, here are the results of the constituencies (including cities which might have two-three constituencies but excluding the metro city of Bengaluru which has many constituencies) that Mr. Modi conducted rallies in. We can safely surmise that BJP wins with good/nag majorities would have been victories even without the effect of a Modi rally. Contrastingly, close wins (even if we keep a higher margin of around 15,000 votes) might have been made possible by a Modi rally.

Of the 35 such constituencies (including in Congress/Janata Dal (S) areas of influence), the BJP got 16: it won 11 from other parties/Independents (Belgaum South, Belgaum North, Bellary City, Gulbarga Rural, Mangalore City South, Mangalore City North, Raichur, Shimoga, Shimoga Rural, Tumkur City and Udipi) and retained five (Chikmagalur, Chitradurga, Gulbarga South, Hubli-Dharwad Central and Hubli-Dharwad West). On-

ly six constituencies (Gulbarga South, Gulbarga Rural, Raichur, Shimoga Rural, Tumkur City and Udupi) were with a majority of approximately 15,000 or less showing the possible influence of a Modi rally in the win.

The Congress won 16 (Belgaum Rural, Bellary, Chamarajanagar, Gulbarga North, Hubli-Dharwad East, Kolar Gold Field, Bidar, Mangalore, Raichur Rural, Yeshwanthpur, Bangarapet, Koppal, Gadag, Jamakhandi, Babalshwar and Chikkodi), and the JD(S) three (Bidar South, Kolar and Tumkur Rural). Of these, eight (Belgaum Rural, Bellary, Bidar, Bidar South, Kolar, Kolar Gold Field, Raichur Rural, Tumkur Rural) were captured from the BJP/splinter-of-BJP/Independents despite the Modi rally.

These figures suggest the gains/losses for the BJP after the Modi rally were roughly evenly matched. And that we need in-depth studies about voter decisions conducted before and after elections to conclusively establish the effect of a Modi rally. Otherwise, the breathless recital of the mantra of a Modi wave might turn out to be a vacuous exercise after every election.

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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.

Plastic-free world

Like Tamil Nadu, other State governments should also enforce a ban on the manufacture, storage and use of plastic products, barring a few exceptions (“T.N. plastic ban to kick in from Jan. '19”, June 6). First, we must look at the major sources of plastic pollution, which are the bottled water and soft drinks industry, followed by the packaging industry, especially online companies, and finally the carrier bags-manufacturing industry. Enforcement can be made effective only if there is a heavy fine imposed on the sale of plastic. Municipal authorities should have a strict separation of organic and inorganic waste, so that the process of recycling can be simplified.

SHAKTI PANDE,
Ghaziabad

Given the history of how rules and regulations are breached with impunity in our country, the ban on plastic by the Tamil Nadu government can only be construed as symbolic and populist rather than as an environment-friendly act, unless accompanied by stringent enforcement. In spite of growing concerns on the negative fallout of plastic use, plastic has remained an integral part of our lives and it cannot be wished away by the stroke of a pen. Industries thriving on plastic also need some time to recoup. It is impossible for them to switch over to other avenues of income in such a short period. The issue of job loss will also be insurmountable considering the precarious employment situation in the country. If Tasmac shops can be closed in

phases, why not the same policy be adopted for plastic too? To minimise plastic use, the State could think of applying a plastic tax on establishments using plastic. This may act as a deterrent.

V. SUBRAMANIAN,
Chennai

If we ban plastic, future generations will be grateful to us. Soft drinks manufacturers are the major contributors of plastic; they should go back to the good old days of glass bottles. The food delivery industry must also adopt recyclable and perishable products like banana leaves, paper and coir.

RAMDAS NAIK,
Chennai

Prime Minister Narendra Modi claims that India's per capita plastic use is among the lowest in the world, but

what he did not acknowledge is the fact that India perhaps has the poorest system of disposing plastic waste. There is a half-hearted attempt to control the manufacture of particular kind of plastics. Plastic bags less than 50 microns thick are banned, but neither the States nor the city corporations care to enforce this rule. Tonnes of bags made of cheap plastic that cannot be disposed of are manufactured and used in most retail stores.

C.V. VENUGOPALAN,
Palakkad

Single-use plastic bags should be banned so that people are forced to use bags made of cloth and jute to carry groceries and other solid items. For liquid products, we could take a leaf from the experiment carried out a few years ago

by the Railway Ministry under Lalu Prasad when plastic cups were replaced with ‘kulhads’. Earthen pots are easily breakable and could pose handling problems, but they could be made less brittle. We should use glass bottles for milk and soft drinks. Consumers of milk can empty these bottles and keep them at the doorstep for the supplier to take back. The next day's milk can be supplied in the same bottles. Also, providing tokens for milk will force people to carry their own containers to the booth.

G.G. MENON,
Ernakulam

The Kaala controversy

A film is a product of the combined efforts of the writer, director, actors, musicians, technicians, producers, spot boys, etc. (“Prevent trouble at Kaala

screening, Karnataka HC tells State govt.”, June 6). Each of them may have their own political affiliations and views on issues which have nothing to do with the film. If individual affiliation to a political party is considered, no film can ever be screened. The Censor Board exists to certify films and look into issues that people may have a problem with, as was the case with *Padmaavat*. There is no such issue in the case of *Kaala*. Rajinikanth's stance on Cauvery should not affect the film. That more and more films are being screened under police protection is not something we should be proud of.

SATYABODHA VYASAKERE,
Bengaluru

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