



Rupee rout

Slide of the currency and a widening trade deficit present the RBI with a huge dilemma

India's macroeconomic threats lie exposed as it grapples with the rupee's slide. The currency sunk to a closing low of 68.07 against the U.S. dollar on Tuesday, its lowest level in 16 months, before recovering slightly the next day. The rupee, already one of the worst performing Asian currencies, has now weakened 6.2% in 2018. The rise in crude oil prices through this year, amidst rising geopolitical tensions in West Asia and dwindling global supply, have obviously hurt the rupee and the trade balance. Meanwhile, despite a depreciating currency, India's merchandise exports are stumbling instead of gaining from the opportunity. April clocked a sharp decline in exports from employment-intensive sectors such as readymade garments and gems and jewellery, according to official data. The trade deficit has consequently widened to \$13.7 billion in April, compared to \$13.25 billion in the same month in 2017. The value of oil and petroleum product imports increased by 41.5% from last year to hit \$10.4 billion. U.S. sanctions following Washington's withdrawal from the Iran nuclear deal and a June 22 meeting of OPEC should drive oil price trends hereon. Oil prices apart, the tightening of U.S. monetary policy has almost always spelled trouble for emerging market economies hooked to Western capital inflows. This time it is no different; capital outflows are scuppering the currencies of many emerging market economies.

As the U.S. Federal Reserve has come to adopt a more hawkish stance, investors in search of higher risk-adjusted yields have started to pull money out of emerging markets. Yields on emerging market bonds have risen as investors sold them off aggressively. The yield on the 10-year bond issued by the Indian government has risen to more than 7.8%, from 7.1% in early April. Foreign portfolio investors (FPIs) pulled out ₹15,500 crore from India's capital markets in April, which is the highest monthly outflow since December 2016. Not surprisingly, about two-thirds of the outflow was attributed to the bond market. The current headwinds from the reversal of capital flows were only to be expected. India is better placed than countries such as Argentina or Turkey. But that's no reason to be complacent as external account risks can get out of hand very quickly. A hike in the RBI's benchmark interest rates could stem the capital exodus, but with core inflation picking up and the government keen on a rate cut as a growth catalyst, the RBI has an unenviable dilemma on its hands. Policy-makers, blessed with relatively benign external economic conditions after the taper tantrum of 2013, will have to find means to spur exports – whether by facilitating swifter GST refunds or taking on tariff and non-tariff barriers from the developed world. Efforts to diversify India's energy basket also need greater stress.

Death in Gaza

The deaths at the Gaza-Israel border show the continuing toll of occupation

The violence in Gaza that preceded the opening of the American embassy in Jerusalem on Monday has once again reminded the world of the dangerous consequences of President Donald Trump's decision to move the U.S. diplomatic mission from Tel Aviv to the disputed city. When Mr. Trump first announced the shift, making good a campaign promise, many had warned it would trigger violence in the Palestinian Territories besides complicating any peace processes. On Monday morning, across Gaza, a tiny Mediterranean strip that has been suffocatingly blockaded by Israel and Egypt for years, loudspeakers urged Palestinians to rush to the border with Israel and protest. On the border, Israeli soldiers fired into the crowd, killing at least 60 people; it was the worst day of violence since Israel attacked Gaza in 2014. The embassy shift and the disproportionate response at the Gaza border, crucially, came on the eve of the 70th anniversary of Nakba, the day to mark the forced eviction of hundreds of thousands of Palestinians from their homes in 1948. Gaza has been burning for the past few weeks. Dozens of protesters had already been killed before Monday's incidents. The callous way in which Israel dealt with the protests shows the utter disregard Tel Aviv and the international community have for Palestinian lives.

Shortly after the Gaza violence, at the embassy opening ceremony, Israeli Prime Minister Benjamin Netanyahu didn't show any remorse over the death of Palestinians. Instead he called it a glorious day, while Jared Kushner, Mr. Trump's son-in-law and adviser, said that "those provoking violence are part of the problem and not part of the solution", referring to the protesters. The real problem is that there is no meaningful effort to restart the peace process, which is the only way forward to end violence and address the political and humanitarian concerns of the occupied territories. Mr. Trump had promised to make his own peace plan, but his decision to move the embassy to Jerusalem, which most countries do not recognise as Israel's capital, has only worsened the crisis. Jerusalem is seen as part of a final settlement between the Israelis and the Palestinians. Though the whole city is now under Israeli control, the Palestinians lay claim to East Jerusalem, including the Old City, as their capital. They are now trapped in this cycle of violence. Despite repeated promises from the outside world, they are caught in the *status quo* – the Israeli occupation of the West Bank and East Jerusalem and the blockade of Gaza. With Mr. Trump recognising Jerusalem as Israel's capital, Palestinians fear that facts on the ground are being manipulated further to their disadvantage. The international community must not remain silent; for starters, there must be an inquiry into the carnage at the Gaza border.

A 'pilgrimage' to Nepal

Prime Minister Modi's visit was high on symbolism but India must do more to deliver on the bilateral agenda



RAKESH SOOD

Last week, Narendra Modi visited Nepal, his third since he became Prime Minister in 2014. Each of the visits has been markedly different, in terms of both atmospherics and outcomes. This is due to the political backdrop against which it took place, reflecting the evolving Nepali domestic political transition from a centralised monarchy to a federal republic and the complex nature of India-Nepal relations. Nepali Prime Minister K.P. Sharma Oli was in Delhi from April 6-8. Mr. Modi's return visit coming within a month (May 11-12) was not just good neighbourliness but more a realisation that the relationship had deteriorated in recent years and there was an urgent need to arrest the slide.

Nepal's importance

After coming to power, Nepal was among Mr. Modi's first destinations abroad (August, 2014), in keeping with his 'neighbourhood first' policy. A bilateral visit to Nepal was long overdue, the last one being in 1997. Part of the reason was Nepal's ongoing political transition – a Maoist insurgency in Nepal which lasted from the mid-1990s till 2005, a delicate peace process which was midwived by India and a new constitution-drafting exercise that began in 2008. Meanwhile, every Nepali Prime Minister had visited India, some more than once, leading Nepali commentators to conclude that Nepal did not rank high in Delhi's foreign policy priorities. Mr. Modi's visit was a successful exercise in correcting this perception.

He addressed the Constituent Assembly, the only foreign leader to have done so, touching all the

thorny issues in the relationship and hitting the right notes. He spoke about respecting Nepali sovereignty, reiterated readiness to revise the 1950 Friendship Treaty in line with Nepali wishes, offered encouragement for the constitution-drafting process while wisely refraining from any suggestions, offered generous terms for power purchase and announced a billion-dollar line of credit on generous terms. A long joint statement was issued, highlighting (HIT - Highways, Information ways and Transmission ways) connectivity projects with clear timelines. Political parties and civil society were unanimous in concluding that a new chapter in India-Nepal relations was being opened.

Less than four months later, Mr. Modi was back in Nepal, this time for the South Asian Association for Regional Cooperation (SAARC) summit. In the run-up to the visit, he had indicated an interest in visiting Janakpur, Lumbini and Muktinath. The Nepali authorities were lukewarm. Somewhat disappointed, the Indian side agreed to limit the visit only to Kathmandu. The reasons cited by Nepali authorities were security and logistical difficulties. The real reason was that the deadline for finalising the constitution was less than two months away and the political climate was heating up. Public gatherings in Janakpur and Lumbini (both are close to the India-Nepal border) were bound to attract large crowds from both countries and Mr. Modi's oratory could have unwelcome political reverberations.

During his visit when he spoke about the need for the spirit of consensus to guide the constitution-drafting so that it could become an instrument to fulfil the aspirations of all Nepali citizens, it was criticised as gratuitous advice and even described by some as interference in Nepal's internal affairs. The August honeymoon was over.

The problem lies in the fractured politics of Nepal. Tradition-



PHOTO: PTI

ally, hill elites (Bahuns and Chhetris) who constitute 29% of the population have ruled Nepal. This is as true today as during the monarchy for the leadership of the three main political parties – Nepali Congress (NC), United Marxist-Leninist (UML) and the Maoists – is drawn from the same elites. The Madhesis constitute 35% but have traditionally been marginalised, live in the Terai areas bordering India and share close ties (*roti-beti ka rishta*) with their kin across the border. This is why Mr. Modi's remarks in November 2014 generated criticism.

Nationalism, anti-Indianism

Relations with India often become an issue in Nepal's domestic politics as politicians seek to don the mantle of Nepali nationalism which invariably carries within it a grain of anti-Indianism. During the monarchy, the King would emerge as a staunch nationalist when he wanted to crack down on pro-democratic forces and the NC would be painted in pro-Indian colours. The monarchy has given way to a republic but old habits die hard. India's desire to play favourites also contributes to it, particularly when different elements in India convey different messages.

Following the 2013 election, an NC-UML coalition emerged with NC leader Sushil Koirala becoming Prime Minister on the understanding that he would hand over the reins to Mr. Oli, the UML leader, after the constitution was adopted. Mr. Oli was understandably impatient and finally the constitution was promulgated in September

2015 even as the Terai was erupting in protests. Having belatedly realised the implications, India cautioned against haste but this was seen in Kathmandu as blatant encouragement for the growing Madhesi agitation which claimed 45 lives.

Life in the Terai came to a standstill. Mr. Oli blamed India for imposing an economic blockade which was causing acute shortages of essentials such as petrol, diesel, liquefied petroleum gas and medical supplies. India blamed the deteriorating security environment which made the transporters reluctant to cross over and advised Mr. Oli to address Madhesi concerns. Relations took a nosedive. Eventually, a constitutional amendment was adopted and the movement of goods across the border returned to normal. But trust had been breached. In addition, the blockade had unleashed a wave of resentment against India.

A new beginning

In 2017, the first elections under the new constitution were held for the national parliament, the seven newly created provincial assemblies and the local bodies (town municipalities and village council). Riding the nationalist wave and projecting himself as the only leader who had stood up to India, Mr. Oli again emerged as Prime Minister, but stronger than before as UML also scored impressive victories in the provincial and local body elections.

Mr. Modi realised that the political landscape was shifting. China was now keen to expand its presence in the region with ambitious projects. Following a couple of phone calls and an invitation personally conveyed by Foreign Minister Sushma Swaraj, Mr. Oli made India his first foreign destination and Mr. Modi has reciprocated with a quick return visit. Janakpur and Muktinath were included in the itinerary and a confident Mr. Oli received Mr. Modi in Janakpur.

The visit was high on symbolo-

lism, less so on substance. Mr. Modi described it as a visit by the 'Prime Pilgrim'. With prayers offered in Janaki Mandir, Muktinath and Pashupatinath, the focus was on religious and cultural commonalities. A bus service between Janakpur and Ayodhya was inaugurated.

The joint statement is short. Only one of the earlier commitments, the 900 MW Arun III hydel project, has progressed and both Prime Ministers jointly laid its foundation stone. Of the four planned Integrated Check Posts, one is now functional after over a decade.

The 2018 statement prioritises cooperation in agriculture, inland waterways, a survey for a railway line from Raxaul to Kathmandu and increasing air connectivity. The 2014 announcements included a railway services agreement, additional air links connecting Lucknow, Pokhara and Nepalgunj in six months, setting up of the Pancheshwar Development Authority to complete the detailed project report in a year, concluding an MoU for the Nepal Police Academy, pledge of \$1 billion (increased by another \$1 billion after the 2015 earthquake) and creating a Buddhist circuit connecting Lumbini with Sarnath and Bodhi Gaya. Most of these have remained announcements. With China stepping up its game in Nepal, this is no longer a tenable situation.

A pilgrimage is part expiation and part a new beginning. The first may have been achieved but a new beginning based on the principles of "equality, mutual trust, respect and mutual benefit", phrases that Mr. Oli now insists on including in every joint statement, will require time, avoiding mixed messaging and a sustained effort by India in ensuring implementation of long-pending economic cooperation projects.

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How the numbers stack up

Politics based on social coalitions has a limited reach; the Opposition needs electoral alliances to take on the BJP



SANJAY KUMAR

The Bharatiya Janata Party (BJP), which has emerged as the single largest party in Karnataka, has again set foot in the south, and hopes to take it forward. But the task may not be that easy. The Congress, on the other hand, which stitched together a social coalition in Karnataka, has managed to hold on to its support base; but it has also found it difficult to move beyond its core support base. Though this social coalition enabled it to put up a fight against the BJP, it still failed to steal a march on the BJP. Similarly, the dependence of the Janata Dal (Secular), or JD(S), on its core support base among the Vokkaligas, numerically strong in the southern Karnataka region, did help the party put up a decent performance. But it also failed to show any sign of an expansion in other regions or acceptability among other social groups.

The result shows two things: the limitation of politics based if not solely, but largely on social coalitions. It also sends out the message

that in the 2019 Lok Sabha election, neither the Congress nor any regional party can pose a challenge to the BJP. The regional parties have to come together, with the Congress being a part of such a coalition.

Even with a vote share less than the Congress's (38%), the BJP (36.2%) ended up winning 104 seats, compared to the Congress's 78. The performance of the JD(S), with 37 seats and a vote share of 18.3% this time, was similar to its standing in 2013 (40 seats and about 20%). In 2013, the Congress got 122 seats. But the verdict this time does not indicate a complete rejection of the Congress in the State. Its vote share has remained more or less intact. The increase in vote share has been more for the BJP than the Congress. It not only increased its vote share from 32.3% – merged vote share of the BJP, the Karnataka Janata Paksha (KJP) and the Badavara Shramikha Raitara Congress Party (BSRCP) of the Reddy brothers – to around 36%, but also the concentration of votes for the BJP in some regions resulted in more seats.

Region-wise reading

Traditionally strong in the coastal region, the BJP managed a sweep, winning 18 of the 21 Assembly seats and polling more than 50% votes. The party also did very well



V. SREENIVASA MURTHY

in the Mumbai-Karnataka and Central-Karnataka regions. In all three regions its principal opponent was the Congress, so the gains made were at the expense of the Congress. In the southern Karnataka region, the BJP won only 9 of the 51 Assembly seats. Here, the JD(S) improved its showing, winning 25. Its gain was at the expense of the Congress. The only region where the Congress improved its vote share was the Hyderabad-Karnataka region (42.2%), a gain of 7.6 percentage points compared to previous elections but with a loss of 4 seats.

Social coalitions

The BJP went into these elections with a very thin social coalition, depending heavily on upper caste votes. Despite the Congress playing the Lingayat card, the BJP was banking on Lingayat votes after

B.S. Yeddyurappa's return to its fold. The upper castes did vote for the BJP (52%) helping the party retain 62% of the Lingayat vote. The party was also able to draw votes from other communities. Among the lower Other Backward Caste (OBC) voters, 37% voted for the BJP as against 40% for the Congress. Among Dalits, it was 28% for the BJP, 48% for the Congress and 18% for the JD(S). The BJP managed 32% of the Adivasi vote; it was 46% for the Congress and 17% for the JD(S). The BJP also managed to split the Christian vote, according to a Centre for the Study of Developing Societies (CSDS) survey – 40% voted for the BJP.

These inroads can be attributed to one factor – the image of Prime Minister Narendra Modi. There may not have been a "Modi wave" in Karnataka but there is no denying the fact that his whirlwind rallies in the last few days of campaigning made a big difference for the BJP.

The Congress managed to hold on to its support base of Dalits, Adivasis, Muslims and the Lower OBC castes. CSDS surveys show that sizeable numbers of them backed the Congress. Nearly 65% of Muslim voters voted for the Congress. But there was an undercurrent of a class division; while the lower class and poor voters sided with the Congress, the well-

to-do sections sided with the BJP. CSDS surveys show the poor (42%) and the lower class (39%) voted for the Congress. Among middle and upper class voters, it was 34% and 33%, respectively. While the Congress seemed to be losing its advantage over the BJP among poor voters in many States, the Karnataka verdict shows that the party still has a grip on its traditional support base.

Lessons for the Opposition

The experiment of an opposition coalition in the Uttar Pradesh by-elections (Gorakhpur and Phulpur) needs to be replicated in different States in order to pose a challenge to the BJP in the 2019 general election. As the BJP is bound to gain from a split in anti-BJP votes, the only way for the Opposition to pose a challenge could be in the form of alliances and coalitions. In her reaction to the Karnataka verdict, West Bengal Chief Minister Mamata Banerjee was right when she pointed out that the Congress had made a mistake by not forming an alliance with the JD(S). Had this happened, the BJP's tally could have been limited to 70 seats while this alliance could have possibly won 150 seats.

Sanjay Kumar, a professor, is the Director of the Centre for the Study of Developing Societies (CSDS)

LETTERS TO THE EDITOR

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The Karnataka verdict

The outcome of the Karnataka Assembly elections points to voters being taken in by the BJP's propaganda machinery. Is their belief that Hindutva is the only solution to their perennial day-to-day problems credible? Are they not bothered about whether democracy is at stake, the judiciary is in danger of being compromised, the spectre of large-scale unemployment looming large, how the media is polarised and that strange versions of history are being created? Is just having faith in god enough to save Indians? Added to this is a weak Congress trying desperately to find some leadership qualities/skills in its party president.

India today is not in the hands of leaders with statesmanship. It is in the hands of mean, business-minded, dictatorial leaders. Propagating falsehood and compromising on ethics and integrity are the new norms of this game.

J. RAJ,
Hyderabad

The way the situation has developed shows that the importance of regional parties cannot be underestimated. They will play an important role in the 2019 general election. So, neither the Bharatiya Janata Party nor the Indian National Congress can afford to be aloof (Editorial page, "Pieces of a scattered mandate", May 16).

MINANSHU MITTAL,
Faridkot, Punjab

The Karnataka result should be a wake-up call for the Election Commission of India which has to now put in place a percentage representation system which will do justice to the party that comes first. The Commission also needs to tweak election rules so that only pre-poll arrangements are permitted.

A.V. NARAYANAN,
Tiruchi

Politics has taken a turn for the worse – from service to the people to a pursuit of power. Politicians in India do not consider politics to be an opportunity to serve the people but as an opportunity to amass wealth, play power politics and acquire a larger-than-life image. What we need is an educated class of politicians, with an

age limit in place. The ugly situation in Karnataka, where political parties are trying to come to power by hook or by crook, is disturbing. Democracy is also at stake when Governors act subservient to the political authority in power – and to whom they owe their appointments (Editorial – "Third place winner?" May 16).

P. BALAVINODAN,
Coimbatore

The result of a hung Assembly in Karnataka calls for the Governor to exercise his judgment with extreme care and objectivity. In such a difficult and complex situation that he has been confronted with, he needs to play the role of a sagacious counsellor and a vital link between the State and the

Centre in our federal polity.

NIRANJAN SAHOO,
Bhubaneswar, Odisha

Apathy charge

The political apathy towards the Mahatma Gandhi National Rural Employment Guarantee Act shows the impact government policies can have (Editorial page, "A triple blow to job guarantee scheme", May 16). Surely, the right to get paid is a fundamental right, the violation of which constitutes "forced labour". It is disheartening and a shamee that something as fundamental as wages is still ignored in the world's largest democracy.

SARA FATHIMA,
Alappuzha, Kerala

The deliberate dilution and delays in the payments to

workers amount to a dismantling and sabotage of the law. This is another sad and exasperating example of the government itself subverting the will of Parliament as enacted in a law.

While the court may pass suitable orders asking the government to release funds in a timely and requisite manner, nothing can recompense workers who have been made to toil without getting wages within stipulated time periods. Denial of wages is a crime. Lastly, refusing funds to States is an assault on the autonomy of States and the federal character of the country.

FROZ AHMAD,
New Delhi

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