



## Knee-jerk

Pakistan must reconsider its decision to downgrade diplomatic ties with India

Pakistan's decision to expel India's High Commissioner, snap trade relations and observe August 15 as a black day in supposed solidarity with the people of Jammu & Kashmir is a serious setback for diplomatic relations. Wednesday's announcements appear to be a knee-jerk reaction to the mounting pressures on the Pakistani establishment to respond to India's executive-legislative actions that whittle down Article 370. Pakistan has consistently described chief ministers of Jammu & Kashmir as "puppets" and never recognised the legitimacy of the government in Srinagar. Its sudden concerns about India's actions in its own territory are reflective of muddled confusion. Ironically, this is the first time Islamabad has articulated that Article 370 was aligned with the interests of the Kashmiri people. Every Pakistani government and the country's permanent establishment have continued to peddle the myth that they could unilaterally alter the status quo in J&K. Now, they feel compelled to respond to the expectations that they have themselves raised in Pakistan Occupied Kashmir. Sections of Indian civil society have legitimate concerns about the actions of the BJP Government in emptying out Article 370 and the continuing lockdown of the Valley, but this does not license Pakistan to interfere in what the MEA correctly described on Thursday as India's internal matter.

In the days to come, India can expect Pakistan to raise the Kashmir issue at the United Nations, mobilise the Organisation of Islamic Cooperation and send envoys to friendly capitals. India is well placed to deal with Pakistan on the diplomatic front given the changed international context. India's economic clout has grown enormously in the last couple of decades, and given doubts in the Western world about Pakistan's overt and covert support to Islamist terror, New Delhi has the space to deal with Islamabad's efforts to "internationalise" the Kashmir issue. Downgrading diplomatic relations between troubled neighbours is never a good idea. Neither is snapping trade and transport links. India withdrew its High Commissioner to Pakistan after the 2001 Parliament attack, but chose not to send back the Pakistani envoy at the time. However, the Pakistani High Commissioner was expelled by India after the Kaluchak terror strike in 2002. It's interesting to note that despite all the troubles the two countries have had, High Commissioners have been able to return to their jobs since full diplomatic relations were restored in 1976. In fact, even after the 2001 Parliament attack, India and Pakistan managed to have their High Commissioners back in place by March 2003. Diplomacy is a mechanism to ensure that channels of communication remain open. While India and Pakistan have used back channels in recent years, the presence of seasoned diplomats in Delhi and Islamabad has always benefited the two countries. Pakistan needs to comprehend this.

## Cycle of extremes

India must address its crippling cycles of drought and flood with redoubled vigour

After a worrying pre-monsoon phase between March and May, when rainfall was scarce, the current robust season in most parts of coastal, western and central India augurs well for the entire economy. Aided apparently by beneficial conditions in the Indian Ocean, very heavy rainfall has been recorded, notably in Maharashtra, Gujarat, Rajasthan, the north-eastern States, Karnataka, the Konkan coast, hilly districts of Kerala and Tamil Nadu. This pattern may extend into the eastern regions. A normal Indian Summer Monsoon is bountiful overall, but as last year's flooding in Kerala, and the Chennai catastrophe of 2015 showed, there can be a terrible cost. Distressing scenes of death and destruction are again being witnessed. Even in a rain-shadow region such as Coimbatore in Tamil Nadu, the collapse of a railway parcel office after a downpour has led to avoidable deaths. What this underscores is the need to prepare for the rainy season with harvesting measures, as advocated by the Jal Shakti Abhiyan, and a safety audit of structures, particularly those used by the official agencies. In drafting their management plans, States must be aware of the scientific consensus: that future rain spells may be short, often unpredictable and very heavy, influenced by a changing climate. They need to invest in reliable infrastructure to mitigate the impact of flooding and avert disasters that could have global consequences in an integrated economy.

The long-term trends for flood impact in India have been one of declining loss of lives and cattle since the decadal high of 1971-80, but rising absolute economic losses, though not as a share of GDP. It is important, therefore, to increase urban resilience through planning. Orderly urban development is critical for sustainability, as the mega flood disasters in Mumbai and Chennai make clear. It is worth pointing out that the response of State governments to the imperative is tardy. They are hesitant to act against encroachment of lake catchments, river courses and floodplains. The extreme distress in Chennai, for instance, has not persuaded the State government against allowing structures such as a police station being constructed on a lake bed, after reclassification of land. Granting such permissions is an abdication of responsibility and a violation of National Disaster Management Authority Guidelines to prevent urban flooding. As a nation that is set to become the most populous in less than a decade, India must address its crippling cycles of drought and flood with redoubled vigour. Scientific hydrology, coupled with the traditional wisdom of saving water through large innovative structures, will mitigate floods and help communities prosper.

# Economic milestone and a poignant anniversary

Bank nationalisation eased rural credit and aided financial inclusion. Any move to reverse it would be self-defeating



R. RAMAKUMAR

The nationalisation of banks in 1969 was a watershed moment in the history of Indian banking. From July 19 that year, 14 private banks were nationalised; another six private banks were nationalised in 1980. It is certain that one cannot locate a similar transformational moment in the banking policy of any country at any point of time in history.

At the time of Independence, India's rural financial system was marked by the domination of landlords, traders and moneylenders. In 1951, if a rural household had an outstanding debt of ₹100, about ₹93 came from non-institutional sources. From the 1950s, there were sporadic efforts to expand the reach of the institutional sector, particularly in the rural areas. Despite these measures, the predominantly private banking system failed to meet the credit needs of the rural areas.

### Class to mass banking

India's banking policy after 1969 followed a multi-agency approach towards expanding the geographical spread and functional reach of the formal banking system. First, as a part of a new branch licensing policy, banks were told that for every branch they opened in a metropolitan or port area, four new branches had to be opened in unbanked rural areas. As a result, the number of rural bank branches increased from 1,833 (in 1969) to 35,206 (in 1991). Second, the concept of priority-sector lending was introduced. All banks had to compulsorily set aside 40% of their net

bank credit for agriculture, micro and small enterprises, housing, education and "weaker" sections. Third, a differential interest rate scheme was introduced in 1974. Here, loans were provided at a low interest rate to the weakest among the weakest sections of the society.

Fourth, the Lead Bank scheme was introduced in 1969. Each district was assigned to one bank, where they acted as "pace-setters" in providing integrated banking facilities. Fifth, the Regional Rural Banks (RRB) were established in 1975 to enlarge the supply of institutional credit to the rural areas. Sixth, the National Bank for Agriculture and Rural Development (NABARD) was constituted in 1982 to regulate and supervise the functions of cooperative banks and RRBs.

The outcomes of such a multi-agency approach were admirable. The share of institutional sources in the outstanding debt of rural households increased from just 16.9% in 1962 to 64% in 1992.

### Growth spurring

India's nationalisation experience is an answer to mainstream economists who argue that administered interest rates cause "financial repression". According to this view, if the government administers interest rates, the savings rate would decline, leading to a rationing of investment funds. On the contrary, India's nationalisation led to an impressive growth of financial intermediation. The share of bank deposits to GDP rose from 13% in 1969 to 38% in 1991. The gross savings rate rose from 12.8% in 1969 to 21.7% in 1990. The share of advances to GDP rose from 10% in 1969 to 25% in 1991. The gross investment rate rose from 13.9% in 1969 to 24.1% in 1990.

Nationalisation also demonstrated the utility of monetary pol-



A.M. FARUQUI

icy in furthering redistributionist goals. Some economists argue that banks cannot be used to right "historical wrongs". On the other hand, India's nationalisation shows that monetary policy, banks and interest rates can be effectively used to take banks to rural areas, backward regions and under-served sectors, furthering redistributionist goals in an economy.

### A retreat

Yet, strangely, arguments in favour of financial liberalisation after 1991 were based on the theory of financial repression. The Narasimham Committee of 1991 recommended that monetary policy should be divorced from redistributionist goals. Instead, banks should be free to practise commercial modes of operation, with profitability as the primary goal.

Taking the cue, the Reserve Bank of India allowed banks to open and close branches as they desired. Priority sector guidelines were diluted; banks were allowed to lend to activities that were remotely connected with agriculture or to big corporates in agri-business, yet classify them as agricultural loans. Interest rate regulations on priority sector advances were removed.

The outcomes were immediately visible. More than 900 rural bank branches closed down across the country. The rate of growth of agricultural credit fell sharply from around 7% per annum in the

1980s to about 2% per annum in the 1990s. This retreat of public banks wreaked havoc on the rural financial market. Between 1991 and 2002, the share of institutional sources in the total outstanding debt of rural households fell from 64% to 57.1%. The space vacated by institutional sources was promptly occupied by moneylenders and other non-institutional sources.

### A to and fro

The government and the RBI probably saw the danger coming. In 2004, a policy to double the flow of agricultural credit within three years was announced. Only public banks could make this happen. So, in 2005, the RBI quietly brought in a new branch authorisation policy. Permission for new branches began to be given only if the RBI was satisfied that the banks concerned had a plan to adequately serve underbanked areas and ensure actual credit flow to agriculture. By 2011, the RBI further tightened this procedure. It was mandated that at least 25% of new branches were to be compulsorily located in unbanked centres.

As a result, the number of rural bank branches rose from 30,646 in 2005, to 33,967 in 2011 and 48,536 in 2015. The annual growth rate of real agricultural credit rose from about 2% in the 1990s to about 18% between 2001 and 2015. Much of this new provision of agricultural credit did not go to farmers; it largely went to big agri-business firms and corporate houses located in urban and metropolitan centres – but recorded in the bank books as "agricultural credit". For this reason, the share of institutional credit in the debt outstanding of rural households in 2013 stood at 56%, still lower than the levels of 1991 and 2002. Yet, in achieving the high growth of credit provision, the expansion of public bank branches was pivotal.

After 2005, public banks also played a central role in furthering the financial inclusion agendas of successive governments. Between 2010 and 2016, the key responsibility of opening no-frills accounts for the unbanked poor fell upon public banks. Data show that more than 90% of the new no-frills accounts were opened in public banks. Most of these accounts lie dormant or inactive, but it is unmistakable that the fulfilling of the goal required the decisive presence and intervention of public banks. The same public banks were also India's vanguard during the global financial crisis of 2007 when most markets in the developed world, dominated by private banks, collapsed.

However, despite such a stellar track record, the macroeconomic policy framework of successive governments has hardly been supportive of a banking structure dominated by public banks. In times of slow growth, the excess liquidity in banks was seen as a substitute for counter-cyclical fiscal policy. Successive governments, scared of higher fiscal deficits, encouraged public banks to lend more for retail and personal loans, high-risk infrastructural sectors and vehicle loans. Here, banks funded by short-term deposit liabilities were taking on exposures that involved long-term risks, often not backed by due diligence. Unsurprisingly, many loans turned sour. Consequently, banks are in crisis with rising non-performing assets. The same fear of fiscal deficits is also scaring the government away from recapitalising banks. The solution put forward is a perverse one: privatisation. The goose that lays golden eggs is being killed.

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## A leaf out of the Chinese playbook

India's actions in Kashmir increasingly show an authoritarian muscularity, reminiscent of its northern neighbour



PALLAVI AIYAR

It has been possible to argue that comparing Asia's two largest countries, China and India, is akin to holding up an apple to an orange. This is not because the challenges facing them are so very different. Neither China's authoritarian polity, nor India's democratic one have prevented large-scale corruption, environmental degradation, yawning inequalities or food contamination scandals from raising their ugly heads on both sides of the border. But what has kept the two from being Himalayan birds of a feather thus far is their markedly divergent temperament and foundational culture.

The potency of this divergence however, is being increasingly diluted, with the Indian state beginning to sound and act like the country it has long had a schizophrenic relationship with. (Modern day India wants to both be China and not-China: a six lane highway-filled, manufacturing powerhouse that is praised for its political openness and liked for its yoga.)

The abrogation of the special

status that gave autonomy to Jammu and Kashmir and more crucially, the style in which this was achieved – relying on secrecy, troops, arrests, curfew and a communications shutdown – has brought India closer than ever before to the 'results oriented,' actions, unhindered by political debate and democratic niceties, of authoritarian China.

### Pacifying restive regions

One obvious commonality between New Delhi and Beijing has been their need to grapple with, and pacify, the restive regions on their peripheries: Kashmir and the Northeast in India, Tibet and Xinjiang in China. All of these regions are home to peoples of a religion that is different from that of the country's majority: Muslim (Kashmir/Xinjiang), Lama Buddhist (Tibet), Christian (Northeast India). All are home to ethno-nationalist movements demanding independence or greater autonomy.

Both China and India have declared these border areas as "integral" parts of their territory and refuse to countenance the possibility that they might be disputed. (China claims that Tibet has been part of the country for over 700 years.)

People with dissenting interpretations are labelled "splitists" or "separatists". The periphery is seen as crucial to national securi-



A.P.

ty, while being described as backward, in need of development assistance.

In China, the ruling Communist Party of China portrays itself as having 'liberated' the people of Tibet and Xinjiang from the backward norms of their religions, ending the feudal dominance of religious leaders, bringing equality to women and economic development to the regions. In fact, many Han Chinese believe that Beijing excessively panders to these provinces by giving them special sops. For example, Tibetans were always excluded from the notorious One Child Policy that restricted most Han families to a single child.

Equality before law, economic development, the empowerment of women: these are all arguments being touted today in favour of ending Jammu and Kashmir's special status; for anyone familiar with China, they render a strong

feeling of déjà vu.

Yet, all this rhetoric skirts the reality of egregious human rights abuses that both countries have used in their nation-building endeavours. Torture, rape, illegal detentions, extra-judicial killings and a militarised environment have ensured that hearts and minds have not been won. A common identity has failed to develop, and as the China case demonstrates, this is not because of too much autonomy.

Dibyesh Anand, Professor of International Relations at the University of Westminster, has argued that both India and China are 'postcolonial informal empires', whose anti-imperialist rhetoric disguises their imperialistic attempts to "consolidate and discipline their borderlands."

But what used to distinguish India from the more common charges of colonialism faced by China was the fact that the people of Jammu and Kashmir had been provided guarantees under Articles 370 and 35A of the Indian Constitution, along with a strong foundation to build a system of local governance. The ban on non-locals buying land, and permanently settling in the State, also prevented demographic engineering like the large-scale Han migration into Tibet and Xinjiang.

Independent India's crowning achievement to date has been the

development of institutional mechanisms for negotiating large-scale diversity and accommodating frequent, aggressive disagreements. This is an achievement that deserves as much awe and respect as China's economic miracle. It might be less shiny and more chaotic, but it is, in its own way, quite spectacular.

Debate and contestation are not a discardable option for India but an existential necessity. Historically, India has been a civilisational rather than territorial entity, more metaphysical than geographic. It is a nation held together not by language, religion or geography, but by an idea. Multiplicity is foundational to this idea. It is what has allowed India to persist and flourish as a political unit, despite the once widespread belief in the West that an independent India would inevitably Balkanise.

The new choices that the Indian government is making may well help cover up some of the cracks that its relatively liberal history was unable to weld. It may also fail to do so and lead to complete rupture. But the risk of India forsaking its own sources of strength – pluralism and debate – to emerge as a second rate copy of its muscular, nationalist neighbour to the north is clear.

Pallavi Aiyar is the author of the China memoir, 'Smoke and Mirrors'

## 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.

### Blackout

Consequent to the scrapping of the special status accorded to Jammu and Kashmir, the imposition of curfew and large-scale deployment of troops for security reasons was understandable. But a complete snapping of communication is puzzling and against democratic principles (Editorial, "Blackout", August 8). When the government has taken such a bold step to abrogate Article 370, why should it now try and hide actual information? The rest of India is anxious and entitled to know what is happening in J&K. Some sections of the media report many in Jammu having welcomed the decision of integration and of calm prevailing. But how is this to be verified? Official information is generally a one-way process which

could black out what could be unfavourable to them. It would be prudent if the government takes steps to remove the restrictions imposed on the communication flow and the movement of people.

D. SETHURAMAN,  
Chennai

■ If the intention behind the Central government's abrogation of Article 370 was to ensure the full integration of Kashmir with the Indian Union so that it could enjoy all benefits available to the rest of the country, what was the need to enforce a massive lockdown and communication blackout that is causing enormous hardship to civilians? Many Kashmiris outside the State are under stress unable to contact their families back home. It is akin to the rigorous restrictions Israel imposes on Palestinians that

one reads about. Unless the restrictions are eased soon, alienation among the Kashmiris is bound to increase manifold, which may go against the objective of a mainstreaming emotionally as well.

M.P. MURALIDHARAN,  
Bengaluru

■ The complete shutdown is actually helping in the spread of rumours and the dissemination of propaganda. It is time for normalcy to be restored in the Union Territory so as to stop the misgivings in the minds of Kashmiris and allowing them to get on with life.

V. PADMANABHAN,  
Bengaluru

■ Draconian measures such as the imposition of curfew, cutting off the information flow and arresting key political leaders have only

vitiated the environment. It is akin to undeclared emergency where the common man is the one most affected. The fact that there was no dialogue at the ground level before announcing the far-reaching changes in J&K has only made matters worse.

D.B.N. MURTHY,  
Bengaluru

### Sushma Swaraj

Sushma Swaraj belongs to a rare class of politicians who transcended political lines. Many in India and abroad will miss her for her commitment. The country has lost an able administrator and an outstanding parliamentarian. Her record as External Affairs Minister has been phenomenal, extending a mother's touch to all those in distress. Scaling several heights in politics and governance at a very young

age, she is the right model for today's youth. Telangana remembers her as its "Chinnamma".

SATISH REDDY KANAGANTI,  
Tippurthy, Nalgonda, Telangana

■ As Health Minister in the Vajpayee government, Ms. Swaraj's visit to Kerala in 2003 remains golden. During her visit, she got to know of two schoolchildren with HIV, shunned by society and refused education as there were reservations by some school parents. There was also an indifferent political class. The children were at a public function where she was present. On getting to know of their plight, she hugged them and assured them of help.

T.V. SREERAMAR,  
Puducherry

■ Ms. Swaraj's memorable tweet, that the "Indian Embassy will help you even

on Mars" signifies the level of commitment and positivity she had towards her job. A strong leader, she will always be remembered for her humanitarianism.

AVIK SETHI,  
Zirakpur, Mohali, Punjab

### Roaring tiger

India is now home to a significant percentage of the global tiger population. But the point now is that when the carrying capacity of forests is breached, tigers will be forced to migrate to new places, in turn making them vulnerable to poaching and infrastructural projects that pass through wildlife corridors. It is pertinent to monitor the health of wildlife corridors as they are vital to sustain the current tiger population.

ABHISHEK M.R.,  
Ajikad, Udipi, Karnataka

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