

Puzzling silence

Narayana Murthy hasn't spoken a word on Infosys this time. Why?



HUMAN FACTOR

SHYAMAL MAJUMDAR

On August 28, 2017 — just days after the exit of R Seshasayee and Vishal Sikka from the Infosys board — N R Narayana Murthy wrote a long letter to the company's shareholders. In the letter, he said "when there is a cloud around how the organisation is being governed, we must speak up." He also advised the company management, "when in

doubt, disclose without any hesitation as Infosys wants to remain the most respected corporation in the eyes of all stakeholders".

Sound advice from one of India's most respected voices from the corporate world. But there can certainly be a debate over whether Murthy walked the talk when earlier this month, Infosys took three weeks to inform shareholders of two whistleblower letters alleging unethical practices at the company. While Murthy was relentless in his criticism of the erstwhile company board and its CEO for not disclosing information to shareholders, his silence this time has been deafening. The counter argument is that Murthy is not commenting as he doesn't want to speak out of turn especially when Infosys has a non-executive chairman. But the argument does not hold water as last time round, the company had a chairman in Seshasayee. That didn't prevent Murthy from tearing him to pieces — publicly.

Last time, a whistleblower had alleged irregularities in the company's \$200-million acquisition of Israeli automation company Panaya. Murthy had questioned the board's decisions, implicitly equating the inordinately high severance paid to former CFO Rajiv Bansal with "hush money". He also often quoted the whistleblower letter that said Seshasayee had lied to shareholders about payments made to Bansal. This is apart from his allegation of poor governance practices of Sikka.

It's a different matter altogether that internal and external inquiries unanimously cleared Sikka of misconduct. Previously, the law firm Gibson, Dunn & Crutcher had concluded that there was no incriminating evidence to suggest that Sikka or any other employee of Infosys had profited from the acquisition of Panaya in 2015. Infosys chairman Nandan Nilekani himself said the company had found no evidence of wrongdoing in the contentious Panaya

deal in 2015, effectively handing a clean chit to Sikka and the previous board. This had raised further questions about the overhaul of the company's previous board and top management. It's also significant that the current board did not accede to Murthy's demand that the full report by Gibson be made public.

The situation is not very different this time. A group of employees who identified themselves as "Ethical Employees" wrote to the Infosys board and the US markets regulator alleging that CEO Salil Parekh engaged in accounting malpractice to inflate profits. It was only after media reports on the issue that the current Infosys chairman confirmed that one of the board members had received two anonymous letters in September, making "generalised allegations" and that both were placed before the audit committee on October 10.

That doesn't take away from the fact that there was a long gap between the receipt of the complaint on September 30, and it being given to the audit committee. Stock exchanges were informed much later even though it was obvious that the information had the potential to influence the market price of the company's stock. It's true that Infosys

has followed the letters of the law, and it said as much in a filing to the stock exchanges.

But the company's famed spirit of best corporate governance practices was missing, especially when the company's own "materiality for disclosures" policy suggested that a whistleblower complaint that deserved to be investigated by external agencies should be disclosed to shareholders as well.

There have been whispers in the stock market that there could be some segments in the market that could have been aware of the content of the whistleblowers' letters before everyone else. While too much should not be read into it, it is intriguing why the Infosys board, which declared its earnings on October 11, did not disclose the letters. If the decision was prompted by the management's keenness that nothing should distract from the decent earnings performance, it was an immature decision at best.

While no wrongdoing can be concluded as investigation is underway, the fact is that the Infosys board did not follow its beloved founder's advice to "disclose without hesitation". While that is understandable, Murthy's studied silence remains quite puzzling.

The alternative of civic nationalism

The author concludes that it is necessary to build healthy alternatives to the kinds of rabid ethnic nationalism that we see all around



PRANAB BARDHAN

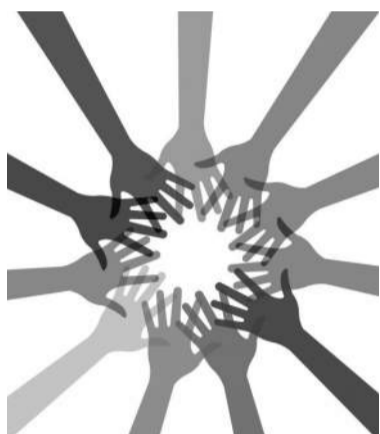
Tolerance for diversity and for minority rights had characterised some autocratic empire states in history (like Mughal or Ottoman), but among democratic states one of the earliest cases of making pluralism and liberal constitutional values the basis of nationalism is that of the United States (US), where after the decimation of the indigenous population, a country without much historical memory essentially became a nation of immigrants.

Abraham Lincoln's Gettysburg address starts with referring to the "nation, conceived in Liberty, and dedicated to the proposition that all men are created equal". In a 2009 speech Barack Obama said, "One of the great strengths of the United States is...we do not consider ourselves a Christian nation, (but) a nation of citizens who are bound by ideals and a set of values", presumably as enshrined in the Constitution. Despite its many historical (and often racially motivated) lapses, this is a major example in history of what the German philosopher Habermas calls "constitutional patriotism", as opposed to patriotism based on "blood and soil" which had popular appeal in Germany and which appeals to today's populists, and which in history has been associated with a great deal of persecution, violence

and devastation.

Our identities are necessarily multi-layered, but ethnic nationalism privileges one of these layers, usually based on the narrow particularities of religion, language or culture, that makes it easy to mobilise certain groups. Liberal or folk-syncretic traditions are sometimes too fragile to resist our primordial or visceral evolutionary defensive-aggressive urge to fight against "enemy" groups which the ethnic nationalist leaders are adept at whipping up. The branded enemy groups are both external and internal. In India, China, Russia, Indonesia, Poland, Hungary and so on, the internal minority groups are often victims of suspicion by the majoritarian ethnic nationalists to be the proverbial fifth column aiding an enemy state. Even without the enemy state, the inevitable divisions of a heterogeneous society worry the leaders of the homogenising mission of those nationalists — hence such nationalism is almost always associated with riding roughshod over the "little people" and their localised cultures for the larger cause of national integration ("peasants into Frenchmen", the marginal groups like Dalits and Adivasis in India crammed into the Procrustean fold of the larger Hindu society, Han-Sinification of Tibetans and Uighurs in China, etc.).

In the name of national integration and fighting enemies both outside and within, they undermine minority rights and procedures of democracy ("due process"), they accuse liberals of appeasing the minorities (blacks and Hispanics in the US, immigrants in Europe, Kurds in Turkey, Muslims in India, etc), and try to suppress dissent as "anti-national". Civic nationalism, on the other hand, emphasises the procedural aspects of democracy, and through its stress on liberal constitutional values tries to use the pre-commitment of a foundational doc-



Our identities are necessarily multi-layered, but ethnic nationalism privileges one of these layers, usually based on the narrow particularities of religion, language or culture, that makes it easy to mobilise certain groups

ument to bind the hands of subsequent generations if they display majoritarian tendencies curbing basic civil rights. (During the Civil Rights movement Martin Luther King was referring to the Constitution, when he appealed to Americans "to be true to what you said on paper").

One reason why ethnic-nationalist populists are opposed to globalisation is that they are against global rules restraining national sovereignty and that they want to "take back control". But in so doing they over-centralise the powers of the national leader, and dissipate the forces of decentralisation and autonomy of local communities within the country. Civic nationalism in contrast often emphasises local autonomy; that is why, for example, political parties like the Scottish National Party favour civic over ethnic nationalism.

Let me now turn to the economic

aspects of globalisation where also there can be differences between the two types of nationalism. Ethnic nationalist populists look at the global economy as a zero-sum game, gains for "them" is necessarily a loss for "us", harking back to a defunct mercantilist doctrine. By now it is obvious except to the economic illiterates that a Trumpian trade war and dismantling of multilateral trade rules do not quite advance the national agenda.

In today's world economy of integrated global value chains and continuous swapping of parts, components, and tasks across borders, a retreat from relatively free trade will be extremely harmful for the national interests of most countries. Trade makes for cheaper producer inputs on which our production base is heavily dependent (apart from the cheaper mass consumer goods available in Walmart or Amazon, and larger markets for goods demanded by the rising middle classes in developing countries). Economic nationalism has, of course, been associated with vigorous industrial policies in East Asia with the state guiding and supporting some key domestic manufacturing industries (particularly in sectors where coordination failures of the market are important), but even in these cases market discipline mostly coming from the open export markets, heightening cost- and quality-consciousness, made the all-important difference between cases where industrial policy tends to succeed compared to cases where it fails.

Liberal nationalists should, of course, call for a substantial strengthening of the "adjustment assistance" (currently in paltry amounts in the US and non-existent in many developing countries) and retraining programmes lasting for a long enough period to significantly improve the adjustment capability of workers in coping with trade shocks, and making

benefits (like health care) portable, not linked to particular jobs. In Europe, better safety nets and active labour market policies than in the US, especially for workers who lose their jobs, have made import penetration less of a burning issue in the political sphere.

Liberals are divided on the issue of unrestricted international capital flows and that of immigration. Given the adverse effects of free capital flows on periodic macro-economic shocks and the weakening of the bargaining power of domestic labour institutions, many otherwise free-traders agree with the liberal nationalists on some regulations on global capital flows. Some compromises are also possible on the need for adjusting global rules giving nations more autonomy on labour standards. Given the cultural anxiety that large-scale immigration generates in many societies, there is also scope for compromise on various schemes on limiting the flows of immigration to selected areas of specific skill shortages in rich countries and to some special humanitarian cases. Civic nationalists accept some restrictions on national sovereignty to agree on multilateral rules on global public goods, as in the case of global environmental damage or international spread of crime, and restrictions on cross-border tax-dodging, which ultimately help the national interest.

Populists invidiously distinguish between nationalists and "globalists". This is highly misleading: Not merely there are other, more liberal, forms of nationalism, not all liberals are for untrammelled hyper-globalisation. It is thus possible and necessary to build healthy alternatives to the kinds of rabid ethnic nationalism that we see all around, without giving up on the nationalist cultural pride or the bonding of local communities consistent with larger humanitarian principles. As Tagore said in his lectures in Japan in 1916: "Neither the colourless vagueness of cosmopolitanism, nor the fierce self-idolatry of nation-worship, is the goal of human history".

The article was first published on 3 Quarks Daily. The writer is professor of Graduate School at University of California, Berkeley

CHINESE WHISPERS

The state of exports

How serious are the states in promoting exports and helping India achieve the target of raising exports to \$1 trillion by 2025? An indication of the states' lack of enthusiasm on this came from the Fifteenth Finance Commission Chairman, N K Singh. At a panel discussion held in New Delhi on Wednesday immediately after the release of the report of the High-level Advisory Group set up to recommend steps to boost India's share in global merchandise and services trade, Singh said, as chairman of the Finance Commission, he had visited 27 of the 29 states in the country. While some chief ministers did underline the importance of tourism, none talked about exports, Singh said with a wry smile.

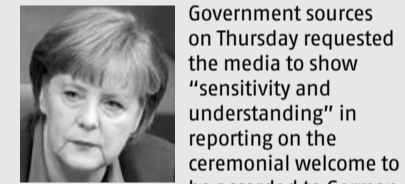
Reunion of greats



TWITTER @SGANGULY99

Sourav Ganguly, newly appointed Board of Control for Cricket in India president, is a crowd-puller. It seems he hasn't lost his charm. A selfie posted by the former Indian skipper on Twitter — in which he is surrounded by a sizeable crowd with smiling faces at Bengaluru airport — late on Wednesday evening was all the rage and it continued to be liked and shared through Thursday. "At the check-in airport of Bengaluru... love of people makes you feel so grateful," Ganguly tweeted, along with a picture that featured fans and security personnel at the airport. His visit to Bengaluru itself created a lot of buzz as he was there to meet his one-time deputy, National Cricket Academy chief Rahul Dravid. Netizen could not keep their calm over the reunion of these two greats who have now donned administrative and coaching roles.

Making an exception



Government sources on Thursday requested the media to show "sensitivity and understanding" in reporting on the ceremonial welcome to be accorded to German Chancellor Angela Merkel (pictured) on her visit to New Delhi on Friday. On account of her health, certain provisions of the order relating to the national anthem of India will be invoked to allow Merkel to remain seated while the national anthems of both the countries are played during the ceremonial reception at Rashtrapati Bhavan on Friday. The German chancellor's difficulties in standing without support are known and, lately, she sits during ceremonial events, both at home and abroad, when the practice is to stand, sources said. The exemption is being invoked based on a request from the German side, sources said.

INSIGHT

Now is the time for a bad bank



PRASHANT KUMAR

Indian banking has been going through a rough patch on the asset quality front for many years now. Gross NPAs (GNPAs) of scheduled commercial banks, which used to range between ₹500 billion and ₹700 billion in the 2000s, started picking up from the late 2000s and crossed ₹1,000 billion in the year FY12. Post the asset quality review (AQR) of 2015, GNPA of all scheduled commercial banks (SCBs) increased more than 18 times to reach ₹10,397 billion as of March 2018 from ₹566 billion in March 2008. The good thing is that it declined in FY19 post the implementation of the Insolvency and Bankruptcy Code (IBC) and the aggressive efforts by banks to clean up their balance sheets.

The idea of a bad bank has been around for some time now though it was abandoned at one point. One of the reasons for jettisoning the idea was the view that a bad bank can do little in the absence of an effective resolution mechanism. Now that a resolution mechanism through the IBC has been put in place, the time could be ripe to revive

the idea. Indeed, with around ₹10 trillion of stressed assets in the banking system, we believe the time has come for a professionally-run bad bank.

A bad bank is like a normal entity where the bad loans of a bank are parked. Such a model has been used in the past by countries such as Japan, Sweden, the UK and Slovenia (first initiated in 1988 by Mellon Bank). This allows the bank to continue with its usual functions without getting constrained by finance, resources or management bandwidth. This is particularly true for public sector banks in India. Besides faster economic recovery, the sentiment boost that will accrue to banks as their NPA burden is removed will be significant.

The potential advantages of having a bad bank are enormous. Having a single entity as the sole owner of a stressed asset — as opposed to coordinating with several individual creditors — will allow for binding resolutions even outside the NCLT framework — say regarding Inter Creditor Agreement (under the aegis of as Sashakt India Asset Management Ltd) that eludes consensus most of the time. A bad bank, being manned by seasoned industry professionals and distressed debt specialists, would be focused on the recovery aspect. Hence, it would be quite appropriate to revive the idea of a bad bank to quarantine and absorb our stock of poisoned assets.

Critiques can argue that the banking system has asset reconstruction companies (ARCs) to support it in the case of bad debts, but we cannot forget that ARCs have been in India for more than 15 years, and in all these years they have not been of much help in realising the objective of reducing bad

loans of banks or of reviving them. Further, these ARCs are resource constrained and do not have big wallets to buy large assets.

However, there are primarily two issues with a bad bank. First, the life-cycle of the proposed bad bank, and second, the capital required to create such a bank. If both the bad bank and IBC were to coexist, it would send a strong signal to the market, contrary to the popular perception of the bad bank folding up once the purpose is served. Next, capital. Like in the case of bank recapitalisation, a bad bank could be initially capitalised by the government through, say, specially floated distress bonds, through which it could pay for its distressed asset purchases from banks. The size of such distressed bonds could be initially around ₹60,000 crore with which the bad bank could be adequately capitalised for at least two years. For example, ₹10 trillion stressed assets with 76 per cent current provision coverage ratio of banks implies ₹2.4 trillion (net of ₹7.6 lakh provision cover) are still to be provisioned, of which 25 per cent, or ₹60,000 crore must be provided by banks over two years strictly as per the provisioning norms of the Reserve Bank of India.

After recapitalisation, bad bank can offer to buy the stressed assets from all the banks at a mutually approved price. Say for a ₹100 notional stressed asset, ₹43 could be the right market price, that is, 57 per cent discount to notional (the current recovery rate as per IBC). In the normal course, individual banks can choose to decline such a bid. However, they would then have to provide for and

mark down the bad assets to say ₹43, well below the bid price. Hypothetically, if the bad bank were to recover ₹70 from the asset over time, that is, ₹27 more than their purchase price of ₹43, they could pay a fixed percentage of the surplus (assume 75 per cent of ₹27/₹20) to the original bank. On the flip side, losses, if any, would stay with the bad bank. Given the carrot of participation in the recovery upside, alongside the stick of higher provisions, it is more than likely that banks would be inclined to dispose of their stressed assets to the bad bank.

With the benefit of hindsight, benefits of the "good bank-bad bank structure" include a renewed focus on the long-term core operations of a good bank without the distraction of troubled assets. The most important benefit of setting up a bad bank would be that the PSBs would have a provision coverage ratio of around 76 per cent (up from 62 per cent in FY18). This implies that the PSBs would have provided for most of the bad assets and a wholesale transfer of the bad assets to the bad bank is just a technical issue and the process of recovery and resolution could be carried out much better.

Additionally, removing troubled assets will relieve pressure on capital, enabling the institution to engage in more profitable and growth-oriented business activities including lending. Finally, removing troubled assets from the balance sheet would have a positive impact on the view of credit rating agencies, investors and potential investors, lenders, depositors and borrowers.

The author is DMD & CFO, State Bank of India. Views are personal

LETTERS

Export's potential

My compliments for your editorial "No real plan for exports" (October 31) pointedly commenting on the futility of the government's approach towards our exports. In fact, the current economic slowdown makes this issue infinitely more important. Augmenting exports can, to a large extent, set right our growth trajectory and possibly put us back on track.

Unfortunately, we have always treated exports as an adjunct to overall economic activity and not as an essential component that merits as much attention as the domestic business and industry. During the last decade or more, the government has forgotten that exports can play a very significant role and also that we have the potential to get back on track. For example, in the case of textiles and apparels, if we have lost out to Bangladesh and other South Asian countries, it is because we are not globally competitive like our neighbours. Indeed, it's mere lack of judgement and, more importantly, lack of political will. We need to urgently give a huge push to the factors mentioned above as well as fine-tune our logistics' turnaround time. We need to get our own house in order first.

Krishan Kalra Gurugram

Reduce political cost

This refers to "Tread warily on privatisation" (October 29) by T T Ram Mohan. The views are quite relevant to the ongoing disinvestment of public sector units (PSUs). The entire government stake should not be sold in one go, particularly in those PSUs that have deep losses and have suffered erosion of their net worth. Instead, only the controlling stake needs to be parted with and the balance equity may be sold later on, once the company has been brought back on the path to profit.

Another point is the use of the disinvestment proceeds. This issue merits a serious discussion. Shouldn't the amount be used towards creating new assets in infrastructure that would lead to economic development? Conventional wisdom suggests the pace of privatisation should be carefully calibrated so as to minimise any political cost whatsoever.

Sanjeev Kumar Singh Jabalpur

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The telecom turmoil

Govt should address some fundamental issues

The telecom sector has been in a state of chaos, raising some serious questions for the government. Fresh trouble arose after the Supreme Court agreed with the Department of Telecommunications' definition of adjusted gross revenue and directed telcos to pay dues with interest, amounting to ₹1.33 trillion, within three months. Incumbent companies, saddled with debt, have expressed their inability to pay and are looking for waivers. The total debt of telcos is at ₹4 trillion. The Cellular Operators Association of India (COAI) has argued that the decision will lead to a monopoly in the sector and will affect the digitisation programme of the government. But the latest entrant, Reliance Jio, which has disrupted the market, has objected to "the threatening and blackmailing tone" of the COAI. Meanwhile, stock prices of legacy players have suffered, their credit rating has been downgraded, and at least one of them is reported to be negotiating better terms of repayment with lenders. The apex court verdict has also dealt a body blow to the incumbent operators and could effectively kill the golden goose that has been a large source of non-tax revenues for the Centre.

The government, on its part, has done well to set up a committee of secretaries to suggest measures to ease financial stress in the sector. The committee and, by extension, the government would be well advised to look into the issue more broadly and address some fundamental policy questions. First, why have the incumbents piled up so much debt? The accumulation has not happened entirely because of the way businesses are managed. Policy and regulatory changes over the years have had a role. This also resulted in significant consolidation in the sector, as a number of telcos exited the business or shut it down. Only a holistic review of past decisions will allow the government to make policy corrections, which will help ease stress in the sector in a sustainable manner.

Second, will the sector and consumers be better off with further consolidation? Analysts are of the view that dues arising from the apex court ruling could reduce the market to only two private-sector operators. This would clearly lead to concentration of market power and have a bearing on the quality of services and investment in the sector. To be sure, this is not a case for saving inefficient incumbents. But another operator moving out of the market may not be explained by operational parameters alone.

Third, the government needs to decide what it expects from the sector. On the one hand, private operators have been pushed to the wall and, on the other hand, it is reviving inefficient public-sector firms with concessions. This will lead to a misallocation of resources and market distortions. Further, it is worth examining if the government should only focus on squeezing the telcos, or it should also consider their ability to invest, which can have a multiplier effect in today's connected world. And how can it strike an optimal balance? Clear answers to some of these questions would help the government take the right policy call. The Indian telecom sector is at a critical juncture and how the government handles the situation will not only have a bearing on the sector but will also influence the investment climate in general.

Fuel retail: Job half done

Transparent pricing regime should be the next step

In a major step towards further decontrol of the petroleum-marketing sector, the government announced recently that retail marketing of petrol and diesel — petrol pumps, for example, — would be open to any private sector applicant with a net worth of at least ₹250 crore. Earlier, applicants had to commit to investing at least ₹2,000 crore in the sector, which strictly limited the number of players. It is possible that now companies or conglomerates that do not want to invest in, say, refining will bring investments into the oil-marketing sector. Large organised retail chains can build petrol pumps as part of their stores. So far, the fuel distribution network has been dominated by the state-controlled oil-marketing companies. There are fewer than 7,000 privately-run petrol pumps in India, barely over 10 per cent of the number of public-sector petrol pumps. The hope surely is that more private-sector investment in the area will firm up the distribution network, create greater stability in supply, lead to an increase in jobs, and so on. From that point of view, this is an entirely sensible decision and should be welcomed. It is also worth welcoming because it, in a way, opens up another state sector to further competition from the private sector.

However, from one major point of view, this reform is unlikely to have the positive effect that is desired. Usually, when competition is increased in a sector, there is an effect on prices. In many sectors, if greater private-sector participation is permitted, then the consumer benefits directly through lower prices. This is not likely to be the case in this business, however. The problem here is that the state-run oil companies have a stranglehold over price setting. While the prices of petrol and diesel have nominally been decontrolled, in effect there continues to be some level of political input into the price — as is visible from the freezes put on price increases around sensitive elections. Thus, there is a lack of transparency as to the price of petrol and diesel, which makes it difficult for market competition to work properly. For instance, private operators would lose if public-sector retailers are asked to hold an increase in prices for political reasons.

The ideal situation is that the private-sector marketing companies be incentivised to buy from multiple different refineries, including those in the public sector, and that this be used to create an open and transparent pricing regime for petroleum products that passes on the benefits of lower prices to the consumer. Of course, a large proportion of what the consumer pays goes to the government anyway in the case of taxes. And there is no real reason for those carbon taxes to be reduced. But that does not change the fact that competition on costs, margins, and service quality can both provide a better service to consumers and at a better price even if taxes remain high. The crucial question will be if the government can follow this up with pricing reform to its state-controlled refineries as well.

ILLUSTRATION: AJAY MOHANTY



The Shiv Sena's moment of truth

With its ideology based on resentment having run its course, the party must figure out a new pathway to relevance

The Thackeray family, once a vibrant political force in Maharashtra, has become a minor player but is refusing to acknowledge it. Its party, the Shiv Sena, is again pretending to play hardball with the Bharatiya Janata Party (BJP), though it has no long-term options and is facing the most competent political party in recent history. An alliance that keeps looking iffy will eventually happen and the Sena will fold as it has always done. The BJP's patience and restraint and its long game have produced high returns.

The remarkable thing here is that in all the three decades of the alliance between 1990 and 2019, the BJP was the junior partner in Maharashtra. The BJP managed Bal Thackeray through Pramod Mahajan, before he was murdered by his brother in 2006. Mahajan was calm and willing to brush off Thackeray's regular tantrums and misbehaviour through long periods of negotiation. The Sena newspaper *Saamna* frequently abused them, as it still does today, the BJP through front page interviews of its party chief while still being in an alliance.

The partnership was forged in the cauldron of the Babri movement and consolidated after the vandalism in which Thackeray proudly claimed his Sainiks had participated. In 1990, the tally was 52 seats won for the Sena and 42 for the BJP. This was not because of inherent asymmetry but merely that Sena had insisted on and secured more seats to contest. In 1995, the tally was 73 and 65, giving the alliance a narrow victory in a Bombay that was torn apart by communal violence and the subsequent revenge bombing attacks. The saffron alliance (as journalists named it) formed their first government with Sena's Manohar Joshi

becoming chief minister. This was an unremarkable government.

In 1999, the Sena took 73 and the BJP 56 but fell just short of a majority. The Congress in the state split at this point on the issue of Sonia Gandhi's foreignness and Sharad Pawar formed the Nationalist Congress Party (NCP). In 2004, the saffron alliance again came close but couldn't form the government with the Sena at 62 and the BJP at 54. As always the Sena had contested more seats (163 this time as opposed to the BJP's 111). Pawar commented at this time that Maharashtra was a "Congress-minded state" not attracted to the BJP's agenda.

In 2009, the BJP contested fewer seats but won one seat more than the Sena with a far better strike rate. The ailing Bal Thackeray was inactive and would pass away a couple of years later. This marked the end of the BJP's patience with the Sena.

In 2014, the BJP rightly and logically asked to contest more seats but the Sena was obstinate and the alliance faltered. The Sena went alone and was predictably marginalised in the Assembly, winning only half the BJP's 122.

This year, the BJP for the first time secured officially the position of senior partner, contesting two and a half dozen more seats and winning 50 more than the Sena. The trend is irreversible and the data is clear. The BJP has eaten the Shiv Sena's lunch in Maharashtra. The market share for the Sena's produce — resentment and anger against South Indians, Muslims and then North Indians — has reduced sharply. The consistent majoritarian focus of the BJP's Hindutva has swallowed it.

It is not fully appreciated why the Thackerays are



AAKAR PATEL

India and China in 2022

What does one see when looking at the future of India-China relations? A view of 2022 seems worthwhile after the five informal summits planned between Prime Minister Narendra Modi and President Xi Jinping have been held. Two of these have concluded, three are yet to come — in 2020, 2021 and 2022. A five-year time frame is a reasonable period to consider progress or otherwise.

The first outcome of these five summits is likely to be a gradual, growing mutual respect between two strong leaders who are strong not just in personality but in action too. This mutual respect, even when they differ, augurs well for bilateral relations. The problems are many and the challenges multiple. After five informal summits, with quality time devoted, plus many other meetings at other summits, "mutual respect", if not "mutual like", can certainly be expected. If so, 2022 should see incremental growth.

The second outcome, going beyond respect, will be a step by step increase in mutual trust. This will be a major move forward for both countries, dogged by over half a century of mistrust — in fact, a massive two-way trust deficit. It takes many small actions to build trust. It takes one wrong action to destroy trust. Five informal summits, in spite of multiple challenges all-around, should build a growing level of trust. This is a reasonable expectation for 2022.

The third outcome would be mutual understanding on trade. India is faced with a trade deficit of over \$60 billion. There could be a gradual reduction in the trade deficit to \$25 billion, a far more reasonable level and, perhaps, politically palatable (or, can it go in reverse to \$70 billion-plus?). This depends not only on the two governments but also business and industry on both sides — they are the exporters and importers within an environment set by the two governments, especially China in regard to prices and barriers. Real progress on bilateral trade

could be a reality, driven by the two leaders and the respective industries, but it will depend on China.

By 2022, the initial Regional Comprehensive Economic Partnership Agreement would develop further if China (with its huge economy), shows reasonableness towards its smaller neighbours, including India, all of whose economies are far smaller than its own. The "big brother", China, will need to nurture neighbours rather than overwhelm. Build friends not build fear.

The fourth outcome by 2022 would be on the ground, practical cooperation on terrorism. A road map would emerge in spite of China's other commitments because terrorism is of serious concern to them, as it is to India and the world. China is wise enough to understand what terrorism can do to hurt them. Terrorism is infectious. By 2022, India and China may be actually acting together on certain issues of common concern.

The fifth outcome would flow from a different area of cooperation. And, this is likely to be investment, two-way, but more into India in the manufacturing industry. As long as there is significant trust deficit, policy and procedures will restrain investment. As this scenario changes, the attitude to bilateral investment will also change. In both countries, respective industries can set up manufacturing facilities, creating jobs and developing technology. This can be a double-headed winner if the process of trust-building, and opening to each other, grows, as is to be expected. Both countries seek "capital" and the picture in 2022 could be somewhat different.

The sixth outcome would be significant: A beginning in defence, military and security cooperation. This can be a troubling area if there is not even a modicum of trust. By 2022, this most sensitive area is likely to be addressed. This is so fundamental to



TARUN DAS

compelled to make a nuisance of themselves every so often. Unlike other political parties, Shiv Sena has a physical presence in Mumbai neighbourhoods. This space is named the *shakha*, like the Rashtriya Swayamsevak Sangh's outreach unit, but the activity is, of course, very different.

These offices, run by local toughs, are self-funded, meaning that they approach businesses, shops and residents for "donations". This activity can run smooth only so long as the Shiv Sena brand radiates menace. The party is not effective if it isn't feared, and the grassroots constantly reminds the leadership of this.

This will explain why the Sena leadership is forever in the business of obstruction: Block this and don't allow that and so on. Bal Thackeray quickly understood this reality and made it the centrepiece of the Sena's activity. The party made no positive contribution even after taking power. It was unable to attract many from the educated middle class or technocrats (Suresh Prabhu joined but immediately fled).

The Sena realised this and gave up any ambition of becoming a party of governance, focussing its energy on renaming Bombay, renaming Victoria Terminus, renaming the airport and so on. It has no ideology other than resentment and mischief and so has been unable to resist the powerful advance of the real Hindutva party. The Sena has always missed the discipline and determination to build an organisation, with the party being a family enterprise and merely Bal Thackeray's id writ large.

Thackeray was a unique figure. He was akin to a stand-up comic: A speaker with no interest or talent in institution building but able to draw people towards him through rhetorical alone.

He made an annual speech on Dussehra at Shivaji Park, a brilliant, rambling discourse, part angry and part humorous which drew tens of thousands. He chose Dussehra not because of the Hindu tradition but the Marathi one. It was the day Shivaji, after whom the Shiv Sena is named, began his annual raids — 30,000 horse riding north to extort money from the Mughals and Rajputs — crossing the Narmada into Hindustan at the end of the monsoon.

As many noted on his succession, Uddhav Thackeray is a poor public speaker and lacks charisma. Cousin Raj Thackeray is better but lacks material and width in his rhetoric. Neither has the firepower that the old man had decades ago and it is now a different era and a different audience. The Sena has desperately been trying to figure out a way to be relevant and this has been difficult.

The Thackeray family did not contest elections because that was beneath it. When Joshi was made chief minister 25 years ago he proudly acknowledged his actions were being remote-controlled from Matoshri (the Thackeray residence). But competent Sena leaders with their own base, like Chhagan Bhujujal and Narayan Rane, usually leave because the party is unable to accommodate their ambition.

None of the Thackerays ever became a minister and certainly being subordinate to a BJP chief minister would dent their style. With Uddhav's son entering the field for the first time, this will change. And about time too: The Sena must figure out a new pathway to relevance before the BJP swallows it whole.

building strategic cooperation and mutuality of strategic interests. Five informal summits will see a beginning, however small. And, it has to be small.

The seventh outcome will be a rising curve of people-to-people contact, especially in education, training and tourism. The power to issue or not to issue a visa is directly related to bilateral tensions and differences, or a lack thereof. In all likelihood, 2022 should see an unprecedented number of people exchanging visits and getting visas with greater ease and lesser scrutiny. The people-to-people connect will also involve learning each other's language — Mandarin for Indians and Hindi for the Chinese. More students will travel to each other's countries for training and education. The "Soft Power" connect is likely to move ahead by 2022.

There will surely be other outcomes but on all fronts it is going to involve tough negotiations. This is different from an earlier Indian thesis, from some quarters, that India should show more and more understanding towards China. The current approach is different. It is based on self-respect, self-esteem, self-confidence and reciprocity. Every step will be hard but will be taken because of an overarching vision of India and China "together", not "apart".

The two nations will be upfront, stress mutuality and get mutuality understood and accepted. The progress will be step by step. There will be no romance, no euphoria. But, the aim and objective will be to bring China and India into a deeper and wider engagement with each other.

There will also be areas that will see no progress. But the continuous engagement of the two leaders will make a difference, not only to bilateral relations but to all of Asia and, in fact, the world. This is the big picture in front of Prime Minister Modi and President Xi. The unexpected, unanticipated consequences of plugging away together, setting direction, pointing the arrow and proving the disbelievers wrong.

The writer has served as the chief executive, director general, and chief mentor of CII

A complex nexus in Nepal



BOOK REVIEW

SHYAM SARAN

Reviewing a book that deals with events in which one has been involved in some measure is always a risk. As India's ambassador in Nepal during 2002-2004 and later as foreign secretary from 2004-2006, I was called upon to deal with many of the events described in Sudheer Sharma's *The Nepal Nexus*. I understood them differently from the author. This does not detract from his impressive grasp of the tortuous and complex political manoeuvrings, which have marked Nepal's transition from an auto-

cratic monarchy to a multi-party democracy. The book also tells the story of India's relationship with Nepal but focuses narrowly on the political dimension, neglecting the many parallel layers of engagement that suggest a more complex picture than presented in the book.

The book offers an interpretation of events, which unfolded from the start of the Maoist revolt in 1996 to the present. It reinforces long-held Nepali elite assumptions about the role of political parties and their leaders, the monarchy and above all, India. Political parties and leaders are presented as self-serving, opportunistic and ready to accept foreign (read Indian) meddling to advance their personal ambitions. And yet it is these very parties who have delivered durable peace after a decade of violence and insecurity. For all its failings, the monarchy is seen as redeemed by its nationalistic credentials (as asserted, against Indian "hegemony").

The author is convinced of a consistent Indian strategy of keeping Nepal in a perennial state of "controlled instability". All Indian action in Nepal, including seemingly contradictory ones, is seen as serving its "neo-colonial" purpose. This leads inevitably to discerning an Indian conspiracy behind every major turn of events and the author resorts to dark innuendos if facts are not forthcoming. His account of the palace massacre in 2001 sets the tone — there must have been a foreign hand which "instigated" the Crown Prince to murder his parents and family. Some well chosen interlocutors are then trotted out to point the finger at India, including the supposedly pro-Indian Maoist leader, Baburam Bhattarai.

About India's relations with the Nepali Maoists, Mr Sharma makes the illogical claim that because India was afraid that the left wing insurgency "could spill over from the Nepal hills into the sub-continent-

tal plains and destabilise the entire region....It could be managed only through the mainstreaming of Nepali Maoists." India was deeply concerned about the reported links between the Nepali Maoists and Indian Naxalites and our intelligence agencies constantly raised the frightening prospect of a red corridor extending from Nepal all the way down to Andhra Pradesh. This explained Indian policy to help Nepal defeat the Maoist insurgency through supply of weapons, training of personnel and intelligence sharing. When I was sent to Nepal as ambassador, my mandate was to try and encourage a united front among mainstream political parties and the monarchy to isolate the Maoists both militarily and politically. This remained our position until February 2005, when King Gyanendra carried out a coup, arresting political party leaders and assuming all authority in his hands. This is when Indian focus shifted to promoting a united front of the political parties and the Maoists to compel the king to restore multi-party democracy. Several constituencies on the Indian side did not favour this shift pre-

cisely because of fears that "mainstreaming" the Maoists would exacerbate the Naxalite challenge. Those of us who supported an understanding between the Nepali political parties and the Maoists felt that the latter had come to accept that they would not be able to prevail militarily and hence having a share of political power would be a more realistic aim. Our support was contingent on the Maoist leadership committing itself to joining the mainstream as a civilian political party without an armed force and ready to test its popularity at the hustings.

Mr Sharma is right to point out that the India-Nepal relationship has lacked the kind of high-level political attention on the Indian side which a neighbour of strategic importance should have. The personal relationships that existed between G P Koirala and Ganesh Man Singh on the Nepali side and Chandra Shekhar on the Indian side are now missing. The role of the bureaucracy and the intelligence agencies has become more important. This should change. But relations at the political level appear disconnected from the much

stronger and enduring relations at the people-to-people level, and the extensive network of Nepali ex-servicemen of the Indian Army. There are several million Nepali citizens who live and work in India and no one brands them as illegal immigrants.

The book creates the impression that the Madhesi issue is somehow created by India and that it flows from the ethnic links of the people of the Nepal Terai and those living across the border in UP and Bihar. However, there are several million Indian citizens of Nepali origin especially in Uttarakhand, West Bengal and Assam and they are all from the hill districts of Nepal. Mr Sharma could have at least acknowledged some of these additional and significant dimensions of the relationship between the two countries.

The writer is a former foreign secretary and served as India's ambassador to Nepal, 2002-04

THE NEPAL NEXUS

Sudheer Sharma

Penguin India; 432 Pages, ₹699