Sharp correction

Stocks may be set to experience more volatility than in the last few years

Investors who expected 2018 to be yet another blockbuster year for stocks may have to temper their expectations. After a strong start to the year, since the beginning of February, stock markets around the world have witnessed a sharp correction. The U.S.'s decision to impose import tariffs on steel and aluminium was the latest development to infuse a sense of uncertainty. As of Tuesday, the Sensex and Nifty are marginally down since the beginning of the year. While the poor state of health of public sector banks has added to the pain, market breadth suggests a more broad-based decline. Notably, this correction comes after a record bull run that stocks enjoyed in 2017. While the Sensex advanced about 28% in 2017, the Nifty climbed 30%. Judging by the initial trading sessions of the Indian indices in March, markets look likely to keep investors on their feet. After the sharp correction in February, many expected Indian stocks to rebound to new highs, as in the case of previous corrections. But the Nifty and the Sensex, which traded sideways until Monday after their initial fall in February, resumed their short-term downtrend on Tuesday. Whether they will break lower to experience further correction or consolidate for a while before moving upwards is anyone's guess. But it is no secret that investors have been willing to bid up the prices of Indian stocks far ahead of their fundamentals. Despite the absence of any strong rebound in corporate earnings, an underperforming economy and economic shocks such as demonetisation and the GST, investors have found enough reason to stay optimistic about Indian stocks. It is only natural that stock prices have begun to reflect, at least partially, the underlying risks.

Going forward, the biggest challenge to stock prices will be higher interest rates as central bankers move to rein in inflation amid strengthening economic growth. The U.S. Federal Reserve is expected to reduce the size of its balance sheet by $2 trillion in the next four years as it moves to let interest rates rise. Bond yields have begun to reflect the prospect of tighter liquidity. The U.S. 10-year Treasury has almost approached the 3% mark from just around 2% in September last. Many noted bond investors have confidently proclaimed the end of the multi-decade bull market in bonds, which began in the early 1980s. The Indian bond market too has witnessed a sharp increase in yields in the last few months amid fears of faster inflation as well as the government's worsening finances. Compared to the taper tantrum of 2013, stocks have in recent times been relatively subdued in reaction to the prospect of higher interest rates. But higher interest rates are likely to eventually dampen stock prices. All this suggests that stocks may be set to experience more volatility than in the last few years.

Populist wave

As Italians reject the mainstream parties, EU integration could take a hit

As the dust settles on the Italian parliamentary elections, it is unclear who the next Prime Minister will be. But two things are clear. First, the election was a strong rejection of the incumbent, centre-left Democratic Party (PD), which has managed just 19% of the vote. Second, there is a strong anti-establishment undercurrent, with the largest vote share (32%) to a single party going to the Five Star Movement (M5S). Given the recent changes in Italian electoral law, which now combines proportional representation and the first-past-the-post system, a party or coalition will need at least 40% of the vote to form the government. The centre-right coalition, which includes the scandal-ridden former Prime Minister Silvio Berlusconi's Forza Italia, the anti-migrant and Eurosceptic Lega and the far right Brothers of Italy, has secured 36%. What's more, Lega, led by the rabble-rouser Matteo Salvini, has won over 17% of the vote, elbowing Mr. Berlusconi out of the role of kingmaker and reinforcing Italy's move away from the centre. It appears that a growing but troubled economy and the migrants crisis have left Italians disenchanted with business-as-usual politics as well as the European Union, a pattern that has become all too familiar across Europe over the last few years. Recovery from the 2008 financial crisis has been slow. Italy is growing at 1.5%, below the Eurozone average, and unemployment is close to 11%; some 18 million Italians are said to be at risk of poverty. A feeling that the rest of the EU has left Italy high and dry in tackling the migrants issue – over 600,000 have arrived in Italy since 2013 – has added to the sense of Euroscepticism.

Italy is going through a protracted period of political negotiations before a new government can start taking shape in Rome. The M5S, which had initially said it would hold a referendum on the euro, more recently toned down its stance but continues to seek greater economic freedom from Brussels. It has taken a strong stance against migration and says it wants to improve governance. Luigi Di Maio, the 31-year-old leader of the M5S, who for long had said the party would go it alone, is now seeking partners to form a government. This could, for instance, mean the M5S partnering with the PD or the Lega. Barring a shared Euroscepticism, the M5S and the Lega mostly differ in their values. In addition to its distrust of Europe, Lega has made no bones about its extreme and dangerous views, specifically its anti-migrant and anti-Muslim stance. Mr. Salvini has claimed the moral right to form a government given the centre-right coalition's share of the vote. However, politics makes for strange bedfellows, and an M5S-Lega government cannot be ruled out. Such an outcome would, however, severely hamper French President Emmanuel Macron's and German Chancellor Angela Merkel's plans for greater integration across the EU.

Make the neighbourhood first again

India is sliding towards a situation where it is neither feared nor loved by other South Asian countries

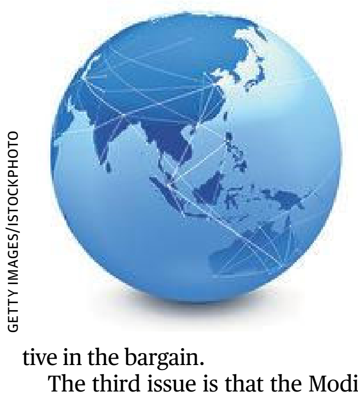
SUHASINI HAIDAR

Almost four years after Prime Minister Narendra Modi began his term with a "Neighbourhood First" moment, by inviting leaders of all South Asian Association for Regional Cooperation (SAARC) countries to his swearing-in ceremony, India's neighbourhood policy is clearly adrift. New Delhi's connect with its South Asian neighbours is weaker than it has been for a very long time.

A perfect storm?

The first problem is that for various reasons other governments in the SAARC region are either not on ideal terms with New Delhi, or facing political headwinds. In the Maldives, President Yameen Abdul Gayoom has gone out of his way to challenge the Modi government, whether it is on his crackdown on the opposition, invitations to China, or even breaking with New Delhi's effort to isolate Pakistan at SAARC. In Nepal, the K.P. Sharma Oli government is certainly not India's first choice, and Kathmandu's invitation to the Pakistani Prime Minister this week confirms the chill. And no matter which party is in power in Pakistan, it is difficult to see Delhi pushing for official dialogue, especially with the military on the ascendant once again. In other parts of the neighbourhood, where relations have been comparatively better for the past few years, upcoming elections could turn the tables on India. In Sri Lanka, the recent local election results that have gone the way of the Mahinda Rajapaksa-backed party could be a portent of his future re-election. In Afghanistan, Bhutan and Bangladesh, elections this year and the next could pose challenges for India.

The next problem is the impact of China's unprecedented forays into each of these countries. Instead of telling the Nepal government to sort out issues with India, for example, as it had in the past, China opened up an array of alternative trade and connectivity options after the 2015 India-Nepal border blockade: from the highway to Lhasa, cross-border railway lines to the development of dry ports. In Sri Lanka, Bangladesh, the Maldives and Pakistan, China holds strategic real estate, which could also be fortified militarily in the future. At present, it means China has a stake in the internal politics of those countries. While China's growing presence in infrastructure and connectivity projects has been well-documented, its new interest in political mediation must be watched more carefully as a result. When China stepped in to negotiate a Rohingya refugee return agreement between Myanmar and Bangladesh, or host a meeting of Afghanistan and Pakistan's foreign ministers to help calm tensions and bring both on board with the Belt and Road Initiative (BRI) connection between them, or offer to mediate between the Maldivian government and the opposition, it wasn't just breaking with its past policy of ignoring political dynamics in countries it invests in. Beijing is now taking on a role New Delhi should have been in a better position to play, and by refusing to play it Delhi is being shown up as unfeeling, partisan or, worse, ineffective in the bargain.



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The third issue is that the Modi government's decision to use hard power tactics in the neighbourhood has had a boomerang effect. Theoretically, given its central location in South Asia and being the largest geographically and economically, India should be expected to hold greater sway over each of its neighbours. However, the "surgical strikes" on Pakistan of 2016 have been followed by a greater number of ceasefire violations and cross-border infiltration on the Line of Control. The 2015 Nepal blockade and a subsequent cut in Indian aid channelled through the government did not force the Nepali government to amend its constitution as intended, and the subsequent merger of Mr. Oli's Communist Party of Nepal (UML) with Prachanda's CPN(Maoist) is seen as a reversal of India's influence there.

Mr. Modi's decision to abruptly cancel his visit to Male in 2015 did not yield the required changes in the government's treatment of the opposition, and New Delhi's dire warnings about Mr. Yameen's emergency in the past month have led to the Maldives cancelling its participation in the Indian Navy's "Milan" exercises. Even in Bangladesh, the Indian Army chief, General Bipin Rawat's tough talking last week about immigration has drawn ire there, with Bangladesh's Home Minister Asaduzzaman Khan describing the remarks as untrue, unfounded and not helpful.

While many of these factors are hard to reverse, the fundamental facts of geography and shared cultures in South Asia are also undeniable, and India must focus its efforts to return to a more comfortable peace, and to "Making the Neighbourhood First Again".

Time for reversal

To begin with, despite conventional wisdom on the benefits of hard power and realpolitik, India's most potent tool is its soft power. Its successes in Bhutan and Afghanistan, for example, have much more to do with its development assistance than its defence assistance. It's heartening, therefore, that after sharp drops in 2016 (of 36%) and 2017 (of 19%) year on year, the budget allocations for South Asia have seen an increase (of 6%) in 2018. After the Doklam crisis was defused in 2017, India also moved swiftly to resolve differences with Bhutan on hydropower pricing, and this February it announced a tariff hike for energy from Bhutan's Chhukha project, the first in several years.

Next, instead of opposing every project by China in the region, the government must attempt a three-pronged approach. First, where possible, India should collaborate with China in the manner it has over the Bangladesh-China-India-Myanmar (BCIM) Economic corridor. Second, when it feels a project is a threat to its interests, India should make a counter-offer to the project, if necessary in collaboration with its Quadrilateral partners, Japan, the U.S. and Australia. Third, India should coexist with projects that do not necessitate intervention, while formulating a set of South Asian principles for sustainable development assistance that can be used across the region.

This will all only be possible if India and China reset bilateral ties, which have seen a marked slide over the past few years. It is noteworthy that the government appears to have started this process with Foreign Secretary Vijay Gokhale's recent visit to Beijing.

Learning from ASEAN

It will also be impossible to renew the compact with the neighbours without reviving the SAARC process. In their book *The ASEAN Miracle*, Kishore Mahbubani and Jeffery Sng describe in detail the need for SAARC to learn from the success of ASEAN. Mr. Mahbubani suggests that leaders of SAARC countries meet more often informally, that they interfere less in the internal workings of each other's governments, and that there be more interaction at every level of government. They also say that just as Indonesia, the biggest economy in the ASEAN, allowed smaller countries such as Singapore to take the lead, India too must take a back seat in decision-making, enabling others to build a more harmonious SAARC process.

"It is much safer to be feared than to be loved," wrote Niccolo Machiavelli, "when one of the two must be wanting." The government's challenge is to steer India towards a course where it is both feared and loved in appropriate measure, and away from a situation in which it is neither feared nor loved.

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After the Tripura setback

The Left must consider new tactics for alliance-building and popular mobilisation

SRINIVASAN RAMANI

Seven years after they lost power in West Bengal, in 2011, where they had ruled for 34 years, the Communist Party of India (Marxist) and its allies have suffered another setback, this time in Tripura after an uninterrupted 25-year reign. The blow here, administered by the Bharatiya Janata Party (BJP) in alliance with the Indigenous People's Front of Tripura (IPFT), has been more shocking than what had happened in West Bengal. After all, the defeat of the Left Front (LF) in the Assembly elections in West Bengal was the final act in a series of losses in other elections in the State – local-level polls in 2008 and 2010, and the Lok Sabha election in 2009.

Slide in bastions

The slide of the Left in Bengal also came after years of struggle by the Trinamool Congress, with the agitation against the land acquisition policy of the Buddhadeb Bhattacharjee government, finally turning the tide. The agitations and political positioning of the Trinamool – to the left of the LF – had eroded the latter's support base, with the middle peasantry and land-less agricultural workers shifting to the Trinamool. The result: the LF has yet to recover from the losses of 2011. As things stand, its support base has eroded further and West Bengal is looking more and more an arena of direct political contestation between the Trinamool and the BJP.

Tripura's story is very different. The LF had not just won the 2013 Assembly elections emphatically; it had followed that triumph with strong victories in the 2014 Lok Sabha election and in the Tripura Tribal Areas Autonomous District Council elections in 2015. In these polls, the attack on the LF was from the right wing, and unabashedly so. But the LF in Tripura cannot be accused of the follies committed in West Bengal. In fact, the emphasis on social development and peace between the tribal and non-tribal communities in a largely agrarian and forestry-dependent economy is what had helped it to consistently grow its support base in Tripura.

A cursory look at party-wise vote shares in the 2018 elections tells a partial story. The long-entrenched opposition in Tripura led by the Congress had quickly shifted lock, stock, and barrel to the BJP, even as the tribal forces saw in the BJP a renewed opportunity to take on the Left.

This, however, does not explain the 7.42 percentage point shift from the Left Front towards the newly minted BJP-IPFT combine. The emphasis on winning over the Congress support base on the one hand and the tactical alliance with the ethnic tribal outfits which had an insurgent past on the other certainly allowed the BJP to lead the challenge against the incumbent.

PTI

Tapping discontent

But there was also a certain amount of discontent after years of LF rule, which fuelled the combined and renewed opposition against the Left. A CSDS-Lokniti survey, for example, showed unemployment and price rise as key issues. Other surveys also projected unemployment, especially among tribals, as a major issue in the State whose economy is characterised by a lack of adequate diversification. Cashing in on these, the BJP built a dedicated campaign using multimedia tools and the Internet besides patronising tribal outfits who saw in it a sturdier ally against the Left. The Left, still dependent on traditional means of campaigning, was not prepared enough for this new onslaught. Having a popular Chief Minister with a reputation for leading a no-frills lifestyle and probity was not good enough.

So even a committed leftist government that focussed on redistribution had its entrenched discontents who cannot simply be bracketed as "class adversaries". This should lead the Left to rethink whether its agenda of a State-centric model has takers, especially among the youth. That even tribal youth, many of whom voted with their feet for the Left in the past, looked to the right, suggests two things.

First, the LF might have worked hard to bring peace to Tripura, but the BJP, being in power at the Centre, conveyed to many voters a greater hope of realising their aspirations, possibly through higher Central transfers of funds to the State. Second, the LF did manage to transcend the tribal-non-tribal identity divide in Tripura, helped historically by the efforts of legendary leaders such as Dasharath Deb who headed the Ganamukti Parishad that eventually merged with the CPI(M). But recently, the demand for greater recognition of the tribal demographic had more takers, which the LF could not address adequately.

Course correction

With the loss of Tripura, the Left is now in power in just one State (Kerala), much weaker in West Bengal and bereft of any prospects of growth in other States barring some shoots in Rajasthan and Himachal Pradesh. This state of affairs for the political Left is a far cry from where it was a decade ago. When in power in three States, it was also a powerful parliamentary bloc that engaged the ruling Congress-led United Progressive Alliance in crucial debates on economic, welfare and foreign policy. Its legislative efforts enabled the fulfilment of path-breaking, civil-society-driven reforms such as the Right to Information Act and the National Rural Employment Guarantee Scheme.

For the Left, the only way out of this rut is to go back to the drawing board and mobilise people on issues related to the economy, where, besides sluggish job creation, the effects of demonetisation, especially on the informal sector, are still playing out. The largest component of the political Left, the CPI(M), realises the need for independent mobilisation and rediscovering its agitationist potential to get itself out of the morass but there are certain existential questions about the nature of capitalism today and the relevance of statism that require introspection.

Also in the immediate-term, the Left faces physical threats and violence in Tripura, similar to what its supporters underwent in West Bengal. It cannot afford to adopt a purist, isolationist stance in this milieu in Tripura and elsewhere. Besides independent mobilisation, in its quest to get back to relevance, the Left has to think of adopting malleable alliance-building tactics considering the strength of the adversary it now faces – Hindutva.

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LETTERS TO THE EDITOR

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An Opposition front

The speed with which the Opposition parties have responded to the 'national alternative' proposal advanced by Telangana Chief Minister K. Chandrasekhar Rao only shows the level of political unease that has crept in the Opposition camp after the BJP's resounding victory in the Northeast ("Mamata starts talks for regional front" and "KCR draws up plans for new front", both March 6). Ms. Banerjee too may have taken cognisance of Bengali voters in Tripura favouring the BJP. It is no secret that the Opposition is averse to working under the leadership of Congress president Rahul Gandhi who is still perceived to be a leader in the making and despite the moral victory claimed by him in Gujarat which now suddenly looks distant. But the Opposition parties should realise that coalition governments led by parties other than the Congress have not lasted long. The ball is now in the Congress's court to take a pragmatic view and project a leader other than Mr. Gandhi to lead the Opposition front for the sake of a viable alternative and to be of political significance. It is possible that the Congress may be playing a waiting game and looking at the results in Karnataka, Rajasthan and Madhya Pradesh before making its move.

V. SUBRAMANIAN,
Chennai

■ The outcome in Tripura seems to have triggered a flurry of activity in the Opposition ranks, with "save federalism" appearing to be the new rallying point of State-centric parties. If the Gujarat Assembly poll verdict offered the prospect of the Congress becoming the pull factor of a coalition that could take on the BJP's election-winning machinery, the results in the Northeast seem to have changed the narrative. Despite the initial euphoria around the concept, it appears to be a case of haste. The BJP's electoral success has much to do with its ability to weave a narrative around its political intent and agenda for governance. The Opposition will need a powerful counter-narrative, and not just arithmetic, if it wants to stall the BJP's surge.

PADMINI RAGHAVENDRA,
Secunderabad

Transforming Asia

The article, "It's time to reimagine South Asia" (Editorial page, March 6), seems to be a sole voice of reason in an atmosphere of war-mongering and chest-thumping. In this connected world, one cannot develop and prosper in isolation. Both reason and ethics dictate that India can prosper only if its neighbours too prosper. Otherwise there could be a temptation to try to resort to destabilisation tactics. If, after so many wars and much bitterness, Europe can unite and prosper, why not South Asia?

V. NARAYAN,
Chennai

Dog days of summer

Mankind is to blame for nature's fury (Editorial - "High noon", March 6). Large-scale deforestation for the setting up of industrial units, use of fertile land meant for cultivation to construct mammoth dwellings and mindless extraction of ground water for commercial purposes have only added to the untold misery. In my childhood in Kerala, one hardly came across instances of water bodies drying up so soon after the monsoon, as is the case now. Now, most river beds look parched, made worse by large-scale mining of sand. When nature loses its balance, disaster is not far behind.

MURLI NAIR,
Thrissur, Kerala

A pink cane

Universally, a white cane is helpful for other traffic participants in identifying the user as being visually impaired. Pedestrians and drivers take care while kind souls extend a helping hand. A person who is aurally handicapped has no such aid. Those who interact with him do not know his handicap at first sight. This is pertinent in India where there is very heavy traffic on most roads and when such a person is unable to hear vehicles and pedestrians. In public spaces, shops and organisations, where conversation is a necessity, the aurally handicapped are often humiliated. Being handicapped in this manner, I can vouch for this. I suggest that a pink cane be adopted to help identify an aurally handicapped person. Schools for the deaf and dumb, hospitals and welfare institutions must pick up the idea and try to implement it universally. The media should also extend a helping hand (Chennai editions, "City doctor delivers talk at WHO", March 6).

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