

# Rethinking the referendum

Two years on, Britain remains as divided as it was earlier over the issue of leaving the EU



VIDYA RAM

On Saturday, June 23, just two years to the day since the referendum in which Britain and Gibraltar (including Commonwealth citizens resident there) voted to leave the European Union (EU), over 100,000 people marched through London to call for a second referendum on Britain's decision to leave. Some waved EU flags, others had placards calling for a "People's Choice, Proper Choice", and others again wore t-shirts with the message "Rethink Brexit, Renew Britain". The participants ranged in age and background, though there were many young people. One carried a sign, "I'm 16, Brexit Stole my Future."

## The promises made

"A chaotic government trying to push us over the cliff edge," Caroline Lucas, the co-leader of the Green Party, told those gathered there. She pointed to a range of promises made during the course of the referendum campaign by the Leave side that had been unfulfilled, such as £350 million a week extra for the National Health Service (NHS) as well as the difficulties related to Northern Ireland and other matters that voters had not been aware of at the time of the vote. "It is time for you to decide, for you to take back control," said Gina Miller, the campaigner who had taken the government to the Supreme Court over parliamentary accountability for Brexit. Pointing to the House of Commons, where MPs last week had voted by a slim majority to pass the central plank of Brexit legislation, the EU Withdrawal Bill, she

said it was "dishonest" for politicians to suggest that "they still believe the will of the people is still the same as two years ago."

Two years on, as Britain remains as divided over the issue of leaving the EU, public debate has continued and gained ground on the virtues of a second referendum. Initially those concerned about the direction of Brexit policy had focussed, like Ms. Miller, on pushing for greater parliamentary accountability, but with both main political parties committed to respecting the "will of the people" and leaving the European single market (the Labour party is more committed to some form of custom union membership), opposition has turned elsewhere.

The arguments are far from straightforward. Though won by a slim majority of 51.9% to 48.1%, the referendum result followed a high turnout of 72.2% which was well above the figure for recent general elections (which has ranged between 61% and 69% in the past decade). Contrary to initial suggestions that young people had not participated, subsequent research by two LSE academics found that around 64% of 18 to 24 year olds took part in the referendum, which was almost identical to the turnout for 40 to 54 year olds (for those aged 65 and over the turnout hit 90%).

Nevertheless, arguments have focussed on the closeness of the margin, and what was voted on. Was a 50% threshold high enough, and was a mere 3-4% gap wide enough for such a fundamental and irreversible decision that was to determine the future of generations to come?

And what of the question put to people in the referendum itself: "Should the United Kingdom remain a member of the European Union or leave the European Union?" What did leaving and Prime Minister Theresa May's now noto-



SIMON DAWSON/GETTY IMAGES

rious slogan "Brexit means Brexit" entail?

Did it necessarily involve leaving the single market (the elimination of tariffs, quotas, and the free movement of goods, services, capital and people)? Or the customs union (the clubbing together of countries to apply identical tariffs at the border)? Norway, Iceland and Liechtenstein are part of the single market but not the EU, while non-member Turkey is part of a customs union with the EU, while also not a member.

There have also been questions around the veracity of some of the claims made during campaigns such as the NHS pledge (referred to by Ms. Lucas at the protest) made by Vote Leave, the leading group that campaigned to leave the EU, and which was supported by politicians like Foreign Secretary Boris Johnson. The NHS pledge has in fact become a rallying point for the opposition movement. Earlier this month, the government courted anger, including from Conservatives, over funding for the NHS that was touted as a Brexit dividend. There are also concerns around the promises made to particular communities: former Cabinet Minister Priti Patel was among those who drew support from the Indian community for leaving the EU by suggesting that ending freedom of movement from the EU could give the government space to be more lenient towards non-EU nationals. Since then the government has

continued to maintain its tough stance on immigration, refusing to budge on an immigration cap, and excluding Indian students from a relaxation of documentation requirements.

## Problem areas

New problem areas have continued to arise particularly over the Irish question, which has proved to be one of the issues hardest to resolve at the heart of Brexit. Leaving the single market and the customs union would result in a "hard" border on the island of Ireland, jeopardising the fragile peace process under way that has heavily relied on the fluid boundary and deep economic and social links. With the May government's Northern Irish ally, the DUP, heavily opposed to anything that results in a different regulatory or customs regime in Northern Ireland and the rest of the U.K., options for an innovative solution are extremely limited. Business groups have become more and more vocal over their concerns, with Airbus warning that its future in the U.K. was at stake under a no-deal scenario, while the Society of Motor Manufacturers & Traders, which represents the auto industry, said that investment was already taking a hit from the uncertainty around Brexit. "With every week that passes, new facts emerge that no one knew about during the referendum," warned Labour MP and People's Vote advocate Chuka Umunna earlier this month.

Further complicating matters have been questions over Vote Leave, and Leave.EU, another of the major Brexit campaign groups. Last month, the Electoral Commission fined Leave.EU £70,000 for breaking spending rules during the referendum, while its investigation into spending by Vote Leave is due to be published next month. A draft version of the report had

concluded that rules had been flouted, the BBC recently reported.

However, not everyone is convinced of the role of referendums: if a referendum on such a crucial issue lay at the heart of the problem, would pushing for another one be the right road ahead? Would gaining a meaningful say for Parliament be a better focal point?

Whether Parliament has been guaranteed a "meaningful say" depends on who one asks. Last week, the government managed to win support for its EU withdrawal bill after offering certain "assurances" to potential Conservative rebels around the role that Parliament would have. However, the extent to which those guarantees can be relied on remains unclear with some suggesting that the so-called "assurances" simply involved the government reiterating what was standard procedure already.

## Learning from the past

In the meantime, the push for another referendum continues, but with a warning from some of its advocates. "If we are to succeed, we cannot repeat the mistakes of the past," said Ms. Lucas at the rally, calling for the new campaign to avoid the pitfalls of the initial Remain campaign. This campaign had been dubbed "project fear" for its concentration on the economic dangers of leaving the EU, while its focus on enlisting top economists, politicians and others had led to leave campaigners whipping up the "anti-establishment" vote against them. "Our campaign must be radical, it must be young, it must be diverse; it must listen to people, empower them and create reasons for hope," she said. "We must be different to win and we have to win."

# Ujjwala revolution

With supplies ramping up and service improving, the adoption of LPG has received a boost

NIDHI PRABHA TEWARI



AFP

Last month, the Pradhan Mantri Ujjwala Yojana (PMUY) completed two years of operation. During this time the number of LPG connections has crossed 4 crore, and LPG penetration in India has risen from 56% in 2014 to 80%. While distributing new connections is no mean feat, the greater challenge for the mission lies in refills.

It is worth considering the usage pattern of PMUY customers who have been in the system for a year or more and have been buying four or more cylinders a year. Data from the Indian Oil Corporation Limited (IOCL), which has given out almost half of the Ujjwala connections, suggest that between May 2016 and April 2017, IOCL enrolled 85.47 lakh Ujjwala customers. From May 2016 to April 2018, the average cylinder consumption of these customers was 4.4 per year, including the installation cylinder.

One in five Ujjwala customers who enrolled in May 2016 is using seven cylinders annually, thus matching the national per capita consumption of 6.8 cylinders in 2017-18. A total of 60% of those enrolled in May 2016 are on their eighth cylinder at present, implying an annual usage of four cylinders. A similar trend is also seen for those enrolled in March 2017: 20% using seven or more cylinders annually, and 56% on to their fourth cylinder.

Studying the usage of gas by PMUY customers and visiting multiple villages across the country, the following features of the programme are evident. One, interactions with PMUY subscribers suggest that they focus on the value that LPG generates for them and not on its cost. Munesh from Uttar Pradesh says, "LPG is neither cheap nor expensive; it is just worth the price I pay for it." She makes enough money through sale of cow dung manure to finance her LPG refills. Narayani from Chhattishgarh is now able to find time to stitch blouses and bags. Reena Rudrapal from Tripura makes idols. We also observe benefits such as customers being able to devote more time towards children, the elderly and sick, along with reduced drudgery and gains in health.

Two, the programme has also witnessed the emergence of a peer learning platform: the Pradhan Mantri LPG Panchayat. By sharing the vision of early adopters and ironing out service issues, the LPG Panchayats being held at village levels across India are helping more and more people appreciate the advantages of clean fuel.

The adoption of LPG has received a boost with supplies ramping up and service improving. In April 2014, there were 13,896 LPG distributors across India. This number is now 20,227. Another 3,750 distributorships will be commissioned in 2018-19. Similarly, the loan deferment policy, which has allowed the recovery of loan amounts from Ujjwala customers, has been deferred for their next six refills starting April 1, 2018. This allows customers to avail of the subsidy during this period.

# JAM driving India's digitisation

## India looks set to benefit further from increased digitisation

**M**ORGAN STANLEY'S *India's Digital Leap: The Social Revolution*, released on June 24, discusses how the major reforms the country adopted in recent years—GST and Jan Dhan-Aadhaar-mobile penetration (JAM)—will impact the quality of life of its citizens, and the country's financial inclusion objectives and agricultural productivity. While India's per capita annual income is likely to increase from \$1,700 today to \$4,135 by 2027, the social impact of the 'digital leap' will be broadly felt in the aforementioned areas. More income available to each household means each family's purchasing power increases, reducing food's preponderance in the consumption basket while increasing outgo on other heads.

Driving this change in consumption patterns is the changed benefit transfer ecosystem; earlier, it was based on physical transfers, but now—because of JAM—it has transformed into an inclusive demand-driving mechanism with direct cash payments to beneficiaries. Physical transfers lead to massive leakages. However, biometric-based Aadhaar identification and its linking with the 300 million accounts opened under Jan Dhan since 2014 have enabled the Centre to save ₹90,000 crore using the direct benefit transfer (DBT) initiative. More such savings for the government resulted from the removal of 38 million fake LPG connections, 27.5 million fake ration cards, and 10% costs on the government wage bill.

Jan Dhan has not only provided funds for further investment and income generation, but has also resulted in an increase in banking penetration—with 85% of Indian citizens now having a bank account, compared to 45% in 2014. The total bank balance has amplified manifold, with ₹4,200 crore exponentially increasing to ₹78,500 crore in four years. These funds and greater access to them by financial institutions have resulted in, and can lead to, greater securitisation in the form of investment in insurance, debt, equity, commodities and deposit markets. Aadhaar-based identity verification has facilitated the rise in bank accounts and their opening by making the KYC process easier and simpler. In fact, e-KYC results in 90% cost saving in a deposit account opening process. The e-KYC and DBT implementation in fertilisers will yield to greater agricultural productivity as soil health cards, allocated to each plot of land, will determine the appropriate nutritional needs of a particular landholding.

GST is estimated to bring in ₹1 lakh crore per month during FY19; it has also led to a rising tax-to-GDP ratio for India, as well as greater loan penetration for MSMEs, which make up 80% of the employed labour force of the country. Although doubts persist related to Aadhaar implementation and privacy, as well as the viability of newly-opened Jan Dhan accounts given these are mostly used for high-cost, small-ticket transactions—the World Bank reported that 48% of bank accounts in India have been inactive over the past year—India looks set to benefit further from increasing digitisation.

### Success of Jan Dhan

Data as per Census 2011 (m)	Rural	Urban	Total	Current (estimate)*
Total households	168	79	247	
Households availing banking services	91	53	145	
Households without access to banking facilities	77	25	102	
As % of total households in respective segments	46%	32%	41%	15%
As % of total households in the country without access to banking facilities	75%	25%		

Source: Census 2011. \*\*We estimate that ~15% of households still likely lack access to banking facilities (this follows the govt's Jan Dhan drive beginning 2014)

### Govt savings as a result of usage of Aadhaar

Ministry/department	Scheme	Up to March 2017	Total during 2017-18	Up to March 2018
Petroleum & natural gas	PAHAL	29,769	12,506	42,275
Food & public distribution	PDS	14,000	15,708	29,708
Rural development	MGNREGS	11,741	4,332	16,073
	NSAP	399	40	439
Minority affairs	Scholarship schemes	-	159	159
Social justice & empowerment	Scholarship schemes	-	238	238
Others	Others	1,120	1	1,121
<b>Total</b>		<b>57,029</b>	<b>32,984</b>	<b>90,013</b>

Source: DBT.gov.in

In ₹ crore



## ● GST REPORT CARD

IMPROVING THE COMPLIANCE PATTERN AND MAKING IT EASY FOR BUSINESSES TO FILE RETURNS IS OF PARAMOUNT IMPORTANCE

# GST—well begun, some more way to go

**T**HE GOODS AND Services Tax (GST) reform has been the single-largest reform ever undertaken, considering its impact on business, consumers, central and state government finances and tax authorities. Each of these key stakeholders have been impacted in various ways and the success of the reform lies in the fact that, unlike some other countries which have discarded the reform, in India, there is only talk of improving the GST further and making it more broad-based.

Getting GST rolled out on July 1, 2017, was itself a mammoth task as it meant integrating multiple state and central taxes, realigning the role of tax authorities, introducing an era of digital compliance and making the central and state governments work together on multiple issues. The complexity of the task led to several implementation challenges, some on expected lines and some completely unexpected.

It was expected that there would be some resistance on the part of the states to cede the taxation powers and that the resultant issues could possibly impact the spirit of cooperative federalism that was essential in GST. However, all states and the Centre have worked very closely in ironing out various issues that have cropped up, and most of the decisions taken by the GST Council have been unanimous.

The GST Network was expected to function as a good back-end and ensure that GST heralded a regime of automated compliance similar to that in other developed countries. However, the frequent changes in various aspects of GST, coupled with unexpected surges in compliance loads, led to some difficulties for businesses in grappling with GST during

the initial phases.

After the first three months of the GST rollout, the declining revenue collections led to a lot of concern on whether the tax collection targets would be met, more so since the Centre had underwritten the potential revenue losses of all the states. However, close cooperation between the Centre and states in introducing anti-evasion measures, like the e-way bill, led to a turnaround in collections, and the past two months have seen an upsurge.

Several other countries had encountered inflation as a consequence of GST introduction and hence there was a need to curb the same in India through the introduction of an anti-profiteering legislation. Since there was no evidence of a GST-induced inflation spiral, the legislation was used sparingly and price fixation was largely left to the forces of demand and supply, which worked very well in most businesses.

The previous legislations had accumulated a very large number of precedents that could have been used as an aid in interpreting the law. Since the GST law was new, it was necessary to put in place a system of advance rulings by which businesses would get predictability and certainty on their tax matters. In view of the federal GST structure, there was a need for an advance ruling authority in each state. This has led to situations where there



are differences in interpretation across state authorities in addition to the need to approach multiple authorities for the same issue as the decision of one authority is not binding on another authority. It is expected that there would be a national level authority to whom references can be made for issues that are common across states and also in cases where two states have varied interpretations.

The pending cases under the earlier tax regime need to be dealt with, and all pending assessments and audits under the old laws need to be completed. While a sunset clause, specifying a time limit beyond which these could not have been taken up, would have been welcome, it is good to see that the tax authorities are on an overdrive to take up and complete pending matters and assessments. Businesses would hope that this does not lead to a mechanical disposal of all old matters to overcome time pressures and that each matter would be dealt with on its merits.

Since the GST system was predicated on the existence of an invoice matching and reconciliation system, a compliance scoring system was

expected to be put up in the public domain to enable businesses to select and evaluate their vendors. It was expected that this would lead to smaller businesses embracing GST and becoming compliant, which would have led to the larger goal of broadening the tax base. However, this is yet to take off, possibly on account of the initial implementation challenges. It is expected to be operationalised soon once the data required to compute the compliance score is available and the parameters for the score are finalised.

The source data, which is to be used in the future for data analytics across industries and sectors,

**A modular structure of filing returns, where only relevant portions of the return are to be completed by various businesses, would encourage greater compliance**

emerges from the GST returns that are filed. Hence, improving the compliance pattern and making it easy for businesses to file returns is of paramount importance. A modular structure of filing returns, where only relevant portions of the return are to be completed by various businesses, would encourage more businesses to comply with GST and file returns in time. In addition, staggering the return filing dates for various categories of small and large taxpayers would be beneficial in balancing the load on the IT infrastructure.

While the past one year has seen several GST challenges for businesses, the next year is going to see the tax mature as one of the largest contributors to the tax pool and it is essential that it becomes a stable and predictable tax collected from all sections of the value chain.

# Trump disrupts global governance

**G PARTHASARATHY**

*A former diplomat*

**T**RUMP'S erratic and rude behaviour has not just shocked his allies and nations across the world but also converted international governance into a theatrical farce.

New Delhi has been at the receiving end of Trump's economic policies of "America first." Trump's duties on imports of aluminium and steel have resulted in India taking up the issue with the WTO and imposing reciprocal trade restrictions on US exports. India's trade surplus with the US in 2017-18 was around \$21 billion, barely 5 per cent of the trade surplus of China. But, the Trump administration would evidently like to end GSP trade preferences, accorded to India since 1974, together with demands that India ends restrictions on imports of American dairy products.

While Trump is proposing tariffs on some \$50 billion of Chinese exports, he also supports special treatment for China, while heaping praise on President Xi Jinping. He intervened to reverse a US Congressional ban on ZTE, China's manufacturer of Android phones, which accepted that it had violated sanctions, by exports to Iran and North Korea. The US Commerce Department banned US companies from exporting components essential for ZTE's survival and brought the company to its knees. Trump, however, stepped in, tweeting that he would work with Xi, to reverse the ban.

With high-level meetings under way, India should respond to Trump's policies

by being judicious in extending support, while seeking a quid pro quo for its actions, which support US policies. Any significant purchase of defence equipment, or civilian transport aircraft should be linked to specific political, economic and security gestures from Washington, while ensuring that US actions do not undermine the India-Russia defence relationship.

We need to work with Russia and China so that Washington does not take us for granted. Defence Secretary Mattis and Secretary of State Pompeo appear to have a realistic understanding of India's policies, potential and imperatives.

We need to keep a close watch on US policies on Afghanistan, where an effort appears under way to mainstream the Taliban. This should not lead to politically equating the Taliban with the legitimate Afghan Government.

The annual summit meetings of the G7 grouping are marked by camaraderie. They make a significant contribution to issues of global governance, ranging from environment, trade and investment, to peace, stability and security. Trump shook this record by his behaviour during and after the G7 summit in Vancouver earlier this month. The summit was marked by simmering tensions on trade relations, with the US unilaterally imposing additional tariffs on imports of steel and aluminium, from its G7 partners. Differences on this issue led to Trump disowning the Summit Declaration he had signed and calling Canadian Prime Minister Trudeau: "Dishonest and Weak." Outraged European leaders joined ranks,

taking exception to Trump's comments, while Japanese Prime Minister Shinzo Abe, already shaken by Trump's U-turns on China and North Korea, maintained a silence.

He revoked US participation in the "Trans-Pacific Partnership", which sought to integrate the economies of the Asia-Pacific, ranging from Canada and the US to Japan, South Korea and ASEAN markets. China, now pushing for a "Comprehensive Economic Cooperation" agreement with ASEAN and its dialogue partners like India, Japan and Australia, will only increase its economic domination of the Indo-Pacific, by these American actions.

Other destabilising Trump policies include his determination to scuttle the North American Free Trade Agreement, his ban on travel to the US by people from six Muslim countries, his imposition of nuclear sanctions on Iran and his insulting labelling of Haiti and countries in Africa as "shithole countries," which provoked formal protests by six African countries.

Trump has created new tensions by recognising the whole Jerusalem as part of Israel, ignoring the global consensus that East Jerusalem would be under Palestinian control in any peace settlement in West Asia.

Trump's impetuously ignored the security concerns of key allies South Korea and Japan and went ahead with a summit meeting in Singapore, with North Korean leader Kim Jong Un, whom he had earlier spoken of in derogatory terms. Trump expressed his admiration for the North Korean leader and cancelled longstanding military exercises with South Korea, thereby implicitly

accepting the assurances of the North Korean leader that he would end his country's nuclear weapons programme. These actions were ill advised, naïve and undermined the trust that South Korea and Japan had reposed in the US. There is little prospect of North Korea discarding its nuclear arsenal anytime soon. Moreover, one wonders if Shinzo Abe can afford to remain a mere spectator, with China and North Korea possessing missile and nuclear arsenals, with US acquiescence.

Interacting with well-informed journalists and analysts in the US during a stay at the US west coast, where people voted massively against Trump, one feels that a larger section of people now appear more indulgent towards religious bigotry and racism. There is appreciation of the fact that not only did Trump receive nearly 63 million votes in the presidential elections, but his economic policies, particularly on tax relief, have been accompanied by reduced unemployment, with a booming stock market. Acceptance and support, particularly amongst small-town white Americans, of Trump's immigration policies, is evident. A large number of Americans, especially in the mid-west and south, feel that far too much of their national resources has been spent on involvement beyond the country's borders and that there is, therefore, merit in Trump's slogan of "America First". Aspirants for quick "green cards" and those with unrealistic expectations of continuing American "liberalism," would be well advised to bear this in mind.



# How are drug prices regulated?

The reduction in the prices of cardiac stents and knee implants has been applauded. But while cutting the prices of lifesaving drugs, how much is too much? The regulator takes up a specific case today

**ABANTIKA GHOSH**

NEW DELHI, JUNE 27

AT ITS meeting scheduled for Thursday, India's drug pricing regulator will take up the case of a lifesaving drug for children which has almost disappeared from the market after its price was slashed by over 90%. Earlier this month, the regulator wrote to the drug-maker to "rush supplies"; however, the pharmaceutical company argues that although it is a responsible corporate citizen, it can't provide "vast quantities" of the drug for less than its manufacturing cost. (*The Indian Express*, June 23)

Efforts of the regulator, the National Pharmaceutical Pricing Authority (NPPA), to regulate the prices of drugs and medical devices have included a much-applauded order in February 2017 to dramatically cut the prices of cardiac stents. However, a price cap that threatens to drive a crucial drug out of the market presents a different set of problems.

The drug in question — furosed or furosemide, often sold under the brand name Lasix — is a diuretic prescribed to babies with heart ailments to drain the body of fluids to reduce the load on the heart. Last November, NPPA cut its price from Rs 100-110 to Rs 10 per pack. Supplies have been hit, and over the last couple of months a serious shortage has emerged, with parents of very sick babies, some of them newborns, left running from pillar to post.

## Which drugs are under price control?

Every few years, the Health Ministry, in consultation with experts, draws up a National List of Essential Medicines (NLEM). These medicines, deemed essential for the treatment of common conditions, automati-



C R Sasikumar

ically come under price control. Under NLEM 2015, a total 376 drugs are under price control. In addition, the government has the power to bring any item of medical necessity under price control. (Para 19 of the Drug Price Control Order, 2013) This provision was used to regulate the prices of cardiac stents and knee implants.

## And what exactly does this provision say?

Para 19 of DPCO, 2013 says: "Notwithstanding anything contained in this order, the Government may, in case of extraordinary circumstances, if it considers necessary so to do in public interest, fix the

ceiling price or retail price of any drug for such period, as it may deem fit and where the ceiling price or retail price of the drug is already fixed and notified, the Government may allow an increase or decrease in the ceiling price or the retail price, as the case may be, irrespective of annual wholesale price index for that year." The practice of exorbitant trade margins was used as the reason to bring stents and implants under price control. (But intriguingly, package rates for angioplasties have not come down.)

## How are ceiling prices calculated?

DPCO, 2013 lays down a complicated formula: "(Sum of prices to retailer of all the

brands and generic versions of the medicine having market share more than or equal to one per cent of the total market turnover on the basis of moving annual turnover of that medicine) / (Total number of such brands and generic versions of the medicine having market share more than or equal to one per cent of total market turnover on the basis of moving annual turnover for that medicine.)" In other words, the ceiling price is the average of prices of all brands of a medicine with more than 1% market share. In the way pricing control works, until the formula has been applied for a drug and NPPA has come out with a ceiling price, the drug can continue to sell at the current price even if it is included in the NLEM. NPPA is constantly in the process of fixing ceiling prices.

## On what grounds was furosed brought under price control?

By an order issued on November 23, 2017, the price of furosemide (furosed) was set at 0.29 per unit. This made the effective ceiling price of a pack around Rs 10. The decision, as the order itself said, was taken without looking at market data. It said: "Whereas NPPA also sought information from the various Government Procurement Agencies under Central Government and States and State Medical Services Corporation, as it is necessary to fix ceiling prices of scheduled formulations. Accordingly, in the absence of the relevant market based data in the Pharmatrac report of AIOCD- AWACS, it has been decided in the Authority Meeting held in the NPPA on 19/9/2017 to fix the ceiling prices of remaining scheduled formulations on the basis of procurement prices."

NPPA chairman R K Vats has told *The Indian Express* that supplies have since come down by about 40%.



# GOVERNOR'S SAY

*Far from being alienated by it, people of Kashmir have welcomed Governor's Rule*

JAGMOHAN

IN HIS ARTICLE titled 'A betrayal in the Valley' (IE, June 21), Firdous Tak has remarked: "Every time Governor's Rule has been imposed in J & K, the situation has worsened, alienation has grown". This is an instance of fiddling with the truths of Kashmir's history.

At the end of the Governor's Rule and the swearing in of Farooq Abdullah on November 7, 1986, the latter had said before a sizeable gathering of dignitaries and journalists: "Governor Sahib, we would need you very badly. It is, indeed, amazing that such remarkable work could be done by you in a short time through an imbecile and faction-ridden bureaucracy. If today three ballot boxes are kept, one for the National Conference, one for the Congress and one for you, your ballot box would be full while the other two ballot boxes would be empty." For all this, records of television and radio exist.

When I demitted office as Governor of Jammu and Kashmir, after the completion of my first five-year term, both the national and local press and also a number of eminent political analysts made highly appreciative comments on the footprints that I left behind. A few of these comments may be re-

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called here as examples.

V N Narayanan, then editor-in-chief of *The Tribune*, after touring the Valley for three days in June 1989, wrote three articles on "J&K Today". In the last article, Narayanan said: "Out of curiosity I put the question to everybody I met in Srinagar, Anantnag and Pahalgam recently: 'Who do you think would give the best government to the state?' It was not a surprise that without exception the answer was: 'The governor'. 'Any governor?' 'No, the present governor — Jagmohan'."

In its issue of April 6, 1989, *The Hindu* reported: "In fact, a large number of youth indicated that they would be more than satisfied if the governor, Jagmohan, was once again allowed to take over the administration."

Nikhil Chakravarty wrote on October 30, 1988: "One finds common people in many parts of the Valley getting bitterly disenchanted with the chief minister, in contrast praising Jagmohan's period of Governor's Rule."

This is what A N Dar, then editor of the *National Herald*, observed in his article of April 1989, titled 'What is wrong in Kashmir': "Jagmohan showed that it was possible to

win the goodwill of the people through fair-minded, selfless and effective administration. Even the fundamentalists and the anti-nationals accepted that he was fair and efficient."

The widely circulated Urdu daily of Kashmir, *Srinagar Times*, in its July 8, 1988 issue, editorially commented: "What Governor Jagmohan did during the Governor's Rule, to set right the deteriorating conditions in the Valley and improve its environment would never be forgotten by the people of Kashmir."

There are a plethora of contemporaneous records which have been duly cited in my book, *Frozen Turbulence in Kashmir*, but which have become a victim of either of lazy scholarship or of the intentional suppression of documented facts. And herein lies one of the basic reasons for the continued tragedy of Kashmir. All along, the truth has received grievous wounds in Kashmir. It is time that a healing touch is imparted to these wounds too.

*The writer is a former Governor of Jammu and Kashmir and was a Union minister*



# Citizens, non-citizens, minorities

Updating of the National Register of Citizens in Assam and the Citizenship Amendment Bill could lead to a redrawing of the demographic map of South Asia, give new life to the discredited two-nation theory



SANJIB BARUAH

THE CITIZENSHIP (AMENDMENT) Bill, 2016, is intended to be supportive of religious minorities facing persecution in neighbouring Bangladesh, Pakistan and Afghanistan. But members of those communities living in the three countries do not seem to welcome the proposed amendment. Only those who have moved to India, and now live their lives as members of the majority community, do.

The Bangladesh Hindu Bouddha Christian Oikya Parishad (Hindu Buddhist Christian Unity Council) for example, has expressed fears that the proposed amendment would make the communities it represents more insecure, not less. It would embolden political forces that would like to evict them from their lands and force them to leave Bangladesh and cross into India. Organisations like the Oikya Parishad have had to fight back rumours that the bill is the result of their reaching out to friendly political forces in India and to the Modi government.

To anyone familiar with the regional dynamics of the minority question in the Subcontinent, this will not come as a surprise. Developments in India have long affected the plight of minorities across the border. The suspicion of dual loyalty has been a persistent source of anxiety and fear for minority communities in the Subcontinent. There are many instances of communal conflict in India creating a backlash against minorities in Bangladesh.

Given this history, it is not unreasonable for the religious minorities in Bangladesh to expect India to be attentive to their predicament and not make their situation worse. The rhetoric of benevolence and humanitarianism that has been used to justify the citizenship amendment bill must sound contrived to their ears.

In the updating of the National Register of Citizens (NRC) — the Supreme Court has set June 30 as the deadline — as well as the citizenship amendment bill, there is an illusion of unilateralism that marks Indian policy. In election campaigns in the Brahmaputra Valley in Assam, ruling party politicians including Prime Minister Narendra Modi speak incessantly about expelling “Bangladeshis”. Then they opportunistically change their rhetoric in the Barak Valley where a fundamentally different set of memories of the Partition prevails because a large number of people displaced by the Partition live there. In diplomatic meetings with Bangladesh, the same politicians are reluctant to broach the subject of unauthorised migration. They pretend that India has no such problem with Bangladesh. The NRC exercise and the citizenship amendment bill, in their eyes, are meant only to serve domestic constituencies; they do not belong to the high table of diplomacy and strategic affairs.

One can hardly blame Bangladeshi officials for treating the NRC exercise as a matter of Indian domestic politics with no implications for their country. Even as the process nears completion, the official position of Bangladesh remains that there are no unauthorised Bangladeshi migrants in Assam. Senior Bangladeshi officials claim that India has never raised the question of deporting illegal immigrants in discussions



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at any level with the Bangladeshi government. India has not challenged this position.

This illusion of unilateralism is the main reason why people whose names will not appear in the final NRC in Assam are likely to face a gloomy future. They have long been subjects of suspicion of being false nationals. The NRC will now officially bestow on them the status of stateless citizens or of non-citizens with no rights. It is remarkable that the Supreme Court, which has mandated and monitored the updating of the NRC, has not been more proactive on this aspect of the question.

The Indian approach to the minority question has not always been so insensitive to regional dynamics. The illusion of unilateralism is of relatively recent vintage. Indeed, the NRC exercise and the citizenship amendment bill — and the illusion of unilateralism driving them — would have been incomprehensible to political leaders of the Partition generation.

It is worth recalling that the landmark Nehru-Liaquat Pact of April 1950 was a bilateral agreement between the two governments on the security and the well-being of minorities. Its main goal, in the words of diplomatic historian Pallavi Raghavan, was to reassure “minority populations of their security within the country and to discourage them from migrating”. The two governments not only made a commitment to mutual accountability, the Pact even provided an institutional infrastructure — including provincial and district minority boards — to address the concerns of threatened minorities.

To be sure, the relief that the Nehru-Liaquat Pact would afford proved to be temporary. Yet thanks to this Pact, large numbers of minority migrants who had crossed the Partition’s border because of communal violence felt encouraged to return to their homes on the other side. The bilateral premise of the process may be more relevant today than we recognise.

In the world of diplomacy, the bilateral way of approaching the question of minorities has a long history. Even the Peace of Westphalia of 1648 — conventionally thought of as the foundational event of the modern international state system — included safeguards for religious minorities. Concluding minority treaties was the instrument of choice for the protection of minori-

ties during the early part of the 20th century. This was when the unraveling of the Austro-Hungarian, Russian, and Ottoman empires had led to the emergence of a number of new minority situations in the reconfigured political space. In the Paris Peace Conference of 1919, the great powers assigned the task of enforcing the minority protection clauses of those treaties to the League of Nations. By the time the Nehru-Liaquat Pact was signed, the United Nations had replaced the League of Nations. But the memory of the League of Nations’ way of dealing with the minority question influenced the thinking of the leaders of the Partition generation.

The events that led to the outbreak of the Second World War discredited the League’s system of minority rights protection. The UN Charter therefore makes no reference to minority rights. But since the collapse of the Soviet Union, the rights of minority communities have featured in a number of bilateral agreements. The security of ethnic Russians that became a minority in many of the former Soviet republics is now a matter of concern for Russia’s foreign policy. Bilateral treaties between Russia and a number of these countries include provisions on minority protection. The European Union also emphasises the bilateral mode of addressing tensions arising out of the minority question.

Abandoning the illusion of unilateralism may be the first step in creating a durable regime of minority protection in the subcontinent. If India continues to hide behind the unilateral illusion, future historians will blame political leaders of the post-Partition generations for being unwitting accomplices to redrawing the demographic map of South Asia.

In an interview he gave just before the end of his term in office in 2016, Mizanur Rahman, the then chairman of the National Human Rights Commission of Bangladesh, painted a grim picture of the condition of minorities in that country. He was very critical of “the way the religious minorities are being treated” and the response of the Bangladeshi state institutions. “If it goes on,” he said, “I think within 15 years there will be no Hindus in Bangladesh.” This would be an ironic vindication of the two-nation theory that India otherwise rejects.

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# Reality check

RBI report warns that the worst on NPAs may be yet to come. Urgent changes are needed

The worst is far from over for Indian banks. The financial stability report released by the Reserve Bank of India on Tuesday has warned that the gross non-performing assets (GNPAs) of scheduled commercial banks in the country could rise from 11.6% in March 2018 to 12.2% in March 2019, which would be the highest level of bad debt in almost two decades. This puts at rest the hope of a bottoming out of the NPA crisis that has affected the banking system and impeded credit growth in the economy. The GNPA of banks under the prompt corrective action framework, in particular, is expected to rise to 22.3% in March 2019, from 21% this March. The RBI believes that this will increase the size of provisioning for losses and affect the capital position of banks. In fact, the capital to risk-weighted assets ratio of the banking system as a whole is expected to drop from 13.5% in March 2018 to 12.8% in March 2019. The deteriorating health of banks is in contrast to the economy, which is on the path to recovery, clocking a healthy growth rate of 7.7% during the last quarter. The RBI, however, has warned about the rising external risks that pose a significant threat to the economy and to the banks. The tightening of monetary policy by the United States Federal Reserve and increased borrowing by the U.S. government have already caused credit to flow out of emerging markets such as India. The increase in commodity prices is another risk on the horizon that could pose a significant threat to the rupee and the country's fiscal and current account deficits. All these factors could well combine to increase the risk of an economic slowdown and exert pressure on the entire banking system.

A major highlight of the financial stability report is the central bank's finding that public sector banks (PSBs) are far more prone to fraud than their private sector counterparts. This is significant in light of the huge scam unearthed at a Punjab National Bank branch earlier this year. The RBI notes that more than 85% of frauds could be linked to PSBs, even though their share of overall credit is only about 65%. This should come as no surprise given the serious corporate governance issues faced by public sector banks, which to a large extent also contributed to the lax lending practices that are at the core of the NPA crisis. In his foreword to the report, RBI Deputy Governor Viral Acharya has noted that governance reforms at PSBs, if implemented, can help improve their financial performance and also reduce their operational risks. For now, the RBI expects the government's recapitalisation plan for banks and the implementation of the Insolvency and Bankruptcy Code to improve the capital position of banks. These reforms can definitely help. But unless the government can gather the courage to make drastic changes to aspects of operational autonomy and the ownership of PSBs, future crises will be hard to prevent.

# From bad to worse

## The NPA crisis needs market-based solutions

In its Financial Stability Report (FSR) released on Tuesday, the Reserve Bank of India (RBI) insisted that India's financial system remained stable overall. But the prognosis for the bad loan crisis should cause policy-makers to worry. The FSR predicts that, if the prevailing macroeconomic environment stays the same in the coming year, the ratio of gross non-performing assets (NPAs) to total loans and advances will rise to 12.2 per cent in March 2019, an increase of 60 basis points over the figure for the end of the financial year 2017-18. This would be the highest since 2000, the last time India was faced with a banking problem in the wake of the Southeast Asian crisis. Of course, if the economic situation turns adverse — perhaps due to global factors — the gross NPA ratio would rise further, to 13.3 per cent in March 2019. For public sector banks (PSBs), which are the locus of this current crisis, the gross NPA ratio would be 16.3 per cent in March 2019 under current circumstances, and 17.3 per cent if things get worse with the macroeconomy. For six banks subject to the RBI's prompt corrective action (PCA) framework, which limits their functioning, the capital adequacy ratio would dip to 6.5 per cent in March 2019, below the 9 per cent regulatory mark. Banks with exposure to infrastructure, gems and jewellery, cement, and engineering are particularly in danger.

It is clear that, contrary to expectations in some quarters, the NPA crisis is not going away. Nor are current plans for the recapitalisation of PSBs likely to be adequate once all is said and done. While the new insolvency and bankruptcy code has taken great strides over the past year, it is also clear that it cannot yet be declared a success in terms of overcoming the current crisis. The FSR points out that only recently have financial creditors — meaning banks — taken to using the new insolvency process. Of the 701 cases admitted by the National Company Law Tribunal, only 176 have been closed — of which only 22 have been resolved. The government's current approach appears to be to seek regulatory forbearance where possible, and to rely otherwise on existing recapitalisation schemes and the insolvency process.

But given the growing magnitude of the problem, a more systemic approach is needed. The only sustainable solution remains governance reform in the banking sector. The RBI's prompt corrective action framework is all very well, but the hope that PSBs subject to PCA will somehow return to business-as-usual must be accepted as a fiction. Nor can a bad bank, which seems to have found favour again in the Union finance ministry, be seen as a solution. It may be politically unpalatable in an election year, but the government must seek out more permanent solutions to the problem of PSBs — which, the FSR points out, are also more prone to fraud. Market-based reform must be the priority. The central message should be that all banks will eventually be subject to market discipline or they will be closed or otherwise rendered irrelevant. Till that happens, the government should consider converting some of the worst performers among PSBs to narrow banks, which won't lend at all and therefore carry virtually no credit risk.