

# INDIA THE MODI FACTOR

edited by **Ugo Tramballi** and **Nicola Missaglia**  
introduction by **Paolo Magri**



ISPI



# **INDIA**

# **THE MODI FACTOR**

---

Edited by Ugo Tramballi and Nicola Missaglia

**ISPI**

© 2018 Ledizioni LediPublishing  
Via Alamanni, 11 – 20141 Milano – Italy  
[www.ledizioni.it](http://www.ledizioni.it)  
[info@ledizioni.it](mailto:info@ledizioni.it)

INDIA. THE MODI FACTOR  
Edited by Ugo Tramballi and Nicola Missaglia  
First edition: February 2018

*The opinions expressed herein are strictly personal and do not necessarily reflect  
the position of ISPI*

Print ISBN 9788867057061  
ePub ISBN 9788867057085  
Pdf ISBN 9788867057177  
DOI 10.14672/67057061

ISPI. Via Clerici, 5  
20121, Milano  
[www.ispionline.it](http://www.ispionline.it)

Catalogue and reprints information: [www.ledizioni.it](http://www.ledizioni.it)

## Table of Contents

---

Introduction.....	7
<i>Paolo Magri</i>	
1. Economic Reforms and Double-Digit Growth <i>Bidisha Ganguly</i> .....	13
2. Delhi <i>vs</i> States. Balancing and Speeding Decision-Making in India.....	37
<i>Gautam Chikermane</i>	
3. “Unity in Diversity” or a Hindutva India?.....	59
<i>Nicola Missaglia</i>	
4. Confronting BRICS: the Indian Dilemma.....	89
<i>Geethanjali Nataraj, Garima Sahdev</i>	
5. Modi’s World. Vision of a “Potential Superpower”.....	115
<i>Ugo Tramballi</i>	
Policy Recommendations for the EU.....	135
The Authors.....	141



# Introduction

---

When in 2014 Narendra Modi's Bharatiya Janata Party stormed to victory in India's general election, it was the first time since 1984 that a single party had won an absolute majority in the country. With no exception, commentators and analysts were sure that a historical moment had just taken place in the "world's largest democracy". Wherever one would look for news about India, reports and op-eds announcing "The Modi era begins", "Modi's moment", or a long-expected "Change in India" were likely to pop up.

Today, Modi is serving his fourth year in office and is already preparing for the next general election in 2019, which he will probably win again. And still, most of the talk and news about India today is connected with heated, enthusiastic or inquiring considerations about its energetic Prime Minister. Like four years ago, whenever there is debate about India, it is still Modi who catches the headlines – both in India and abroad.

But this volume is not only about Narendra Modi, the man who promised to "reform, perform, transform" his country, by boosting economic development and ultimately winning back India's place among the world's superpowers. Rather, this book is about India *and* Modi or, as it were, India in the "age" of Modi. And this is why taking a closer look at the Modi "factor", appears to be a necessary – whilst not sufficient – condition to understand many of the ambitions, challenges and contradictions India is currently going through.

Modi's India is back to the global front stage for several reasons. Since 2014 the Indian government has worked hard to accomplish major economic and fiscal reforms, such as the recent Goods and Services Tax, for example, or an overhaul of

bankruptcy law. “Radical” measures to tackle corruption have also been introduced, like the sudden demonetisation pulling 86% of India’s cash out of circulation overnight. Modi himself has spent a great deal of effort to promote his “India brand” around the globe – most lately in Davos – and boost bilateral partnerships, while still defending a “rules-based globalisation” against the threats of protectionism. Foreign investment into India has soared, and the IMF’s latest outlook for India’s economy looks more optimistic than many would have thought: with a 7.4% growth rate, India will even overtake China this year.

At the same time, an upsurge in communal tensions and concerns about Hindu nationalism keep triggering debate across Asia and beyond. Minorities and human rights groups, not only in India, have questioned Modi’s true commitment to secularism. They warn that intolerance is on the rise in India, stirred up by the government’s acquiescence to the excesses of militant Hindus.

Is Modi’s India really the dynamic, investor-friendly country he keeps marketing around the world? Is he more of a reformer or a Hindu nationalist? What progress has India made so far? Is India’s Prime Minister finally transforming this “reluctant super-power” into an actual global leader, able to compete with China?

All of the answers to these questions are still disputed, and even analysts are divided. For some of these questions, more time is required to provide a credible response. What is sure, however, is that India’s heavy weight both on the regional and on the global stage cannot be overlooked anymore.

First of all, by the European Union. The EU is a natural partner for India: not only in terms of size and complexity, but also – and even more importantly – on the basis of the “principles and values of democracy, freedom, rule of law and respect of human rights” both share, to put it in the words Modi and the Italian Prime Minister Paolo Gentiloni employed during a recent summit. In fact, India and Europe share sound – actually growing – economic, commercial and cultural relations, as well as common security interests. It is also worth remembering



that the EU is India's number one trading partner, well ahead of China and the US, and steps towards strategic partnerships with India have been taken. But a comprehensive European India-strategy has not yet seen the light of day, although there is growing evidence that such a quantum leap should be taken as a matter of urgency. At least before other international actors will seize the opportunity, if only for the fact that India is soon to become the world's most populous country.

Secondly – since this is ISPI's vantage point – by Italy. This year, India and Italy will celebrate seventy years of diplomatic relations. In a meaningful coincidence, when these relations were established seven decades back, both countries were witnessing a unique time in their respective national histories. Italy had chosen to become a republic less than two years earlier; its democratic constitution had just come into force, and Italians were about to take part in their first general election after twenty years of fascism. India, on the other hand, had managed to free itself from colonial rule through nonviolent struggle, and notwithstanding the hardships of Partition and communal violence, independent India's democracy was kicking off swiftly, with the proud and wholehearted commitment of all Indians.

Today, both countries are full-fledged democratic nations: raucous, at times, but with consolidated constitutional traditions and a say in the global arena. Political and economic ties between India and Italy are solid, too; and, as it were, “resilient”: in recent years, their relations have not always been easy. The reasons for this are of public record, such as the prolonged tensions over the detention of two Italian marines, for the killing of two Indian fishermen.

But eventually, both countries have dealt with their disagreements and mistakes as mature democracies do. Now, relations are back on track. In a world that is increasingly uncertain and, alas, far more liquid than it used to be seventy years ago, both countries shall “work together to support a rules-based international system that upholds agreed international norms, global peace and stability, and encourages inclusive growth and sustainable

development in all parts of the inter-connected world,” once again in the words of the two countries’ prime ministers.

In the West, Italy has been among the “frontrunners” in Sanskrit, cultural and religious studies concerning India. But today, one cannot ignore that Italy is also home to the second-largest Indian community in Europe, and that dozens of Italian and European companies have forged (or would like to forge) strong economic and commercial ties with India. They all have a thriving interest in gauging and better understanding the political and economic dynamics, internal challenges and international ambitions of this emerging regional and global leader. And so do policy makers, both in Italy and in Europe.

Understanding India – let alone explaining it – has always been a challenging task to observers, no matter how fascinating and thought-provoking this country is. Be it for its complexity, its diversity or the unique amount of historical and cultural layers that shape its “plural” identity, it is key to find a prism through which a glimpse of India can be caught. As mentioned above, the “Modi factor” is the prism we have chosen for this volume, and six authors were asked to split the spectrum into its different sides and faces.

First, reforms and economic growth. As Bidisha Ganguly puts it in the first chapter, when the Modi government came to power in 2014, there were claims for reforms that would lead to higher and possibly even double-digit growth. The Indian government has managed to move ahead with a “new” generation of reforms in several areas – such as taxation, business regulations, corruption and bankruptcy – while failing to implement wholesale reforms in sensitive sectors such as labour or land acquisition, due to strong opposition both in parliament and at the state level. However, the government should focus even more urgently on developing the enabling conditions for the proper functioning of market-based principles: especially those supporting job creation (one million Indians join the workforce each month), like infrastructure, digitalisation, housing and urban development, access to finance, and human development.

If implementing enabling conditions for business and job creation is a challenge for most countries, this holds especially true for India, whose federal structure and distribution of responsibilities across the central and state governments makes it particularly hard to enforce sweeping reforms and hold any specific institution responsible for their advancement. Gautam Chikermane provides a detailed analysis of how the forces of centralisation and decentralisation have been competing throughout the history of independent India up to this day, creating a continuous “circular tension between Delhi and the states through policy making and its execution”. Under Modi, the author argues, the equilibrium seems to be reaching a middle ground thanks to several ongoing changes, with each one described in detail.

Since Modi was elected four years ago – and even earlier, when he came to be known as the Chief Minister who boosted Gujarat’s economy over more than a decade – analysts and commentators keep asking themselves whether the Prime Minister is more of a reformer or a Hindu chauvinist. This question is at the core of Nicola Missaglia’s chapter. The author builds upon an examination of Modi’s relationship with his power base (albeit a reformer, Modi has been a life-long member of an influential Hindu nationalist grassroots organisation, the RSS) and analyses how – and with what consequences – the balance between competing claims from reform-minded supporters and religious extremists has been a marker of Modi’s political strategy, both before and after his election.

Switching to India’s external relations, Geethanjali Nataraj and Garima Sahdev explore the peculiarities and challenges that impact on India’s place – and ambitions – on the international scene as an emerging regional and potentially global power. In particular, the authors investigate how India’s relationship and competition with China, “an old partner and at the same time a consistent matter of concern”, represents a serious quandary for the country: while India – especially within the BRICS framework – has long seen Beijing as partner in demanding reformed

global economic governance, there is nothing more than a similar growth trajectory binding the “odd friends” together today. But most importantly, India now feels it must contain the ever-growing Chinese sphere of influence in Asia, and this gives India a hard time not only in conceptualising the BRICS as a still efficient political entity for its own rise in world affairs, but also in managing China’s ascent *within* this framework. This is all the more true, the authors point out, at a time when China is positioning itself as the next world leader, making New Delhi anxious about how China will conduct its transformation into a global power, whether it will be accommodative or contentious of India’s parallel, albeit much slower, rise.

But where does India actually stand in the world? And what precisely is Prime Minister Modi’s vision for India on the global stage? As Ugo Tramballi puts it in his concluding chapter, the world has undergone tremendous changes since India could evoke anti-imperialism and non-alignment as the main drivers of its foreign policy. With the bipolar world long gone (and some kind of ‘comfortable’ international order with it), new uncertainties emerging with America’s retreat, Russia’s inability to represent a trustworthy model for potential allies, new asymmetric threats, but most of all with China becoming a global economic superpower, India needs to redefine its role both in Asia and in the world as a whole. New Delhi must find new ‘strategic’ allies, present itself as a credible and attractive partner and tackle internal contradictions and imbalances.

Now, will this suffice for India to become a superpower, too? On many of these fronts, Modi is taking action; and yes, he has a global vision for his country. If, and to what extent, this vision – and the tools employed to fulfil it – will prove strong (and inclusive) enough to transform a “reluctant superpower” into an actual global leader has yet to be seen. Only time will tell. What is sure is that India – like many others – must hurry, if it does not want to miss the boat.

Paolo Magri  
ISPI Vice President and Director

# 1. Economic Reforms and Double-Digit Growth

Bidisha Ganguly

---

India gained from a burst of economic reforms in the early 1990s – often referred to as the first generation of reforms – that lifted a number of restrictions on industry and trade. Since then, successive governments have been keen to implement more reforms while at the same time maintaining political stability. The tug-of-war between populist measures and the reformist has been visible not only for the central government but also for the states.

The second/third generation of reforms were expected to lift restrictions in factor markets such as land and labour even as competition in the product markets was perceived to be adequate. It was felt that to compete with imports it would be necessary to improve the competitiveness of goods and services produced in India through these reforms.

When the Modi government came to power in May 2014, there was a clamour for implementing reforms that would lead to higher and possibly even double-digit growth. With a significant majority of 336 out of 543 seats in the lower House of Parliament, the NDA<sup>1</sup> government was expected to move ahead with major legislative changes in these areas. However, as it was soon discovered, the government faced considerable opposition and found it difficult to move ahead with any radical measures.

Its attempt to amend the 2013 Land Acquisition Act is instructive. In 2013, the previous government had enacted a land acquisition law which had substantially increased compensation to the seller of land and was widely perceived as pro-farmer and anti-industrialisation. When the new government tried to make

---

<sup>1</sup> National Democratic Alliance led by the Bhartiya Janata Party (BJP).

amendments that would make it easier for government and industry to acquire land for industrialisation, it was opposed not only by the principal opposition party but also by some of the BJP's own allies. Subsequently, the central government has left it to state governments to formulate their own laws related to the commercial use of land.

Similarly, in the case of labour laws, the Modi government has stayed away from wholesale reforms in recognition of the considerable opposition to such moves. Instead, it has encouraged states to go ahead with the reforms, given that labour is a concurrent subject under the Indian constitution. It is also not clear whether the government intends to move towards greater flexibility in hiring or is moving towards more regulatory impositions on employers. The recent move to consolidate the large number of labour laws into four labour codes seems to indicate an inclination for more regulations rather than less.

## **Economic Reforms**

It would be wrong to say that the current government has not moved ahead on any measures to reform the economy. In fact, there are several major areas where the government has pushed ahead with difficult and long-pending legislative action.

### **GST**

The goods and services tax (GST) has been recommended for many years now to address the fragmentation of the indirect tax structure in India. The GST was finally introduced from July 1, 2017 after a long process of negotiation between the central and state governments. This is indeed a landmark reform as the previous indirect tax system entailed a complex tax structure that varied across the country.

This has been consolidated into the GST's 6 rates, applied uniformly across states<sup>2</sup>. It is true that the GST can be im-

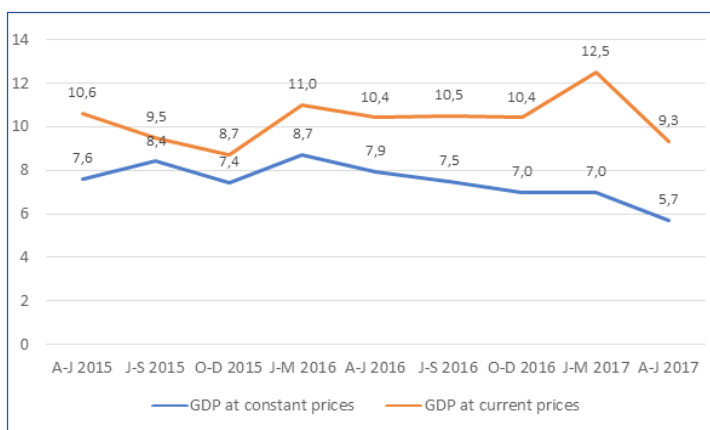
---

<sup>2</sup> Government of India, Ministry of Finance, Department of Economic Affairs,

proved further: critical sectors such as petroleum products, land and real estate are now excluded from the tax base while the multiplicity of rates still makes for a complex tax structure. It is the revenue compulsion of states and their lack of conviction about the benefits of simplicity that has kept the tax structure complex.

The implementation of the GST has, like nothing before, highlighted the debate on the relation between reforms and growth. India, which has been a high-growth economy, growing at a rate of 7 to 8% per year, saw a sudden decline in its growth rate to 5.7% in the April-June 2017 quarter, just preceding the implementation of the GST (Figure 1). This led to a backlash, particularly since the GST had been touted as a reform that will increase India's growth rate by 1.5 to 2%. It is likely that the setback in growth was temporary but only time will tell what the medium-term impact will be.

FIG. 1 - QUARTERLY GROWTH RATE OF GDP



Source: Central Statistics Office (CSO)

## Insolvency

The enactment of the Insolvency and Bankruptcy Code (IBC) in December 2016 is another instance of a landmark reform being implemented. India has lacked a time-bound statutory resolution framework for bankrupt companies. As a result, the credit and investment boom of the early 2000s resulted in a legacy of stressed assets and weak lending by banks. The new code is expected to help in quick resolution for defaulting companies. This is necessary for the corporate sector to reduce its debt level. This would also help improve the macro-economic scenario which is being held back by weak investment demand from an over-leveraged corporate sector.

It is also necessary to strengthen the banking system: as banks write off their bad loans, they need to increase their capital base. The banking system in India is dominated by public sector banks (PSBs) which are majority-owned by the government. The PSBs account for around 70% of loans and assets and almost three-quarters of deposits of all scheduled commercial banks. It is evident that the problem of non-performing assets (NPAs) is far worse for PSBs than for the private sector. While the stressed asset ratio for PSBs was 16% as of March 2017, the same ratio stood at just over 4% for their private sector counterparts.

Recapitalisation of the PSBs would require a substantial outlay of funds from the government, which may not be feasible given the government's fiscal consolidation targets. While some provision may be made by the government's budget, other options on the cards include raising equity from the stock market, issue of recapitalisation bonds and dilution of the government's stake in PSBs. A consolidation in the banking sector with the objective of having fewer but healthier banks is also on the cards.

## Ease of doing business

The business environment in India has long been held back by the long list of regulations that businesses must comply with.



Recognising the need to have a more facilitative business environment, the government has embarked on the massive task of rationalising and simplifying all business-related regulations. The government has stated its goal of improving India's rank on the World Bank's Doing Business indicators from the 2017 level of 130 and has tasted success with an improvement to 100 in one year.

However, further improvement will not be an easy task as regulations are not only in the domain of the central government but spread across state governments and local bodies as well as the judiciary. The World Bank ranking is based on 10 indicators that affect businesses through their life-cycle from starting a business to resolving insolvency. India's performance varies across indicators: while it is quite good in indicators such as getting electricity, getting credit and protecting minority investors, it is close to the bottom in indicators such as dealing with construction permits, paying taxes and enforcing contracts (Table 1).

TABLE 1 - WORLD BANK RANKING FOR INDIA

Topics	DB 2018 Rank	DB 2017 Rank	Change in Rank
Overall	100	130	↑30
Starting a Business	156	155	↓1
Dealing with Construction Permits✓	181	185	↑4
Getting Electricity	29	26	↓3
Registering Property	154	138	↓16
Getting Credit✓	29	44	↑15
Protecting Minority Investors ✓	4	13	↑9
Paying Taxes ✓	119	172	↑53
Trading across Borders	146	143	↓3
Enforcing Contracts ✓	164	172	↑8
Resolving Insolvency ✓	103	136	↑33

✓ = Doing Business reform making it easier to do business

Substantial effort has been made by the central government to move to a higher rank in the next few years. To encourage state governments to implement reforms, a ranking of states' business environments has been initiated. As a result, a fair bit of success is likely in areas such as starting a business, dealing with construction permits and paying taxes. Issues in resolving insolvency are also likely to be addressed with the implementation of the IBC. However, in two critical areas – enforcing contracts and registering property – the issues are proving to be too complex for any quick resolution.

### Double-digit growth: not just a fetish

It is often reiterated by policy-makers and advisors that India needs to grow at double-digit rates. This is so often repeated that it has lost meaning and the double-digit target can be easily ridiculed as a fetish, especially since India's growth rate has failed to touch 10% even once. It is therefore instructive to study the pattern of India's past growth experience. In the last three and a half decades, there were two periods during which India experienced a multi-year acceleration in growth: one was from 1992 to 1996 following the liberalisation of the Indian economy and the second was from 2004 to 2007 during the global economic boom (Figure 2).

After the financial crisis in 2008, the Indian economy initially recovered but then became mired in its own problem: a severe drought of private investment, accompanied by muted consumption both at home and abroad. The problem continues to affect the economy, as the ratio of investment to GDP has dropped from 39.6% in 2011-12 to 30.4% in 2016-17. As discussed earlier, the NPAs created from the excesses of the pre-2008 period need to be cleaned up before private investment can start moving up. Although foreign investors have stepped up their investments in India, it is not yet enough to have a multiplier impact on the economy. Even at a record high of US\$60 billion in 2016-17, they account for just 10% of fixed capital formation in that year.

FIG. 2 - ANNUAL GROWTH RATE OF GDP SINCE 1980

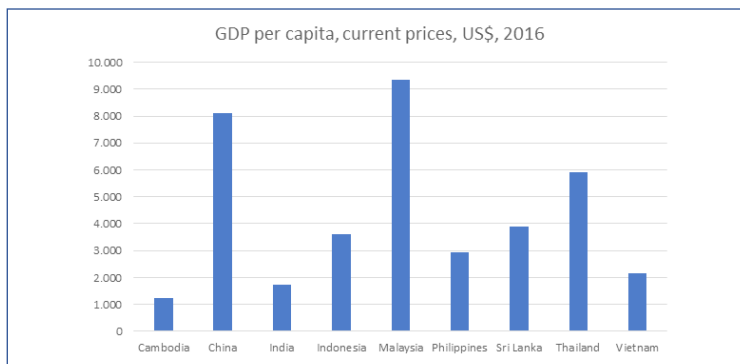


Source: International Monetary Fund

To revisit the reason why double-digit growth may be necessary to raise people's living standards, we look at India's growth rate in the last ten years and compare it to other developing Asian countries. IMF data shows that India's GDP at current dollar prices grew at a CAGR (compound annual growth rate) of 9% during the 10-year period from 2006 to 2016. During the same period, China's GDP grew at 15%. GDP per capita, which is an indicator of living standards, rose to US\$1,723 for India at the end of this period. For China, the per capita income at US\$8,113 was higher by a multiple of 4.7 (Figure 3).

If India's GDP were to grow at 10% over the next ten years, its per capita income would increase by a multiple of 2.3, still staying lower than where China was in 2016 (Table 2). Indeed, among developing Asian economies, it would exceed the 2016 per capita incomes of Indonesia, Philippines and Vietnam while still staying below that of Malaysia and Thailand. It would be closest to where Sri Lanka was in 2016. A growth rate of 15% would take it closer to Thailand in 2016 but to get closer

FIG. 3 - PER CAPITA GDP OF SELECT ASIAN COUNTRIES



Source: IMF

to China in 2016 a growth rate of 18% would be required<sup>3</sup>. Clearly, India's growth rate needs to rise on a sustained basis to raise people's living standards.

TAB. 2 - PROJECTED SIZE OF GDP AND GDP PER CAPITA IN 2026

	units	2006	2016	10-year CAGR	2026*	10-year CAGR*
<b>GDP current prices</b>	US\$ bn	949	2256	9%	5853	10%
<b>GDP per capita, current prices</b>	US\$	840	1723	7.5%	3940	9%

\*the data for 2026 is projected using the assumed growth rate for GDP and population growth of 1.2%.

Source: IMF, estimates made by the author

<sup>3</sup> Note that the growth rates are at current dollar prices and that the relevant growth rate at constant rupee prices may be different. However, if the exchange rate movements were to reflect inflation differentials, then the growth rates would be similar: taking into account inflation would lower the growth rate while depreciation of the rupee would also lower the growth rate in dollar terms.

## **The jobs conundrum**

The way in which the fruits of growth can be distributed is through the creation of high quality jobs and the resultant rise in per capita incomes. In China, for example, the development of the coastal regions led to a migration of labour from the interior for better quality jobs. In India, too, labour migration is prevalent from the less developed states of the north and east to the more developed ones in the west and south. However, mass-scale job creation in the organised sector is yet to happen in India.

It is well known that India is not only a populous country but that it also has a young population. The size of the workforce is large and the dependency ratio is low. India is therefore considered a potential candidate for earning a “demographic dividend” – a period of accelerated growth that a country can enjoy when its working-age population grows relative to the dependent young and old age population. India has such a window of opportunity during the next 25 to 30 years when the size of its workforce is expected to grow substantially.

This is at a time when other countries in the region and elsewhere are facing ageing populations that are expected to result in a decline in their workforce and their potential growth rate. Of course, the link between demographics and growth is not automatic – it needs to be supported with the availability of jobs and of the pertinent skills among those seeking employment. This has been a problem in India. A clear majority of the workforce is employed in the unorganised sector where wages and productivity are low. And the organised sector does not generate enough jobs to absorb the entire working-age population. The result is a kind of equilibrium in which the labour force participation rate is as low as 50% and the unemployment rate is also relatively low at 5% (Table 3).

TAB. 3 - POPULATION, LABOUR FORCE AND WORKFORCE (MILLION)

	2011-12	2015-16
<b>Working age population<sup>1</sup></b>	853.6	937.8
<b>Labour force<sup>2</sup></b>	451.6	471.7
<b>Workforce employed</b>	433.6	448.2
<b>Unemployed</b>	17.9	23.5
<b>Unemployment rate</b>	3.9	5.0
<b>Labour force participation rate</b>	52.9	50.3

1: Population aged 15 years or above;

2: Working age population either employed or actively seeking employment.

Source: Employment-unemployment survey, Labour bureau and CII

The figures also show that between 2011-12 and 2015-16, about 20 million people were added to the labour force, of which 14.6 million found employment. Of course, most of these jobs were in the unorganised sector<sup>4</sup>. Enterprises with more than 10 workers are supposed to register with the government, and are regarded as the organised sector of the economy. The organised sector is subject to government regulations regarding many aspects of economic activity including more stringent labour regulation and procedural requirements. It is possible that these regulations act as a disincentive for firms to increase employment and be categorised as part of the organised sector.

## What's required to create more and better jobs?

Economists have long argued for labour reforms in India which will give greater flexibility to employers. A plethora of legislation including the Industrial Disputes Act, the Factories Act and the

<sup>4</sup> According to the *Economic Survey 2016-17*, the total employment in the organised sector is just 29.6 million as of March 2012. This would account for just 6% of total employment in 2011-12 as given in Table 3 above.

Contract Labour Act currently regulate the labour market, making it hard for firms to adapt to changing market conditions. The result is that businesses choose to stay small rather than to expand and increase their compliance costs. This restricts employment growth in India. However, doing away with such regulation has been politically difficult for the government. If these reforms were to result in job retrenchment, the political backlash could be severe in a country which lacks social security.

Herein lies the challenge for the government. It needs to upgrade the eco-system in which jobs are created by moving on several fronts. A CII report on the Future of Jobs in India<sup>5</sup> has outlined some such areas: improvement in the business environment, including through the creation of clusters and re-orienting the education and skill-development system towards employability, understanding and leveraging the new technology and improving access to finance. Job creation would require not just reforms in the conventional sense but a host of actions to develop a conducive ecosystem that encourages use of labour.

Given the technological changes that are driving industry towards greater automation, this is indeed a challenge. An interesting suggestion in the report is that technology is changing in such a way that it may no longer be necessary to add scale to enterprises. Instead, individual stakeholders can come together to leverage the power of a network.

It is therefore possible to envisage a future for India where jobs are created by diverse stakeholders in smaller enterprises across sectors. This contrasts with the existing model in which large manufacturing enterprises drive job creation. Indeed, the distinction between manufacturing and services may get blurred as manufacturing firms need to tailor their products to individual preferences. As the fourth industrial revolution spreads, large enterprises catering to mass products will decline in importance while developments such as platform sharing will allow smaller firms to cater to individual demands.

---

<sup>5</sup> Confederation of Indian Industry (CII), *Future of Jobs in India, Enterprises and Livelihoods, A Systems View and Scenarios*, 2017.

## **Critical growth drivers for the future**

The word “reforms” typically refers to actions such as deregulation, privatisation, market-led pricing and free trade. Yet these may not be the critical ingredients for the higher living standards that India needs. More crucial would be to develop enabling conditions for the proper functioning of market-based principles. To take an example, it is important to create conditions that are supportive of job creation by firms. Currently, businesses choose to operate without adding too much manpower due to constraints such as lack of skills, low level of education, poor health and non-availability of low-cost housing. Without eliminating these constraints, simply executing labour reforms may lead firms to cut back rather than add jobs. Public policy should therefore be geared to easing these problems and avoiding policy mistakes such as mandating minimum wages that are not in alignment with the level of productivity.

### **Infrastructure**

It is well known that the quality and availability of infrastructure has a massive impact on a country's competitiveness. This includes not only traditional physical infrastructure such as road, rail and port connectivity but now also digital infrastructure including telecommunications. While India has had reasonably good infrastructure, it needs to invest significant amounts to satisfy rising demand. In some areas, policy changes are required for more rational pricing and use of public services.

The World Economic Forum constructs the Global Competitiveness Index (GCI) in which one of the sub-indexes measures the quality of infrastructure. While India ranks 40 out of 137 countries in the overall index, its rank in the infrastructure index is much lower at 66. Within infrastructure, there is a wide divergence between its rank on transport infrastructure (fairly good at 25) and its rank on electricity and telephony (very low at 100).



TAB. 4 - INDIA'S RANKING ON INFRASTRUCTURE AS PER THE GCI<sup>6</sup>

	Indicator	Rank out of 137 countries
<b>Pillar 2.</b>	Infrastructure	66
<b>A.</b>	Transport infrastructure	25
<b>2.01</b>	Quality of overall infrastructure	46
<b>2.02</b>	Quality of roads	55
<b>2.03</b>	Quality of railroad infrastructure	28
<b>2.04</b>	Quality of port infrastructure	47
<b>2.05</b>	Quality of air transport infrastructure	61
<b>2.06</b>	Available airline seat kilometres	8
<b>B.</b>	Electricity and telephony infrastructure	100
<b>2.07</b>	Quality of electricity supply	80
<b>2.08</b>	Mobile-cellular telephone subscriptions	110
<b>2.09</b>	Fixed-telephone subscriptions	111

The quality of electricity supply in India leaves much to be desired even as India has recently become a power surplus country. Although a significant amount of generation capacity has been added in the last few years, problems arise at the distribution end as prices for rural customers are kept artificially low. As a result, distribution companies are mostly in debt and unable to supply good quality power. Industrial customers are forced to use diesel gensets for back-up power due to the unreliability of the grid. This not only raises the cost for businesses but is also harmful for the environment.

### Digital infrastructure

Building a strong digital infrastructure has become critical for India – not only for driving growth but also for reducing inequality. Digital access and literacy can empower people to demand better governance and transparency while the persistence

<sup>6</sup> *Global Competitiveness Report 2017-2018*, World Economic Forum, 26 September 2017.

of a digital divide can slow down the process. It is estimated that Internet penetration in India is currently around 31% with urban India at 60% and rural India at 17%<sup>7</sup>. This needs to increase, making it imperative for the government to invest in a digital backbone especially in rural India. The government is working with private telecom operators on an ambitious project, Bharat Net, which aims to connect rural India with high speed broadband.

Prime Minister Modi announced his plan to demonetise high-value notes on 8 November 2016 with the objective of curbing corruption and the accumulation of unaccounted wealth. This move also resulted in a tremendous rise in the use of digital payment systems. This has happened not only among the credit card using upper income classes but also among the masses who hitherto depended entirely on cash. The launch of the BHIM app has enabled even the basic mobile users to move to digital payments.

RBI data on payments systems indicate that digital transactions increased by as much as 31.5% during April-September 2017 compared to the same period in the previous year. Of these, the biggest increase of about 300% was experienced in the use of mobile wallets<sup>8</sup>. India has developed the potential to leapfrog technology, which needs to be enabled through widespread availability of digital connectivity.

## Urban development

Despite a relatively slow pace of urbanisation by international standards, India's urban spaces have grown in a haphazard manner. The share of India's urban population grew from 18% in 1960 to 33% in 2016, but remains lower than in many other developing countries such as China, Thailand and Indonesia (Figure 4). Yet the larger Indian cities are among the largest

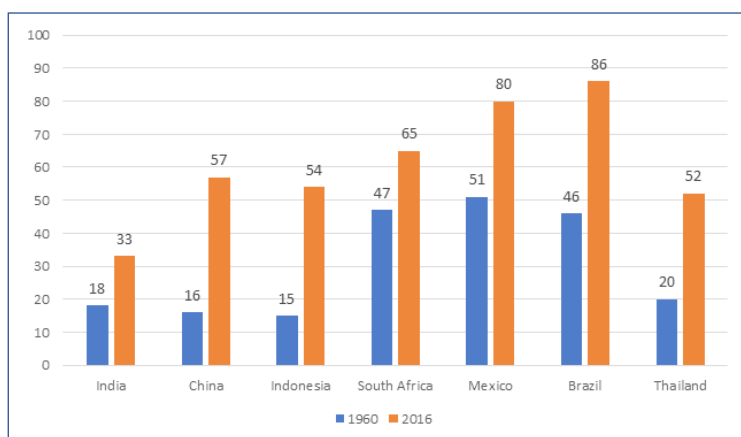
---

<sup>7</sup> As per a report by Internet and Mobile Association of India and IMRB International, "[Number of Internet users in India could cross 450 million by June: report](#)", LiveMint, 2 March 2017

<sup>8</sup> RBI database on Indian economy, payment systems.

globally – among the 35 cities with a population of 10 million plus, five are Indian. Without proper planning and governance, Indian cities have become congested and polluted. A strategy for sustainable growth must therefore include a plan for urbanisation.

FIG. 4 - SHARE OF URBAN POPULATION IN SELECT COUNTRIES (%)



Source: World Development Indicators, World Bank

Urban planning would involve several aspects including the provision of services such as transportation, water supply, garbage collection and sewage treatment and disposal. Rules governing the use of land, collection of revenue and building regulations are also key functions of urban administration. Of course, urban planning and management are the responsibility of urban local bodies (ULBs) and there is little that the state or central governments can do. Yet the state of Indian cities has deteriorated to such an extent that some policy direction from the centre has become crucial.

The Modi government has indeed focused on urban development as a priority issue, launching several schemes to improve civic amenities in urban areas.

- The Smart Cities Mission was launched to encourage the use of technology to improve infrastructure and services in selected cities. A total of 90 proposals have been selected with a proposed investment of around 1900 billion rupees<sup>9</sup>.
- The AMRUT or Atal Mission for Rejuvenation and Urban Transformation focuses on providing urban services such as water supply and sewerage, urban transportation and greenery. The Mission covers 500 cities and provides for an outlay of 500 billion rupees over a period of four years. The Mission also supports states in conducting reforms to improve the financial health of ULBs<sup>10</sup>.
- Swachh Bharat, or Clean India Mission, is to make urban India free from open defecation and to encourage more widespread use of municipal solid waste management<sup>11</sup>.

While all the missions are extremely well conceived, the progress on the ground has been slow and implementation uneven across states. The key to improving the quality of urbanisation would lie in the governance of institutions that are responsible for framing policies and overseeing their administration. As a result, the participation of state governments is crucial in this reform.

## Housing

The availability of urban housing at an affordable cost is important for many reasons, not least being the fact that the high cost

---

<sup>9</sup> Government of India, Ministry of Housing and Urban Affairs, “[Smart Cities](#)”, update 27 November 2017.

<sup>10</sup> Government of India, Ministry of Housing and Urban Affairs, “[Atal Mission for Rejuvenation and Urban Transformation –AMRUT](#)”, update 3 July 2017.

<sup>11</sup> Government of India, Ministry of Housing and Urban Affairs, “[Swachh Bharat Mission](#)”, update 31 July 2017.

of accommodation is a major deterrent to job creation. Greater availability of worker housing in urban areas would make it feasible to generate a larger number of low- to middle-level jobs. Instead, with the cost of housing soaring in cities, it becomes unaffordable for lower income groups to move to cities. The government has an ambition to create 20 million housing units in urban areas under its “Housing for All by 2022” scheme by providing interest subsidies on home loans as well as direct subsidies for individual house construction<sup>12</sup>.

However, there are several challenges in the form of scarcity of land and lack of property records. Active involvement of the state government is required for identifying land parcels for housing projects and providing road, water and electricity connections. In many cases, the builder is expected to purchase the land and build the infrastructure, which adds to the cost of the project. Another irony arises from the fact that there are great numbers of vacant houses in urban areas, estimated at 10 million by the 2011 census. Rental reforms to balance the interests of property owners and tenants would lead to more houses being put up for rent.

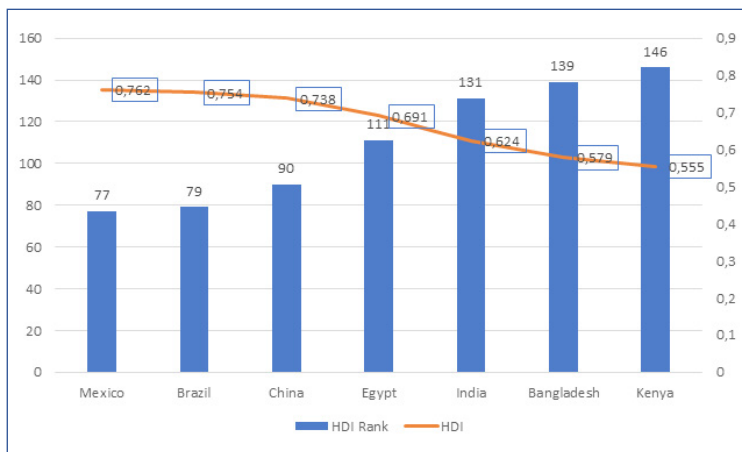
### Human development

India’s performance continues to lag in the critical areas of health and education. A sustainable improvement in productivity and growth will not be possible for India unless it is able to improve outcomes in these two areas. Lack of adequate nourishment during childhood leads to poor potential among future workers. India ranks 131 out of 188 countries in the Human Development Index developed by the UNDP (United Nations Development Programme). Although the value of the index has improved over time, India’s rank has stagnated in the “medium” human development category.

---

<sup>12</sup> News Updates, “[Housing for All by 2022](#)”, Mission – National Mission for Urban Housing, PMINDIA, 17 June 2015.

FIG. 5 - HUMAN DEVELOPMENT INDEX (HDI) 2015

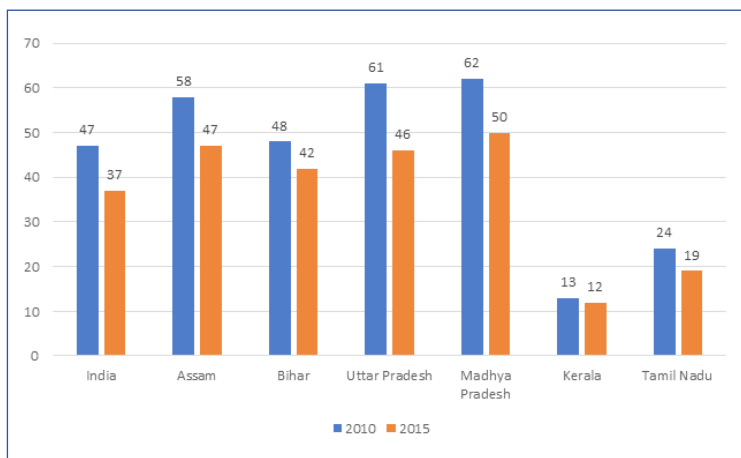


Source: 2016 Human Development Report,  
United Nations Development Programme (UNDP)

India's public expenditures on both health and education continue to remain low even in comparison to countries with similar income levels. According to the 2016 HDR, India's public health expenditure as a percentage of GDP is a poor 1.4% compared to more than 3% in most of its peers: 3.1% in China, 3.8% in Brazil and 3.5% in Kenya. In education, India spent 3.8% against more than 5% in comparable countries. As a result, education outcomes in India were weaker: a literacy rate of 72.1% and a fairly low percentage of the population with some secondary education (48.7%).

More worrying is the fact that there is wide divergence in these indicators across the Indian states. For example, the southern states of Kerala and Tamil Nadu perform much better in health outcomes than do northern states such as Uttar Pradesh and Bihar. However, it is apparent from Figure 6 that the infant mortality rate in low-performing states such as Bihar,

FIG. 6 - INFANT MORTALITY RATE (PER 1000 LIVE BIRTHS)



Source: SRS Statistical reports

Assam, Madhya Pradesh, Uttar Pradesh has been improving steadily. It has been reported that in 2016 the total number of estimated infant deaths decreased and the gender gap for child survival also declined.

### Education and skills

It has been widely acknowledged that without the appropriate education and skills being imparted to India's youth, the "demographic dividend" may turn into a "demographic disaster". It is with this in mind that the government is seriously pursuing reforms in higher education. Moreover, it has formulated a National Policy for Skill Development and Entrepreneurship to meet the challenge of developing skills. However, given the complex nature of these sectors and the large number of stakeholders, the government alone will find it hard to bring about the required changes.

In higher education, for example, there has been a huge expansion in the number of colleges and universities: from 20 universities in 1950 to 750 in 2016 with over 41,000 colleges. Yet these have not met the aspirations of the people. The Gross Enrolment Ratio in higher education at 24% is still below the international average of 30%. Because of the rapid expansion, the quality of education has suffered. With demand for higher education exceeding supply, colleges have had little incentive to improve quality<sup>13</sup>. Lack of qualified faculty, excessive reliance on market forces to deliver results on the one hand and over-regulation by central regulators and state governments on the other are some of the challenges.

The quality issue has also plagued the successful implementation of skill development schemes. While money has been spent and institutions have been created for vocational training, the quality of the skill-teaching curriculum and the placement record of the training institutes remain poor. According to the ILO (International Labour Organisation), India stands at 7th position globally when it comes to difficulty in filling jobs. Whereas the global average is 38%, the percentage of employers having difficulty in filling jobs in India is much higher at 58% (Figure 7). Improving this situation will require coordinated action by both government and industry. For industry, the best way to get involved in training unskilled workers would be by taking on apprentices who can then become the pool from which skilled entry level workers can be hired.

### Access to finance

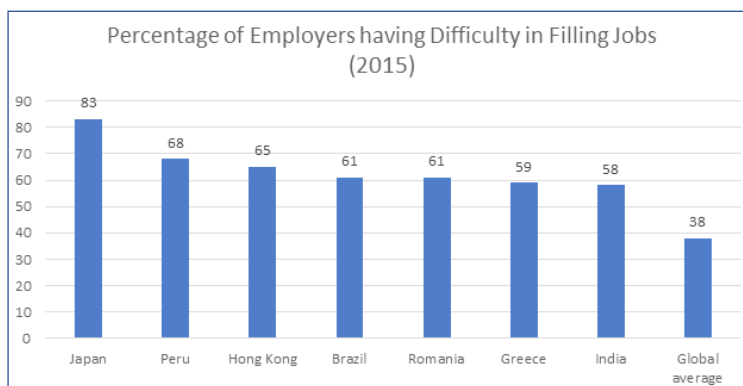
Financial inclusion and access to finance are key determinants of inclusion in the growth process. India has a banking and financial system providing financial services to retail as well as business customers. However, the penetration of the formal financial system has been limited and many households,

---

<sup>13</sup> N. Forbes, *India's Higher Education Opportunity*, Working Paper no. 437, March 2011, Stanford Center for International Development.



FIG. 7 - INDIA'S RANK IN SKILLS MISMATCH



Source: Internal Labour Organisation (ILO)

especially in rural areas, have been dependent on informal sources of finance at excessively high rates of interest. Lack of access to finance has also been a key constraint to the growth of small and medium enterprises.

World Bank data indicates that there has been steady improvement on this count. The percentage of account holders in the 15+ age group increased from 35% in 2011 to 53% in 2014. However, this remains far below the 79% in China and 68% in Brazil. Further, SME loan accounts as a percentage of non-financial corporate borrowers was as low as 11% in 2014<sup>14</sup>.

Stepping up financial inclusion has been given priority in the government's agenda from the beginning. Early in its tenure, it launched its flagship scheme for financial inclusion – the Jan Dhan Yojana (JDY) with a target of opening a bank account for every household. More than 300 million accounts have been opened since the launch of this scheme. The Economic Survey<sup>15</sup> has suggested that the combination of JDY, Aadhar (or the unique identity number) and mobile phones – the JAM trinity

<sup>14</sup> G20 Financial Inclusion Indicators, World Bank, 2014.

<sup>15</sup> Economic Survey 2014-15, Ministry of Finance.

– can be used effectively for implementing targeted cash transfers by the government. Subsidy payments for cooking gas are now being transferred directly to bank accounts. Given that the use of digital payments has increased substantially post-demonetisation, there is significant scope for expanding the use of such direct benefit transfers to the targeted beneficiaries.

To encourage entrepreneurship at the micro level and provide funding to non-corporate small businesses, the government has launched the MUDRA Bank or the Micro Units Development and Refinance Agency. Wider access to credit also requires the availability of information on potential borrowers to overcome the information asymmetry. Credit information companies can help improve the transparency of credit markets. To this end, the RBI is exploring the possibility of setting up a public credit registry<sup>16</sup>. The availability of better information on borrowers would help small businesses access credit without extensive documentation and collateral.

## Conclusion

While economic reforms are important in driving growth and the government has been acting across different areas, what is also critical is the ability to establish the enabling conditions. I have outlined some of those conditions where it is critical to ensure better delivery and implementation. India's federal structure and the constitution's distribution of responsibilities across the central and state governments makes it hard to hold any one institution responsible for development. Therefore, the ranking of states being undertaken by the central government in areas such as doing business is important. Similar rankings should be encouraged, in particular in areas related to human development.

---

<sup>16</sup> Reserve Bank of India, India's Central Bank, *Statement on Developmental and Regulatory Policies Reserve Bank of India*, 4 October 2017.

One key debate that needs to be resolved is on the desired size of business enterprises – the small versus large debate. Economic literature has always pointed at the regulatory hurdles to growth in the size of an enterprise as a key constraint to growth in India. According to an ADB paper<sup>17</sup>, India's size distribution of enterprises is characterised by a preponderance of very small ones. Such a pattern of large shares of employment accounted for by small firms can lead to welfare losses due to low productivity and wages. Inflexible labour laws are identified as a key constraint to growth in the size of firms. Under this strand of thought, it is believed that increasing the size of enterprises is required to create mass employment.

Another point of view that has emerged recently is that a flourishing small and medium scale sector is equally up to the challenge of creating jobs. Indeed, the emerging new technologies such as 3D printing do not require scale and are more amenable to being used by smaller enterprises. Public policy should therefore focus on strengthening the competitiveness of smaller players by supporting clusters and networks. While large enterprises employing large numbers of workers were the hallmark of the third industrial revolution, the new age of automation will not require such enterprises. Instead, jobs will be more distributed and flexible, changing the nature of the relationship between employer and employee.

It is possible that India will leapfrog to such a scenario driven by the forces of globalisation. However, for the country to make the transition successfully, it will be important to move ahead on the seven enabling conditions mentioned here. Provision of high quality physical and digital infrastructure, urban development, availability of housing, human development, upgrading the skills of working people and access to finance are prerequisites for a transition to higher living standards where people can be gainfully employed in a technologically advanced environment.

---

<sup>17</sup> R. Hasan and K.R.L. Jandoc, *The Distribution of Firm Size in India: What can Survey data tell us?*, ADB Economics Working Paper Series no. 213, Asian Development Bank, August 2010.

In all these areas, the availability of finance and implementation capacity are the twin hurdles that will need to be overcome. Given the federal structure of the country, it is inevitable that some states will progress faster than others. However, competitive forces as well as some redistribution by the central government will ensure that some states do not fall behind by a large margin.

## **2. Delhi vs States. Balancing and Speeding Decision-Making in India**

Gautam Chikermane

---

The institutions of India's democracy have been, and continue to be, a tug-of-war between two forces of physics that power its policymaking – a centripetal force that attempts to bind the country into a singular policy entity, and a centrifugal force that seeks policy independence while remaining part of the sovereign. The first is a centralising force, acting through central laws enacted by parliament, loosely known as “Delhi”. The second is a decentralising force, acting through state laws, passed by state legislatures administering smaller, more localised groupings. Both these forces work together and create a circular tension between Delhi and the states through policymaking and its execution, with the radius comprising the policy footprint and with voter-citizens as its centre, serving an expanding GDP, a rising population and its growing aspirations, and an increasing complexity of governance. Depending upon the power structure of India's map: that is, depending on which political alignment governs at the centre and which in its 29 states at any point in time, the dominance of the one over the other varies and creates a dynamic and constantly-changing equilibrium. Under the overarching oversight of the constitution, this equilibrium, when expressed legislatively, administratively and politically, impacts citizens through law and order, economic growth, social wellbeing and sometimes even foreign policy. Serving its constituent citizens, these forces, in turn, are controlled by tangible outcomes for the people. This completes the circle of democracy, from voting preferences to formation of governments in Delhi and the states, through outcomes, and back to voters for electoral verdicts. These forces are

not new, neither to India's geography nor to its history nor to most democracies across the world. In India, these two forces have been reorganised, institutionalised and legitimised to function within the confines of the constitution.

In this chapter, I argue that while the tension between the centre and the states has been an ongoing story right from India's Independence 70 years ago on 15 August 1947, there has been a visible shift of the centre-state equilibrium towards the states from the centre, from a strong centralisation under Prime Ministers Jawaharlal Nehru (who served more than 16 years) and his daughter Indira Gandhi (almost 16 years) to a loosening under her son Rajiv Gandhi (more than five years), Atal Bihari Vajpayee (more than six years), P.V. Narasimha Rao (almost five years) and Manmohan Singh (more than 10 years). Prime Minister Narendra Modi is taking this journey further. By working with these forces individually and collectively, Modi is putting his rebalancing signature on the equilibrium through the creation and execution of key policies such as introducing the goods and services tax (GST), expanding the share of public finances allocated to the states, and using technologically-driven administrative efficiencies such as magnifying the expanse of Aadhaar. Although the centre-state tensions remain, this equilibrium is carving out a middle ground between the two forces and is driven by political self-interest on both sides. Historically, the centripetal force was more dominant in the first two decades, with Congress governments at the centre and in the states bound together by a single ideology, experimenting with a new-found freedom, and building state capacity. This skewed arrangement allowed the centre to drive governance. The centrifugal forces that began in the mid-1970s became irreversible only after 1991, when the Indian economy opened up, and along with new economics brought new political opportunities and consolidated the era of coalition politics at the centre.

Broken into four parts, this chapter proceeds as follows. Using the analytical framework created by Sri Aurobindo

(1872-1950)<sup>1</sup>, it first outlines the philosophical basis of examining Independent India's policymaking through the play of two forces of physics, the centripetal and the centrifugal. Second, it examines the constitutional positions and provisions that determine relations between the centre and the states, under which the world's largest democracy has been functioning for the past 70 years. It also explains how these provisions have been concentrated (centripetal forces) and diffused (centrifugal forces) to create a single national policy language spoken in 29 policy dialects, in a two-way process, where the one influences the other. Third, it argues that under Prime Minister Narendra Modi, the equilibrium between these forces seem to be reaching a middle ground through five big changes, each of which has been elaborated in detail – the replacement of the Planning Commission by the NITI (National Institution for Transforming India) Aayog (reduction of centripetal force); the biggest devolution of finances to the states through the 14th Finance Commission (increase in centrifugal force); the expansion of Aadhaar (centripetal force that powers centrifugal force); the demonetisation of 1,000-rupee and 500-rupee notes (excessive use of the centripetal force to deliver outcomes that are still to visibly materialise); and the introduction of GST (centripetal force that is forced to work with centrifugal force for mutual benefit). Finally, it concludes that, as in the past, these forces will continue to dominate India's policy idiom, with the centripetal force supporting, powering and expanding the centrifugal force, all within the boundaries of the constitution.

## Play of Centripetal and Centrifugal Forces

As far back as 1902, Indian freedom fighter, politician and poet-philosopher Sri Aurobindo was the first thinker to apply the concepts of centripetal force and centrifugal force to analyse

---

<sup>1</sup> M. Das, "Sri Aurobindo (1872-1950): A Brief Biographical Sketch, Sahitya Akademi", *Indian Literature*, vol. 15, no. 2, June 1972, pp. 28-35.

the coming together of small territories into large nation states in general and those in India in particular. The physics of these forces is simple. No circular motion is possible without a force directed inwards towards the centre of rotation; this is known as the centripetal force. The centripetal force is balanced by the centrifugal force, which is an outward force and opposite to the centripetal force<sup>2</sup>. What is important is that circular motion needs both these forces to function and through them create an equilibrium. Because the churning within and between nations is a dynamic powered by people's changing aspirations, we cannot apply the assumptions of Newtonian inertial or linear models and conditions, where they "hold without modification"<sup>3</sup>, to analyse them. The journeys of nations are defined by two great aspirations. The first attempts a wide gathering of power to use it for maximum impact on the greatest number of people and resources – the centripetal force. The second seeks a smaller but deeper organisation, if not the individual, the smallest unit that is the family, the community, the village, the city, the district and goes as high as the subnational state within a nation – the centrifugal force.

Sri Aurobindo applied these laws to the creation and consolidation of nations. "Like the continent of Europe, the ancient continent of India was subject to two opposing forces, one centripetal which was continually causing attempts at universal empire, the other centrifugal which was continually impelling the empires once formed to break up again into their constituent parts", he wrote in a 1902 essay titled, *Notes on the Mahabharata*<sup>4</sup>, and explained the political alignments of ancient India. He saw these two forces being articulated through the voices and actions of dozens of small kingdoms, one group seeking an individual, small, sovereign status, the other

<sup>2</sup> D. Kleppner and R. Kolenkow, *An Introduction to Mechanics*, 2nd Edition, Cambridge, Cambridge University Press, 2014, p. 359.

<sup>3</sup> D. Kleppner and R. Kolenkow (2014), p. 356.

<sup>4</sup> Sri Aurobindo, *The Complete Works of Sri Aurobindo Volume 1*, Sri Aurobindo Ashram Trust, 2003, p. 93.



comfortable to function independently but as part of a large empire (Kuru) that had common civilisational roots.

But it wasn't just ancient India to which Sri Aurobindo alluded; he saw the functioning of these forces continue as far as the 20th century. Although the outward expression may be political, these tendencies have deeper roots. "The whole past of India for the last two thousand years and more has been the attempt, unavailing in spite of many approximations to success, to overcome the centrifugal tendency of an extraordinary number and variety of disparate elements, the family, the commune, the clan, the caste, the small regional state or people, the large linguistic unit, the religious community, the nation within the nation", he wrote in a series of essays between 1915 and 1918, compressed into *The Ideal of Human Unity*<sup>5</sup>. There was no doubt about the civilisational nationhood of India; it was a political nationhood, with a central and dominant empire, that was missing. This, he concluded, was resolved by "the instrumentality of a foreign rule"<sup>6</sup>.

The centrifugal force ended that foreign rule on 15 August 1947, when India got its Independence from the British. But the tension between the centre and the states continues to this day; only the drivers have changed. If we imagine the birth and growth of nations as a circular dynamic held together by a national and sovereign centre on one side and a scattering of smaller states, districts, cities and villages functioning within it on the other, both serving the same people and empowered by them in democracies like India, these forces return to life through the resultant legislative and policy tension. The centre attempts to bring the people together under common national laws; the states, being closer to the people geographically and politically, work to serve local aspirations through state laws. Although the manner and scope of their execution varies, both are created by and serve the same citizens. In the

---

<sup>5</sup> Sri Aurobindo, *The Complete Works of Sri Aurobindo Volume 25*, Sri Aurobindo Ashram Trust, 1997, p. 286.

<sup>6</sup> *Ibid.*

seven-decade-long journey of independent India, these forces have continued to play their part across different political parties, varying political ideologies, and changing political aspirations, all legitimised by and functioning under the provisions of a new authority, the Constitution of India<sup>7</sup>.

The academic explorations of this theme – the application of centripetal and centrifugal forces to social sciences – began three decades after Sri Aurobindo introduced them. First, Charles C. Colby applied them to urban geography. “The centrifugal forces are made up of a combination of uprooting impulses in the central zone and attractive qualities of the periphery”, he wrote<sup>8</sup>, “while the centripetal forces focus on the central zone and make that zone the centre of gravity for the entire urbanised area”. In 1957, Denys P. Myers described the post-World War 1 centrifugal political movement of 1917 to 1957 originating in the “means afforded peoples to set up administrations of their own choice”, while the centripetal movement was “represented by the UN system, the Council of Europe, the Organization of American States, the Organization of Central American States, the Scandinavian Union, Western European Union, the Arab League and many subsidiaries of them”<sup>9</sup>. In 2001, Warren J. Samuels brought an element of faith to these forces and stated that, “One’s attitude toward centripetal developments if not also world government will be profoundly influenced by one’s faith – faith is indeed the apposite word – in markets and in one’s nation state”<sup>10</sup>, and concluded that increased concentration (the centripetal process) rather than diffusion of power

<sup>7</sup> The Constitution of India was adopted by the Constituent Assembly on 26 November 1949 and came into force on 26 January 1950.

<sup>8</sup> C.C. Colby, “Centrifugal and Centripetal Forces in Urban Geography”, *Annals of the Association of American Geographers*, vol. 23, no. 1, Taylor & Francis, Ltd. on behalf of the Association of American Geographers Stable, March 1933, p. 1.

<sup>9</sup> D.P. Myers, “This Changing World”, *World Affairs*, vol. 120, no. 4, Winter, 1957, p. 114.

<sup>10</sup> W.J. Samuels, “The Political-Economic Logic of World Governance”, *Review of Social Economy*, vol. 59, no. 3, September 2001, p. 282.

(centrifugal process) continues, like it or not<sup>11</sup>.

These forces are alive today, not only within India, as the rest of the chapter explores, but among nations. Take the European Union (EU). As part of the “Imagining Europe” project, Nathalie Tocci and Giovanni Faleg built a four-part framework for the future of its governance – concentric circles and multiple clusters (centripetal force), hub and spoke (centrifugal force), and patchwork core (centripetal or centrifugal forces)<sup>12</sup>. It is not merely the EU as a collective; even its constituents are facing these forces, as Catalonia and its October 2017 expression of centrifugal tendencies through its attempted independence from Spain shows. In the case of Catalonia, as in Scotland, there is a new complexity adding weight to the centripetal force of holding back the centrifugal tendencies – the parent nations, the UK and Spain respectively, attempting to preserve their standing and prestige in the international system, as Juliet Kaarbo and Daniel Kenealy argue<sup>13</sup>. On the other side, Montenegro, which broke out of former Yugoslavia in 2006 through a centrifugal force, is now seeking EU membership for the economic gains that the centripetal force of that union may provide<sup>14</sup>. It is beyond the scope of this chapter to study the nuances of such forces in various countries. Future scholars may want to explore them on the basis of regions and religions, nations and states.

---

<sup>11</sup> *Ibid.*, p. 283.

<sup>12</sup> N. Tocci and G. Faleg, “Towards a More United and Effective Europe: A Framework for Analysis”, *Imagining Europe*, no. 1, Istituto Affari Internazionali, October 2013, p. 23.

<sup>13</sup> J. Kaarbo and D. Kenealy, “Perspectives on Small State Security in the Scottish Independence Debate”, in A.W. Neal (ed.), *Security in a Small Nation: Scotland, Democracy, Politics*, Cambridge, Open Book Publishers, 2017, p. 40.

<sup>14</sup> Commission Staff Working Document, *Montenegro 2016 Report*, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 2016, Communication on EU Enlargement Policy, COM(2016) 715 final.

## Constitutional provisions

Although the word “federal” does not exist in India’s constitution, it has been elegantly embedded into it. There are two sets of government in India: central government for the entire nation, and state governments for each unit or state. Broken down by activities, there are three lists under Article 246 of the Constitution<sup>15</sup>. One, the Union list of 97 items<sup>16</sup> that includes defence, foreign affairs, and non-agriculture income tax, on which only parliament can make laws. Two, the State list of 66 items<sup>17</sup> including agriculture, police and land, where only the state legislative assemblies can make laws. And three, the Concurrent list of 47 items<sup>18</sup> including contracts, economic and social planning, and electricity, where both parliament and legislative assemblies can make laws. If there is any dispute about which powers come under the control of the union and which under the states, the matter is referred to the judiciary.

In theory, the constitution has encapsulated every jurisdictional possibility and divided the law-making powers between the centre and the states. In practice, however, there has been a tug-of-war between the centripetal force at the centre and the centrifugal force in the states. In terms of power, the constitutional provisions grant the centre greater powers – creation of new states, declaring a national emergency that gives the centre lawful powers, revenue generation, powers of centrally-appointed governors of the states to dismiss state governments and bring them under the centre through presidential rule.

Until the 1960s, due to political harmony between the centre and the states, the provisions of the constitution were not

---

<sup>15</sup> Constitution of India, Article 246, Government of India, Ministry of Law and Justice (Legislative Department), Seventh Schedule, 9 November 2015.

<sup>16</sup> Constitution of India, Seventh Schedule, List I - Union List, 9 November 2015.

<sup>17</sup> Constitution of India, Seventh Schedule, List II - State List, 9 November 2015.

<sup>18</sup> Constitution of India, Seventh Schedule, List III - State List, 9 November 2015.

put to test. The reason was the dominance of a single party, the Congress, at the centre as well as in all states. When differences raised their head, they were resolved “not as between two different Governments but more between two entities of the same system”<sup>19</sup>. This can be seen as a period when the centripetal force gathered momentum, the excessive use of which climaxed on 25 June 1976 through the Proclamation of Emergency by President Fakhruddin Ali Ahmed on the advice of Prime Minister Indira Gandhi, under Article 352 of the Constitution<sup>20</sup>. Further, under Article 356 of the Constitution, the centre can overthrow a state government if the president is satisfied with the recommendations of the governor that there is a constitutional breakdown in the state. It is not the presence or the legitimacy of these provisions that is worrying. The real danger, as S.C. Dash argued in 1961, lies in using it for “party advantages”. That is if, “the party in power in the Union uses Constitutional means for overthrowing [State] government by other parties”<sup>21</sup>.

The use of Article 356 to overthrow state governments may be constitutional, but not always has it been used in the right spirit; often, it has expressed the centripetal tendency. Between 26 January 1950 when the Constitution came into force and 2002, Article 352 has been invoked 111 times, in which there were 13 cases of “possible misuse”, that “could have been alleged to be result of political manoeuvre”, while in 18 cases the common perception was of “clear misuse”, according to a Lok Sabha Secretarial study<sup>22</sup>. The study concludes that out of 111 there were 20 cases that “could be considered as a misuse for dealing with political problems”.

<sup>19</sup> Commission on Centre-State Relations Report, vol. 1, March 1910, p. xvi.

<sup>20</sup> “Proclamation of Emergency”, *The Gazette of India*, Ministry of Home Affairs Notification, 26 June 1975.

<sup>21</sup> S.C. Dash, “Emergency Provisions and Union-State Relations in India”, *The Indian Journal of Political Science*, vol. 22, no. 1/2, January-March, April-June 1961, pp. 62-63.

<sup>22</sup> [Report of the National Commission to Review the Working of the Constitution](#), Ministry of Law, Justice and Company Affairs, Department of Legal Affairs, 31 March 2002, Chapter 8, Section 16 (Use-misuse of article 356).

Likewise, for financial powers. Article 280 of the Constitution provides the setting up of the Finance Commission every five years to decide the quantum of transfer of resources from the centre to the states and the proportion among states. But with the setting up of the Planning Commission by cabinet notification, some of these constitutional powers were taken away, prompting the Third Finance Commission to recommend that the Planning Commission, an extra-constitutional body, be made the Finance Commission<sup>23</sup>. Further, when states want to borrow from outside India, they can do so only with the consent of the central government, under Articles 292 and 293.

But it is not just centripetal forces that have dominated India's discourse. India has been and continues to be besieged by several centrifugal forces. India's uniqueness in the world comes from the management of its diversity – from castes, ethnicities and religions to geographies, languages and communities. The linguistic aspects of these forces expressed themselves through the anti-Hindi agitation in the southern state of Tamil Nadu between 1952 and 1967, the religious traits through the division of Punjab in 1966, insurgencies in Jammu & Kashmir and in Mizoram, Manipur, Nagaland and Assam in the northeast – the answers to all of which were found in the constitution, and still are. For all the centrifugal forces seeking autonomy or even independence, and all the centripetal forces aiming to consolidate power at the centre, there is only one negotiating table: the Constitution of India.

## **Expressions of the Centripetal and Centrifugal Forces under Modi**

With his governance roots in in the state of Gujarat, incumbent Prime Minister Narendra Modi understands experientially what his predecessors articulated intellectually. Of course, Modi is not the only Indian prime minister to have

---

<sup>23</sup> More on this on p. 48-49.

been a Chief Minister of a state – Deve Gowda served as Chief Minister of Karnataka (1994 to 1996), P.V. Narasimha Rao of Andhra Pradesh (1971 to 1973), V.P. Singh of Uttar Pradesh (1980 to 1982), Charan Singh of Uttar Pradesh (first in 1967 to 1968, next in 1970), and Morarji Desai of Bombay (1952 to 1957). In terms of tenure, Modi's 13 years as Chief Minister of Gujarat between 2001 and 2014 tower over all others. While there is neither any causality nor correlation between the length of a chief ministerial tenure and actions at the centre, the long administrative experience in running a state, from fiscal management to land acquisition to identity, can't be undermined while designing central policies from the other side of the centripetal-centrifugal policy string.

In terms of sheer numbers, it is the states that drive India, not New Delhi. From agriculture – from which half of India's 1.3 billion people derive a livelihood and which contributes less than 16% to its US\$2.3 trillion GDP – to industry, real estate, small businesses, all occur in the states. States determine the level of industrial buoyancy, output, consumption and GDP. The performance of states impacts national statistics on education, healthcare and infrastructure. It is in states that crime mostly takes place as does its amelioration through policing and enforcement of law and order. Disasters rarely reach New Delhi but at any given time some state is reeling under floods or drought, cyclone or earthquake. To put a number to this analysis, India lives in the states – at less than 20 million, the population of New Delhi is only 1.5% of India's. Take any metric, and the centre is statistically insignificant. It is against this backdrop that the large and high-impact policy changes Modi is bringing to the federal structure of India through the play of the centripetal and centrifugal forces needs to be seen. This part explores five such changes.

First, the replacement of the Planning Commission by NITI Aayog – removal of centripetal force. Following Independence, and with the Indian National Congress in power at the centre as well as in all states, the Planning Commission was

created by a 15 March 1950 Cabinet Resolution<sup>24</sup>. In spirit, the Planning Commission was the extension and institutionalisation of Congress's National Planning Committee, created 12 years earlier. Hugely influenced by the Soviet Union's socialism in general and its Five Year Plans in particular, the Planning Commission, over its 65-year-long run, delivered 12 Five Year Plans. Two years after its creation, to bring the states on board and support the Plans, the government set up the National Development Council (NDC) on 6 August 1952<sup>25</sup>, with Chief Ministers of States as members. When created, the objective of the Planning Commission was to manage the high inflation rate, the deficiency in food supply, and the management of scarce resources. By 2014, it had morphed into making recommendations on developmental policy, regulatory issues and public-private partnerships. While its body was made to mimic a think tank and give policy advice on the direction the economy needed to take and allocate resources for it, being directly under the central government that runs several schemes pertaining to states, over time it gathered powers that in the spirit of the constitution belonged to the Finance Commission. All through their six-and-a-half decades of existence, the Planning Commission and NDC remained extra-constitutional bodies that nevertheless got "almost plenary powers to recommend to the Government everything regarding the Plans", leaving the constitutional body, the Finance Commission, "with non-Plan financing"<sup>26</sup>. This created a strong centripetal force that dominated the country's economic discourse till 2014.

It is not as if governments at the centre and of the states were unaware of or unconscious about this centralisation of powers.

---

<sup>24</sup> Government of India's Resolution setting up the Planning Commission, Government of India, Cabinet Secretariat Resolution (Planning), 15 March 1950.

<sup>25</sup> Summary Record of Discussions of the National Development Council (NDC) Meetings, "Five Decades of Nation Building (Fifty NDC Meetings)", vol. I (1st to 14th Meetings), Government of India, Planning Commission, 15 October 2005, p. (i).

<sup>26</sup> Durga Das Basu, *Commentary on the Constitution of India*, 8th Edition, LexisNexis Butterworths Wadhwa Nagpur, (2011), p. 9.



“The role and function of the Finance Commission, as provided in the Constitution, can no longer be realised fully due to the emergence of the Planning Commission as an apparatus for national planning”<sup>27</sup>, the Third Finance Commission noted. This turned the Finance Commission into an agency that reviewed what the Planning Commission indicated and turned it into an “arithmetical exercise of devolution”<sup>28</sup>. It also suggested that, in tune with the constitution, the Planning Commission be transformed into the Finance Commission and articulated the voices of states complaining about centralisation<sup>29</sup>. The unease with the Planning Commission being an extra-constitutional as well as a non-statutory body was expressed in Finance Commission reports, earlier<sup>30</sup> as well as later<sup>31</sup>. None of these recommendations were heard and the centripetal forces of the Planning Commission continued to get stronger. Outside Delhi, however, change was asserting itself, as one state after another began to assert itself politically with non-Congress governments. As the politics of Delhi in centre-state relations began to shift away from the Congress, the moral strength of the Planning Commission began to wane, whose end could have come earlier, when non-Congress governments governed New Delhi – in 1977-79 under Prime Minister Morarji Desai, in 1989-90 under Prime Minister Vishwanath Pratap Singh, in 1990-91 under Prime Minister Chandra Shekhar, in 1996-97 under Prime Minister Deve Gowda, and in 1998-2004 under Prime Minister Atal Bihari Vajpayee. Call it a lack of political confidence or inertial indifference, none of them took it up. When Prime Minister Narendra Modi finally replaced the Planning Commission with NITI Aayog as a think tank without any financial powers through a 1 January 2015 Cabinet Resolution<sup>32</sup>,

---

<sup>27</sup> Report of the Third Finance Commission, 1961, p. 35.

<sup>28</sup> *Ibid.*

<sup>29</sup> *Ibid.*, p. 36.

<sup>30</sup> Report of the Second Finance Commission, 1957, p. 13.

<sup>31</sup> Report of the Fourth Finance Commission, 1965, pp. 89-90.

<sup>32</sup> Government constitutes National Institution for Transforming India (NITI)

it was a conscious reduction of the centripetal force, giving a focussed, administrative and constitutional relief to states.

Second, the biggest devolution of finances to the states by accepting the recommendations of the 14th Finance Commission – increase in centrifugal force. Constituted every five years, Finance Commissions derive their authority from Article 280 of the Constitution, under which they make recommendations on how the proceeds of taxes are to be divided between the centre, the states and among states, as well as the principles governing the distribution. Finance Commissions are the key lever determining the financial relations between the centre and the states. Chaired by former Reserve Bank of India Governor Y.V. Reddy, the 14th Finance Commission raised the share of states in taxes by 10 percentage points to 42%. This is the highest such increase since the 11th Finance Commission (2000-05), following the 80th Constitutional amendment<sup>33</sup>, under which the Commission decides the proportion of shareable taxes that the central government will devolve to states. Accordingly, the proportion of devolvement to states increased from 28% in the 11th Finance Commission, to 30.5% in the 12th, to 32% in the 13th and finally to 42% in the 14th. But even in the pre-amendment years, the share of states had been rising, from 55% of income tax in the 1st Finance Commission to 85% in the 10th, or 20% of excise duties in the 4th Finance Commission to 45% in the 9th – the only Finance Commission to have reduced the share of states was the 10th Finance Commission. An increased devolvement of taxes to the states means there are fewer fiscal resources at the disposal of New Delhi to finance central schemes.

In the case of the 14th Finance Commission, Modi has followed the path carved out by his predecessors, all of whom had accepted the recommendations of the respective Commissions. To that extent, it is difficult to give him credit for consciously

---

Aayog, Press Information Bureau, Government of India, 1 January 2015.

<sup>33</sup> The Constitution (Eightieth Amendment) Act, 2000, Ministry of Law and Justice, 9 June 2000.

increasing the share of states. As governance gets more complex and Indian democracy more dispersed with a large number of political parties now governing different states (further layered by an era of coalition politics of different parties coming together to govern at the centre as well as in the states), the pressures on finances are as much real as political. The centrifugal forces at play in this area seem to have an energy of their own, and Modi has swum with the currents, giving states greater financial power, a trend that is likely to continue well into the 15th Finance Commission.

Third, the expansion of Aadhaar – centripetal force that powers centrifugal force. First established through a 28 January 2009 notification<sup>34</sup> to function under the Planning Commission and now under an Act of Parliament<sup>35</sup>, Aadhaar is a unique identification number given to every Indian resident (not citizen). Enacted on 25 March 2016, the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, is a mechanism for “good governance, efficient, transparent, and targeted delivery of subsidies, benefits and services”. In all the social security schemes launched by governments, one problem has been to ensure they reach the desired beneficiary. And so, armed with an Aadhaar number, a person can get his/her entitlement to direct cash benefits transferred through a bank account. With the identity of individuals in place, it was only a matter of time before the Aadhaar number was turned into the most credible identity currency, with it becoming a requisite for filing taxes, getting and linking it to the Permanent Account Number, and as a KYC (know your customer) tool for financial products like mutual funds and telephone connections. The expansion of Aadhaar has been challenged in the Supreme Court, and objections to collecting personal information like fingerprints and iris scans and their unauthorised use, illicit profiling

---

<sup>34</sup> Gazette Notification No.-A-43011/02/2009-Admn.I, Government of India, Planning Commission, 28 January 2009.

<sup>35</sup> The Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016.

and absence of privacy safeguards have been raised – at the time of writing this chapter, the decision of the court is awaited.

To get a clearer picture, we need to step back from the controversies, which will get resolved both judicially and legislatively to deliver a strong, reliable and well-safeguarded identity tool. When we do that, we see that this number will not only empower the central government to track its schemes – the 100 days of guaranteed wage employment under the Mahatma Gandhi National Rural Employment Guarantee Act (251 million beneficiaries by 17 October 2017<sup>36</sup>) or opening Jan Dhan accounts (181 million beneficiaries by 4 October 2017<sup>37</sup>, for instance) – but also the state governments to follow the outcomes of their schemes better. Further, with the future of banking inextricably linked to a mobile phone, the importance of authentication through Aadhaar gets a developmental link, and makes its protection mechanism even more critical. With more than 1.1 billion Aadhaar numbers in circulation<sup>38</sup>, this is the world's largest and arguably the most successful identity mapping exercise, and an idea that is potentially India's soft export. But beyond all these benefits, the proliferation of Aadhaar is essentially a force that has been created at the centre but has reached out to the states – a centripetal force working in tandem with and powering the centrifugal force.

Fourth, the demonetisation of 1,000-rupee and 500-rupee notes – excessive use of the centripetal force to deliver outcomes that are still to visibly materialise. If the end of the Planning Commission reduced New Delhi's centripetal force on the fiscal resources of states, Prime Minister Narendra Modi's 8 November 2017 announcement<sup>39</sup> ending the circulation of the two notes with immediate effect directs the same force to the other side. The objective was noble: to “strengthen the hands

<sup>36</sup> Ministry of Rural Development, 17 October 2017.

<sup>37</sup> Department of Financial Services, Ministry of Finance, 4 October 2017.

<sup>38</sup> State/UT wise Aadhaar Saturation, Unique Identification Authority of India, 30 September 2017.

<sup>39</sup> [PM's address to the Nation, 8 November 2016, Prime Minister's Office](#)

of the common man in the fight against corruption, black money and fake currency”, apart from curbing the financing of terror “from across the border”. Had there been short- to medium-term positive outcomes, as had been envisaged while drafting and delivering the scheme, first through Modi’s speech, then by a Reserve Bank of India press release<sup>40</sup>, then an Ordinance<sup>41</sup>, and finally an Act of Parliament<sup>42</sup>, the human inconvenience and pain could have been assuaged. Modi had boldly promised that the scheme would tackle the problems of counterfeit banknotes, black money hoarded in cash, and the funding of terrorism with fake notes. But with 98.96% of the notes returning back to the system<sup>43</sup>, demonetisation ended up creating acute individual distress that the Finance Minister termed anecdotal<sup>44</sup>, hit real estate<sup>45</sup>, adversely impacted industrial output “albeit transiently”<sup>46</sup>, caused a decline in cash-sensitive stock market sector indices like realty, fast-moving consumer goods and automobiles<sup>47</sup>, hurt the informal economy, hit GDP growth – without tangible destruction of unaccounted-for money, reduction in bribery, or a fall in the number of counterfeit notes. Modi’s wasn’t the first attempt at demonetisation in India. On 30 March 1978, parliament had enacted a law<sup>48</sup> and made effective it on 16 January 1978, under which

<sup>40</sup> Withdrawal of Legal Tender Status for ₹500 and ₹1000 Notes: RBI Notice, Reserve Bank of India, 8 November 2016.

<sup>41</sup> The Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016, Ministry of Law and Justice, *The Gazette of India*, 30 December 2016.

<sup>42</sup> Specified Bank Notes (Cessation of Liabilities) Act, 2007, Ministry of Law and Justice, *The Gazette of India*, 28 February 2017.

<sup>43</sup> Status of the Return of SBNs - Reserve Bank of India (RBI), *Annual Report 2016-17*, Press Information Bureau, Government of India, Ministry of Finance, 30 August 2017.

<sup>44</sup> “Higher tax mop up reflects no slowdown post demonetisation, says Arun Jaitley”, *Times of India*, 9 January 2017.

<sup>45</sup> Reserve Bank of India (2017), p. 21.

<sup>46</sup> *Ibid.*, p. 2.

<sup>47</sup> *Ibid.*, p. 44.

<sup>48</sup> High Denomination Bank Notes (Demonetisation) Act, 1978, Ministry of Law and Justice.

high-denomination notes of 1,000, 5,000 and 10,000 rupees ceased to be legal tender.

On the positive side, a new enforcement and compliance regime backed by increased digitalisation following demonetisation has reduced the use of cash for transactions<sup>49</sup>. But the demonetisation story does not end here. According to the Income Tax Department<sup>50</sup>, of the 1.8 million persons identified for verification following demonetisation and the depositing of cash in bank accounts, there were 1.3 million accounts involving cash deposits of 2.89 trillion rupees. Search actions were conducted on 900 groups in which undisclosed income of 164 billion rupees was admitted, while survey actions were conducted in 8,239 cases in which undisclosed income of 67 billion rupees was detected. More than 400 cases were referred to the Enforcement Directorate and the Central Bureau of Investigation, in which 56 persons were arrested. So perhaps demonetisation is an ongoing story, whose cost-benefit analysis has yet to be deciphered. Theoretically, however, one thing is certain: demonetisation has increased the risk of tax evasion. When we step back from the micro-data and macroeconomic indicators, in demonetisation we see the impact of a strong centripetal central force that adversely impacted the informal economies in the states and rode roughshod over the centrifugal forces around it – all within the constitution.

Fifth, the introduction of GST or the goods and services tax – centripetal force that is forced to work with centrifugal force for mutual benefit. The enactment of the Goods and Services Tax (GST) laws in April 2017 and their implementation across India is India's widest, largest and most disruptive post-1991 economic reform. Hesitatingly attempted first in a relatively enfeebled form through the 1986 Union Budget<sup>51</sup>

---

<sup>49</sup> Reserve Bank of India, *Economic Survey 2016-17*, part 2, Government of India, Ministry of Finance, August 2017, pp. 20.

<sup>50</sup> "Operation Clean Money: Status Report", Income Tax Department, May 2017, p. 5.

<sup>51</sup> Speech of Shri Vishwanath Pratap Singh, Minister of Finance, introducing

as Modified Value Added Tax (MODVAT) that was laughed away as “MADVAT”, the GST is also one of the longest-gestation reforms. It has taken a good deal of legislative struggle to reach a point where the country has a single indirect tax, the GST, the loose ends of which (too many rates and excessive compliance for small businesses) are currently being tied up. The GST is backed by the Constitution (One Hundred and First Amendment) Act of 2016, four central laws – the Central Goods and Services Tax Act, the Integrated Goods and Services Tax Act, the Union Territory Goods and Services Tax, and the Goods and Services (Compensation to States) Act – and matching state laws. The GST has been in operation since 1 July 2017 and, teething troubles aside, it has aligned the indirect taxes of India with those of 140 other nations. Specifically, the GST replaces eight central taxes and nine state taxes, but leaves five petroleum products (crude, petrol, diesel, ATF and natural gas), and alcohol for human consumption out of its ambit; over a period of time these are expected to become part of GST as well.

The GST is one of the most successful centre-state economic narratives in modern India. For it to work, the centre as well as the states have had to come together. Given the structural efficiencies the tax enables, as well as the all-digital operational backbone on which it resides, the GST will force tax evaders to become part of this reform – the system ensures that the entity down the line is compelled to report transactions in order to make use of input credits. Further, all states have to be part of this initiative for it to work; the possibility that one state through which the goods are passing is not part of the GST network will prevent smooth delivery. For this, the 101st Constitutional Amendment has created the GST Council, an entity composed of the Union Finance Minister, the Union Minister of State in charge of Revenue or Finance, and the Minister in charge of Finance or Taxation or any other Minister nominated by each state government. This places New Delhi

and the states at the same table and on an equal footing to make rules, fix rates and devise procedures around GST. So, if there is a rate of tax on a particular product or service, it is the GST Council with voices of the centre as well as the states that has signed on to it, creating a new collective responsibility – the centripetal force working with the centrifugal force to create fiscal value.

## Conclusion

In addition to the five above, there are several other policy and legislative decisions of the Modi government that can be analysed through the prism of centripetal and centrifugal forces. The Make in India<sup>52</sup> initiative proposes to ease doing business in the country (centripetal force that will clash with the centrifugal force). The Real Estate (Regulation and Development) Act<sup>53</sup> attempts to regulate real estate nationally (centripetal force that has failed to get a matching centrifugal force through state legislations so far). Skill India<sup>54</sup> hopes to create skilled manpower across India but is being held back due to lack of jobs (centrifugal force unable to find expression in the centrifugal force). Startup India<sup>55</sup> tries to build an ecosystem for entrepreneurs and generate large-scale employment opportunities (centripetal force that needs the missing centrifugal force for success). Digital India<sup>56</sup> aspires to deliver government to

---

<sup>52</sup> “‘Make in India’ Programme”, Press Information Bureau, Government of India, Ministry of Commerce and Industry, 24 July 2015.

<sup>53</sup> *The Gazette of India*, Ministry of Law and Justice, 26 March 2016.

<sup>54</sup> Prime Minister launches Skill India (A/b) on the Occasion of World Youth Skills Day, Press Information Bureau, Government of India, Ministry of Skill Development and Entrepreneurship, 15 July 2015.

<sup>55</sup> Startup India Programme, Press Information Bureau, Government of India, Ministry of Commerce & Industry, 25 July 2016.

<sup>56</sup> Digital India – A programme to transform India into digital empowered society and knowledge economy, Press Information Bureau, Government of India, Cabinet, 20 August 2014.



citizen services digitally (centripetal force that will work with centrifugal force and is finding resonance in the states). Ujwal DISCOM Assurance Yojana<sup>57</sup> (UDAY) seeks to improve the financial health of state-owned electricity distribution companies by transferring debt on the books of state governments (centripetal force). States Division<sup>58</sup> in the Ministry of External Affairs, set up in October 2014, ushers in the principle of “cooperative federalism” to facilitate and deepen the external linkages of the states (centripetal force that powers the centrifugal force).

Like his predecessors, Modi’s track record in balancing and speeding decision-making in India is mixed. The days of a single political party governing in the centre and in most states are gone for good. Post-1990s India is politically one of not just different governments but of varying coalitions of governments. The rise of the Bhartiya Janata Party during this period, for instance, coincided with “the formation of alliances by smaller parties to constitute a bulwark against the Congress”, according to Pranab Mukherjee<sup>59</sup>, who relinquished his term as President on 25 July 2017. While this presents new challenges in politics (managing a cluster of smaller and regional parties) and policy-making (fulfilling state aspirations through central execution), there are two constants supporting it. First, the constitutional provisions that, one way or another, ensure a balance. And second, centripetal and centrifugal forces that influence these decisions. The advantage of coalitional dominance over single-party domination is the articulation of different voices within the power politics that capture these forces. Today, as information gets democratised and takes voter expectations and patterns as well as decision-making towards smaller units of governance,

---

<sup>57</sup> UDAY (Ujwal DISCOM Assurance Yojana) for financial turnaround of Power Distribution Companies, Press Information Bureau, Government of India, Cabinet, 5 November 2015.

<sup>58</sup> *Annual Report 2015-16*, Policy Planning and Research Division, Ministry of External Affairs, p. 181.

<sup>59</sup> P. Mukherjee, *The Coalition Years 1996-2012*, New Delhi, Rupa Publications, 2017, p. 44

the chances of a single party dominating the Indian political map, as in the first two decades after Independence, are part of folklore. But as the people of India demand better governance even within the states through village-level empowerment, the centripetal forces will need to increasingly support the centrifugal forces – powering the 73rd<sup>60</sup> and 74th<sup>61</sup> Constitutional Amendments that decentralise decision making to village panchayats and urban local bodies respectively, for instance.

Given that the nation called India is now a permanent and firmly physical, psychological and political entity, the movement of governance from the centre to the states to the villages, and through it the dominance of centrifugal forces over centripetal forces – acting within the confines of the constitution and boundaries of India --- is a foregone conclusion. More than a century after Sri Aurobindo identified them, the directions of the centripetal and the centrifugal forces in India seem to be reversing. Now that India's nationhood under the Constitution of India rather than a "foreign rule" as envisioned by Sri Aurobindo is assured and managed by Delhi, it is the centrifugal voices seeking democratic empowerment that need to be heard. The new equilibrium that began in 1991 in the states will now go deeper. Less a driver and more the driven, Modi, like his predecessors and successors, will shepherd this changing dynamic of voter aspirations, this play of centripetal-centrifugal forces.

---

<sup>60</sup> H. Singh, "Constitutional Base for Panchayati Raj in India: The 73rd Amendment Act", *Asian Survey*, vol. 34, no. 9, University of California Press, September 1994, pp. 818-827.

<sup>61</sup> *A Study to Qualitatively Assess the Capacity Building Needs of Urban Local Bodies*, National Institute of Urban Affairs, August 2015.

### 3. “Unity in Diversity” or a Hindutva India?

Nicola Missaglia

---

In March 2017, after the Bharatya Janata Party (BJP) won the election to the 17th Legislative Assembly of Uttar Pradesh – India’s most populous and politically significant state – securing an overwhelming three-quarter majority of the 403 seats, Narendra Modi appointed a Hindu religious extremist, Yogi Adityanath, as the state’s new Chief Minister. Over the years, this bald, saffron-robed monk – now leading over 200 million Indians, nearly 20% of whom are Muslims – has never concealed his radical and anti-Muslim views, best exemplified by his ambition to install Hindu idols in every mosque in India. “If one Hindu girl marries a Muslim man, then we will take 100 Muslim girls in return [...] If they [Muslims] kill one Hindu man, then we will kill 100 Muslim men,” he once said addressing a crowd of supporters in Gorakhpur<sup>1</sup>. Legal cases against him include criminal intimidation and attempted murder<sup>2</sup>.

As appalling as it may seem – and indeed several Indian and international newspapers erupted with bewilderment<sup>3</sup> – Adityanath’s appointment did not come as a surprise to some

---

<sup>1</sup> The video of the rally is on YouTube and can be accessed at S. Zeenat Saberlin, [“Divisive politics. Anti-Muslim Hindu priest facing charges of attempted murder now runs India’s largest state”](#), *Vice News*, 29 March 2017.

<sup>2</sup> [“Hindutva unmasked: Yogi Adityanath, BJP’s most strident face, will be its chief minister in UP”](#), Scroll.in, 18 March 2017.

<sup>3</sup> K. Chandra, “Who Is Narendra Modi?”, *Foreign Affairs*, 30 March 2017, p. 7; also see E. Barry, [“Firebrand Hindu Cleric Yogi Adityanath Picked as Uttar Pradesh Minister”](#), *The New York Times*, 18 March 2017.

observers<sup>4</sup>. Prime Minister Narendra Modi himself has been a life-long member of the Rashtriya Swayamsevak Sangh (RSS), a right-wing, paramilitary Hindu supremacist umbrella group with over 5 million members – the world largest of its kind – that is widely regarded as the BJP’s ideological parent organisation. Its Hindu nationalist and exclusivist ideology, known as “Hindutva” (literally Hindu-ness), champions the transformation of India into a “Hindu Rashtra” (Hindu nation)<sup>5</sup>: a vision, critics claim, that is quite the opposite of the secular, inclusive, and egalitarian notion of India, enshrined in the Republic’s post-independence Constitution and agreed upon by virtually all governments since 1947 within the so-called Nehruvian consensus<sup>6</sup>.

Unsurprisingly, the very election of Modi in May 2014 did immediately raise concerns, especially among India’s liberals and minorities, as to whether the new Prime Minister’s political background and discourse would be compatible with the “pluralist ethos” and institutions of the world’s most populous democracy<sup>7</sup>. If, albeit over time, most RSS zealots dreaming of a Hindu-dominant India have come to regard Narendra Modi as their champion, the reasons for this adoration are precisely what India’s over 170 million Muslims and other minorities fear<sup>8</sup>.

At the same time, many supporters – by far not only Hindu extremists – would rather emphasise Modi’s abilities and experience as a modernizer and reform-minded leader. His political

---

<sup>4</sup> P. Mishra, “[Modi’s Real Mission](#)”, Bloomberg, 21 March 2017.

<sup>5</sup> Among others, see J. Sharma, *Hindutva. Exploring the Idea of Hindu Nationalism*, Harper Collins Publishers India, 2003 (1) and 2015 (2). Also see C. Jaffrelot (Ed.) *Hindu Nationalism. A Reader*, Princeton University Press, Princeton and Oxford, 2007.

<sup>6</sup> S. Ganguly, “[End of Nehruvian consensus?](#)”, *The Times of India*, 5 May 2014.

<sup>7</sup> A. Vajpeyi, “[Hind Swaraj vs Hindu Rashtra](#)”, *The Hindu*, 12 July 2014.

<sup>8</sup> R. Joshi, “[The Hindu hardline RSS who see Modi as their own](#)”, BBC, 22 October 2014, also see N. Hebbar, “[Can the uneasy truce between PM Modi and RSS chief Mohan Bhagwat hold?](#)”, *The Economic Times*, 26 May 2015.

project, they point out, is not all about Hindu nationalism and identity politics, but mainly about economic development, the struggle against corruption, the opening of the national economy to foreign investment, and ultimately about the promotion of the structural changes India needs to become a regional and global leader in a rapidly changing world. And indeed, they are right, too. "*Sabka Saath, Sabka Vikas*", "Collective Efforts, Inclusive Growth!", was the platform that helped Modi rise to power in 2014<sup>9</sup>. Not Hindutva, or at least not as visibly. No wonder much of the news out of India have focused on this view since Modi took office, reassuring economic partners abroad<sup>10</sup>.

### Gujarat: a questioned legacy

To some extent, the diverging ways supporters, critics and analysts look at Modi's previous political experience and achievements as the long-serving Chief Minister of Gujarat (2001 to 2014), one of India's most industrialised states, clearly exemplify the dichotomy surrounding the "Modi-factor".

Supporters and economic observers often tend to privilege the "success story of good governance and fast-paced industrial development" angle when asked to take stock of Modi's Gujarat period. And although Modi's administration has been criticised for failing to significantly improve poverty, education and health indices in the state, his policies – and so-called "modi-nomics" – are widely credited for boosting Gujarat's impressive economic growth during more than a decade. The GDP growth rate of Gujarat averaged 10% during Modi's tenure, a value above that of the country as a whole, and similar to other highly industrialised states<sup>11</sup>.

<sup>9</sup> "Ek Bharat Shreshtha Bharat. Sabka Saath, Sabka Vikas", BJP Election Manifesto 2014, published online on 7 April 2014.

<sup>10</sup> J. Traub, "Is Modi's India Safe for Muslims?", *Foreign Policy*, 26 June 2015.

<sup>11</sup> J. Schöttli and M. Pauli, "Modi-nomics and the politics of institutional change in the Indian economy", *Journal of Asian Public Policy*, vol. 9, no. 2, 2016, pp. 154-169.

Critics and several socio-political analysts, on the other hand, feel that despite these undeniable achievements, one major episode continues to cast an unforgivable shadow on the Prime Minister's *cursus honorum*, as well as doubts on his actual stance towards minorities and violent Hindu extremism: the violent riots that erupted in Gujarat in 2002, right one year after Modi and his administration had taken office. According to government figures (those estimated by human rights groups are even higher), the mobs left more than 1000 people dead and several thousand displaced the majority of attackers being Hindu fundamentalists and the victims mostly Muslims.

Although in 2012 a special body appointed by India's Supreme Court stated that investigations had found no evidence to prosecute Modi for what happened back in 2002, many still consider his alleged personal involvement and the role of his administration in the Gujarat events as controversial. Both have been accused of complicity – even with terms such as “pogrom” and “state terrorism”<sup>12</sup> – or otherwise criticised for their handling of the situation. A 2002 Human Rights Watch report titled *We Have No Orders to Save You* denounces that at most, police had been “passive observers, and at worst they acted in concert with murderous mobs and participated directly in the burning and looting of Muslim shops and homes and the killing and mutilation of Muslims”<sup>13</sup>.

The fact that, to date, Modi has brushed off calls for a clear apology, or at least an explanation, for the worst communal riots India had seen in a decade, has certainly not helped to dispel concerns. He has rather insisted that no one but “the people's court” should judge him. And so far, the furthest he has gone was to compare his feelings regarding the violence to the emotions of a passenger sitting in a car involved in an accident. In a rare interview months before his election, when asked if he

<sup>12</sup> A. Chakraborty, “Narendra Modi, a man with a massacre on his hands, is not the reasonable choice for India”, *The Guardian*, 7 April 2014.

<sup>13</sup> *We Have No Orders To Save You. State Participation and Complicity in Communal Violence in Gujarat*, Human Rights Watch, 30 April 2002.

regretted the Gujarat events, Modi answered that if "someone else is driving a car and we're sitting behind, even then if a puppy comes under the wheel, will it be painful or not? Of course, it is. If I'm a Chief Minister or not, I'm a human being. If something bad happens anywhere, it is natural to be sad". Today, the issue continues to enflame public sentiment and trigger heated debates in India<sup>14</sup>.

This example, among others, shows how Narendra Modi is looked at – and supported or criticised – both as a resolute "modernizer" committed to reform and as a "Hindu nationalist" with a populist temperament, reactionary ambitions and contempt for minorities. But how, or how long, can these two apparently contradictory features cling together? Over this question, public opinion in India is divided, and so are analysts all over the world.

Of course, the duality of the "Modi-factor" is not limited to Modi's Gujarat period. In fact, it persists to this day. The former Chief Minister of Gujarat is now the Prime Minister of India in his fourth year in office, and political analysts still keep asking themselves whether Modi is a reformist or a reactionary. Is this ambivalence a result of actual behaviours, political choices and specific strategies that Modi, and to some extent, his party, have pursued over the years? If so, then to which aim?

As a commentator recently put it, "Modi is and has always been both a reformer and a Hindu nationalist, and this two-dimensional package is the essence of his appeal"<sup>15</sup>. That Modi *is* appealing to most Indians, is a claim difficult to question: especially after the Modi-led BJP won a row of local elections over almost four years – most recently in Gujarat (for the sixth time), as well as in Himachal Pradesh<sup>16</sup>. Should electoral successes not suffice, there are plenty of surveys to show that

---

<sup>14</sup> S. Gottipati and A. Banerji, "Modi's "puppy" remark triggers new controversy over 2002 riots", Reuters, 12 July 2013.

<sup>15</sup> K.Chandra (2017).

<sup>16</sup> "Gujarat Election Results 2017: BJP Wins Gujarat With Clear Majority; PM Modi, Amit Shah Hail Victory – Highlights", NDTV, 18 December 2017.

consensus for Modi among Indians is high, and even growing<sup>17</sup>. As to whether, and to what extent, this appealing “two-dimensional package” could at the same time also imply a certain degree of risk – for India’s pluralist democracy in general, and for its minorities in particular – is an issue that shall be debated in this chapter.

### **Building a “double” consensus: the 2014 general election campaign**

In the race that brought the BJP and its allies to secure an overwhelming and unprecedented majority at the lower house of Parliament – the Lok Sabha – in the May 2014 general elections, Modi did not only campaign on a Hindutva platform. On the contrary. He rather focused on the corruption scandals under the previous Indian National Congress (INC) government, played on his image as a statesman who had created a high rate of GDP growth in Gujarat, and projected himself as a leader who could bring about “development” and job creation on a national level. In a country where workforce grows by 12 million each year<sup>18</sup>, this message – not Hindutva – could win the support of young generations and middle-class citizens on the one hand, and India’s marginalised communities on the other hand. The BJP has been courting these three categories for decades, in order to broaden its appeal beyond Hindu nationalist voters. Indeed, Modi proved right, since the BJP’s extraordinary poll results in 2014 relied crucially not only on extensive financial support from corporate donors<sup>19</sup> and middle-class

---

<sup>17</sup> B. Stokes, D. Manevich and H. Chwe, “Three Years In, Modi Remains Very Popular”, Pew Research Center, Global Attitudes & Analysis, 15 November 2017.

<sup>18</sup> “India’s workforce is growing - how can job creation keep pace?”, World Economic Forum, 17 October 2017.

<sup>19</sup> J. Harris, “Hindu Nationalism in Action: The Bharatiya Janata Party and Indian Politics”, *South Asia: Journal of South Asian Studies*, vol. 38, no. 4, 2015, pp. 711–718.



votes<sup>20</sup>; but also on the successful mobilisation of young – especially first time – electors<sup>21</sup>, as well as on an unusual shift in Dalit votes at the expense of the Congress and other parties<sup>22</sup>.

### Personalise and rebrand

On an electoral level, the has BJP largely benefited both from Modi's charismatic personality and from his achievements as Chief Minister of a state, which he managed to promote in terms of development across the nation. Therefore, it is no wonder that Modi played a dominant role in the BJP's campaign, even though focusing on a single leader as an individual was unusual for the party's collegial tradition – whereas the Congress had already tested a similar approach with the "Indira Raj" in the Seventies. In fact, the 2014 election campaign attained such a level of personalisation that the election was often described as a "referendum" on Narendra Modi<sup>23</sup>, who personally also made extensive use of social media (today he has the second-largest Twitter following of any head of state after Donald Trump), addressing more than thousand rallies – up to 53 simultaneously – via hologram appearances, in addition to other innovative campaign methods<sup>24</sup>. The day Delhi went to polls, a full-page newspaper ad featuring Modi proclaimed: "Your vote for the

---

<sup>20</sup> E. Sridharan, "The Growing Size and Importance of the Middle Classes Class Voting in the 2014 Lok Sabha Elections", *Economic and Political Weekly*, vol. 49, Issue no. 39, 27 September 2014, pp. 72-76.

<sup>21</sup> D. Basu and K. Misra, "BJP's Demographic Dividend in the 2014 General Elections: An Empirical Analysis", Economics Department Working Paper Series, University of Massachusetts – Amherst, June 2014.

<sup>22</sup> R. Verma, "The Story of Dalit Vote: between the BJP and the BSP", *The Hindu*, 6 June 2014.

<sup>23</sup> According to a survey conducted by the Centre for the Study of Developing Societies, 27% of BJP voters supported the party because of Modi only. Quoted in C. Jaffrelot, "The Modi-centric BJP 2014 election campaign: new techniques and old tactics", *Contemporary South Asia*, vol. 23, no. 2, 2015, pp. 151-166.

<sup>24</sup> "Modi connects with the people through his 'chai pe charcha' campaign", *The Times of India*, 12 February 2014.

BJP candidate is a vote for me”<sup>25</sup>. Within a relatively short time, the former Chief Minister of Gujarat – an “Innovator, Initiator, Implementer” – literally managed to become a ‘brand’ for the BJP campaign<sup>26</sup>.

At the same time, the BJP under Modi was able to downplay apprehension about the future of religious minorities in India, Modi’s Hindu nationalist views and his commitment to secularism<sup>27</sup>. Whereas Modi’s portrait in the media prior to the election was centred around his role in the 2002 Gujarat riots, during the campaign the BJP managed to shift this image to a focal point on Modi’s achievements as a neoliberal reformer and the Gujarat model of development<sup>28</sup>. As a matter of fact, the assumption that Modi was the man who could reproduce this model nation-wide ended up being at the core of the BJP’s Modi-centric election campaign.

In this process, the BJP was assisted by the mobilisation of massive resources, innovative communication techniques and powerful grassroots networks<sup>29</sup> – especially through the “parallel” RSS structure – but also by its influence exercised over a significant fraction of the media<sup>30</sup>. Reports progressively increased their emphasis on the Prime Minister candidate’s ambitious economic reform agenda, as well as on his standing as a successful yet unassuming self-made leader and “doer” whose humble beginnings – the son of a train-station tea seller from

---

<sup>25</sup> R. Deshpande and H. Mehtal, “Modi bypasses party, tells electorate ‘vote for me’”, *The Times of India*, 6 April 2014.

<sup>26</sup> M. Sharma, “Rallies reloaded: Redefining poll meetings, the BJP way”, *The Hindustan Times*, 7 April 2014.

<sup>27</sup> R. Colvin and S. Bhattacharjya, “Special Report: The remaking of Narendra Modi”, Reuters, 12 July 2013.

<sup>28</sup> P. Chakravartty and S. Roy, “Mr. Modi Goes to Delhi: Mediated Populism and the 2014 Indian Elections”, Sage Publications, Television & New Media Journal, 16, 2015, pp. 1-12.

<sup>29</sup> C. Jaffrelot (2015).

<sup>30</sup> J. Harris (2015); also see “India’s raucous democracy is becoming more subdued”, *The Economist*, 24 June 2017.

a backward caste – could allow every "common man" to easily identify with him<sup>31</sup>. By the final months of the election campaign, some observers suggest, the public space literally came to be "saturated" by Narendra Modi<sup>32</sup>.

### Personalise and reach out

For his part, Modi conducted himself with noteworthy cautiousness with regard to sensitive and potentially divisive issues such as secularism, Hindu nationalism, and minorities. He avoided loaded language, focusing on the good governance and development-for-all mantra, while also reassuring Muslims and other minorities about their place in Indian society<sup>33</sup>. Whether this was more of a tactical posture or a genuine effort to reach out to minorities is debated. To be sure, not all BJP candidates and influential supporters were equally circumspect, especially on the state level<sup>34</sup>. Modi, however, understood that presenting himself as a hardliner, he would have limited acceptability in the political spectrum. In fact, although not to the extent it impacted the Hindus, the 2014 election also saw a shift in Muslim vote in favour of the BJP and its allies: only marginal if compared to the three general elections in 1998, 1999, and 2004, but nearly doubled from the 2009 election polls<sup>35</sup>.

The 52-page BJP Election Manifesto released on 7 April 2014, the day when the first phase of the Lok Sabha polls began, covers a wide range of issues ranging from economic growth to social problems. Although it mainly focuses on boosting India's

---

<sup>31</sup> C. Jaffrelot and J.T. Martelli, "Reading PM Modi, Through His Speeches", *The Indian Express*, 15 August 2017.

<sup>32</sup> C. Jaffrelot (2015), p. 4.

<sup>33</sup> Z. Janmohamed, "Modi is reaching out to India's Muslims – and they may vote for him", *The Guardian*, 23 April 2014.

<sup>34</sup> R. Bhatia and T. Lasseter, "Special Report: As Modi and his Hindu base rise, so too does a yoga tycoon", Reuters, 23 May 2014.

<sup>35</sup> S. Kumar, "Who did India's Muslims vote for in general election?", BBc News, 30 May 2015; and S. Rukmini, "Not how many, but who voted made the difference", *The Hindu*, 19 May 2014.

economy and infrastructure, curbing widespread corruption and ending policy paralysis, it also includes a mention of the party's commitment to the protection and empowerment of minorities:

BJP believes that in India's "Unity in Diversity" lies India's biggest strength. We cherish the depth and vibrancy that the diversity in Indian society adds to the nation. BJP is thus committed to the preservation of the rich culture and heritage of India's minority communities; alongside their social and economic empowerment. It is unfortunate that even after several decades of independence, a large section of the minority, and especially Muslim community continues to be stymied in poverty. Modern India must be a nation of equal opportunity. BJP is committed to ensure that all communities are equal partners in India's progress, as we believe India cannot progress if any segment of Indians is left behind<sup>36</sup>.

Especially in the final months of the electoral campaign, Modi also personally reached out to Muslims, with visits and rallies addressing the communities in Bihar and Uttar Pradesh. One strategy Modi would gladly employ to confute accusations of hate-mongering and exclusive identity politics, was to blame the Congress party – whose often Western-educated, Anglophone, political "dynasties" have ruled over India for most of the time after independence – for its failures in governing India's diversity:

Who has been in power most of these last 60 years? [...] If power is poison, who has taken most? Who has a stomach full of poison? Who is vomiting it out now? It is Congress, the party which divides and rules, which pits one religion against another, states against states, which is breaking the country. [...] Brothers, sisters, enough poison, enough of the politics of poison. We need the politics of development, so the poor need welfare, the young get jobs, mothers and sisters get respect. [...] Time is running out. Promise me you will change this nation. Clench your fists. Say it with all your might: "Vote for India"<sup>37</sup>.

<sup>36</sup> See BJP, Election Manifesto (2014), p. 17.

<sup>37</sup> J. Burke, "Narendra Modi: India's saviour or its worst nightmare?", *The*

## Personalise and reassure (your own people)

Where and when it was relevant, the Modi-BJP campaign – including the Manifesto, which had been largely influenced by Modi's ideas – also resorted to typical Hindutva arguments, in order to pragmatically keep the party's more radical fringes confident. For example, among other arguments, the Manifesto reiterates the BJP's stand to explore all possibilities within the framework of the Constitution to facilitate the construction of a Temple devoted to the Hindu god Ram in Ayodhya. Here, two decades earlier (1992) several thousands of Hindu chauvinists gathered by the RSS had demolished the Sixteenth century Babri Mosque bare-hands, leading riots across the nation, including in Mumbai and other major cities.

Contentious issues touched upon during the campaign also included the abrogation of article 370 giving special status to the Muslim-majority state of Jammu & Kashmir and the enactment of Uniform Civil Code. And interestingly, as French scholar Christophe Jaffrelot points out, the section of the Manifesto on India's Cultural heritage virtually "ignores the non-Hindu dimension of this heritage and mentions only 'Ram Mandir', 'Ram Setu', 'Ganga River', and 'Cow and its Progeny'"<sup>38</sup>.

In fact, backing by the RSS – and chiefly by the group's most senior leader Mohan Bhagwat, who was instrumental in building a consensus in the RSS in Modi's favour<sup>39</sup> – has been of the utmost importance to bolster Modi's electoral race: first as he was picked to be chairman of the BJP's Central Election Campaign Committee in March 2013, then chosen to head the poll campaign and eventually announced as the party's prime ministerial candidate in September 2013. Several top leaders in the BJP – including the leader of the opposition Sushma Swaraj and former party President Murli Manohar Joshi – had

---

*Guardian*, 6 March 2014.

<sup>38</sup> C. Jaffrelot (2015), p. 160.

<sup>39</sup> "Can the uneasy truce between PM Modi and RSS chief Mohan Bhagwat hold?", *Economic Times*, 26 May 2015.

expressed their opposition to the idea of Modi leading the party in the general elections. When Modi was chosen, the BJP's senior leader and founding member L.K. Advani publicly described himself as "disappointed" and resigned from all his posts at the party. Although he withdrew his resignation 24 hours later, this only happened at the urging of the RSS chief Mohan Bhagwat<sup>40</sup>. The same goes for the other leaders, who were eventually persuaded to support Modi in the electoral race (today, Sushma Swaraj is India's Minister of External Affairs).

One of the reasons mentioned by the BJP veterans to justify their opposition to Modi's appointment was the imputation that he was a "socially polarising"<sup>41</sup> and divisive leader; an allegation that is still widespread but that the man himself tends to dismiss. "I'm not in favour of dividing Hindus and Sikhs. I'm not in favour of dividing Hindus and Christians. All the citizens, all the voters, are my countrymen", Modi once said, adding that "Religion should not be an instrument in your democratic process"<sup>42</sup>. Indeed, the impression is that the accusation of being divisive, coming from BJP old-timers, sounded more like an excuse to explain their frustration with the fact that traditional collegiality was being bypassed by Modi. Not only did he try – and manage – to build a "direct" relationship with his supporters<sup>43</sup> but he also relied upon a parallel support structure, while marginalising leaders who did not pay direct allegiance to him.

Interestingly, the same didn't happen with the more radical factions of Modi's power base. The RSS leadership, for example, has generally and firmly supported Modi, although minor divergences had at times complicated the relationship between him and the organisation during the Gujarat years, as well as

---

<sup>40</sup> "Narendra Modi chosen as BJP's PM candidate: I am disappointed, Advani writes to BJP chief", NDTV, 13 September 2013.

<sup>41</sup> "BJP names Narendra Modi its man for PM in 2014, Advani skips board meeting", *Telegraph India*, 13 September 2013.

<sup>42</sup> As quoted in R. Colvin and S. Bhattacharjya (2013).

<sup>43</sup> See C. Jaffrelot and J.T. Martelli (2017).

during his unusual election campaign<sup>44</sup>. This is partly due to the fact that the Modi's strong personalisation of the campaign eventually resulted in an increased support for him by the Sangh's grassroots – and indeed his charisma was helping the RSS to overcome some of its past inhibitions –, partly to the fact that both leaders and sympathizers truly recognised in Modi an ardent Hindu nationalist. Moreover, Modi himself has not hesitated to describe himself as a 'Hindu nationalist' publicly, differently from other BJP veterans, and saw no contradiction between this loyalty and his genuine commitment to development and reform. To him, the ability to hold both these aspects together represented more of an asset than a 'polarising' feature. This is what he answers when in July 2013 two Reuters interviewers ask him "who the real Modi is":

I'm nationalist. I'm patriotic. Nothing is wrong. I'm a born Hindu. Nothing is wrong. So, I'm a Hindu nationalist so yes, you can say I'm a Hindu nationalist because I'm a born Hindu. I'm patriotic so nothing is wrong in it. As far as progressive, development-oriented, workaholic, whatever they say, this is what they are saying. So there's no contradiction between the two. It's one and the same image<sup>45</sup>.

Mohan Bhagwat and the RSS leadership were probably less concerned than BJP veterans of Modi perturbing the party's traditional *modus operandi*, nor did they see "polarisation" – as a possible consequence of his balance between reformism and Hindu nationalism – as problematic. They quickly understood that the time was ripe to take a pragmatic approach to the organisation's relationship to political power: if Modi succeeded, his victory could indeed represent a unique opportunity for the Sangh to make a qualitative leap and possibly entrench their Hindutva agenda at the highest levels of government. As long as

---

<sup>44</sup> M.G. Vaidya, "Is the BJP's Modi-centric Campaign at Odds with the Principles of the RSS?", *Caravan Magazine*, 7 April 2014.

<sup>45</sup> R. Colvin and S. Gottipati, "Interview with BJP leader Narendra Modi", Reuters, 12 July 2013.

this prospect was credible, supporting Modi's "two-dimensional package" – however polarising or contradictory it was in the eyes of many – was first and foremost a matter of realpolitik.

At the same time, Modi's "Hindu nationalist but progressive" self-understanding could not but sound reassuring to more moderate and business-minded supporters: with their vote, they would not only elect a "patriotic" leader who cared about religion, but also a "development-oriented workaholic". To be sure, this "synthetic" vision of his own mission – or at least his remarkable ability to convince his potential sympathizers (and voters) that he is serious about it – is precisely where the secret of Modi's success appears to lie.

### **In power: holding a risky balance**

Modi managed to funnel both ultra-conservative Hindu votes and moderate votes towards a formidable electoral victory of the BJP-led National Democratic Alliance (NDA) in May 2014. But since he took office, the necessity to balance the competing demands of groups from his Hindu nationalist power base and those voters who rather focused on his promise of economic growth has become one of the main challenges of his tenure. Not to speak of the importance – especially in his capacity of Prime Minister of the world's largest democracy – to reassure the international community, India's minorities and, of course, all those Indians striving to build a secular, pluralist country, that fundamental rights would be protected, social cohesion and inclusion fostered, and communal tensions defused.

On the one hand, there is no reason to doubt that Modi's commitment to reform is sincere. Indeed, for many Indians, this was and still is the most important reason to vote for him. Modi *is* a reformer: Gujarat's double-digit growth during his tenure hasn't happened without a cause, and as a Prime Minister, he has worked to implement major structural reforms which had been languishing for years or even decades – the Goods and Services Tax, for instance. As to whether, or when,



these reforms will generate the expected changes is a different, although not entirely unrelated, matter.

On the other hand, the risk of deceiving or alienating Hindu nationalist supporters, whose expectations at the time of the election were higher than ever before, is a sword that started hanging over Modi's first term since its very beginning – along with the "debt of gratitude" Modi owed the RSS and other Sangh Parivar organisations for the massive mobilisation of their networks in his favour during the election campaign.

Out of either pragmatism or conviction, sooner or later concessions to each side had to be made: despite the BJP's ever strong mandate, an across-the-board consensus – at least within the party's electorate – was a necessary condition to put Modi's ambitious reform programme into effect. All the more so that, despite holding a majority in the lower house of Parliament, if the BJP was to pass the promised tax, labour and land reforms needed to encourage economic growth, the party and its allies needed to increase their representation in the upper house – the Rajya Sabha – where the opposition held (and still holds) a large-enough share of seats to hamper legislation. In order to achieve this goal, Modi's BJP had to win state assembly elections<sup>46</sup>.

As Modi's government is soon to conclude its fourth year in office, understanding this situation is key to grasp some of the essential challenges and apparent "contradictions" that have defined his tenure so far. Even more so, since the picture is further complicated by the fact that balancing between groups with different, if not diverging, socio-political aspirations (or even world views) can be double-edged: of course, concessions can be functional to broadening and diversifying consensus, but they are just as much likely to deceive either groups, increase polarisation – as many feared –, and fuel social tensions.

---

<sup>46</sup> "What Hindu Nationalism Means for India's Future", Stratfor Worldview, 6 June 2016.

## Soft start: playing the “inclusive” card

Not by chance, but to the surprise of many who accused Modi of sectarian prejudice and even authoritarianism, the new Prime Minister’s first months in office kicked off with a remarkable effort to present himself as a responsible and inclusive leader. His government’s “motto”, in Modi’s own words, “will be to be with everyone and for everyone’s development”, no matter “who won and who lost”. And indeed, words such as “responsibility”, “responsible” and “democracy” – definitely much more than “won”, “majority” or “BJP” – were the markers of the Prime Minister’s first public addresses, clearly aimed at reassuring all Indians about his democratic commitment.

In his inauguration speech on 20 May 2014 at the Central Hall of Parliament, which he called “the temple of democracy”, Modi employed a well-balanced and non-divisive language. “Every moment of our lives and every speck of our body should be dedicated to 125 crore people of this country”, he said, “we have to carry this dream”. At the same time, he kept the focus on issues that cannot but touch the hearts and minds of the majority of Indians, including those who presumably had not voted for him. These issues were development, but most of all poverty.

A government is a one which thinks about the poor, listens to the poor and which exists for the poor. Therefore, the new government is dedicated to the poor, millions of youth and mothers and daughters who are striving for their respect and honour. Villagers, farmers, Dalits and the oppressed, this government is for them, for their aspirations and this is our responsibility. And this is our responsibility. I have seen new facets of our country in my campaign. I have seen people who had only one piece of clothing on their body but had the BJP’s flag. This section is looking at us with hope and aspirations. And therefore, our dream is to fulfil their dreams<sup>47</sup>.

---

<sup>47</sup> “Text of Narendra Modi’s speech at Central Hall of Parliament”, *The Hindu*, 20 May 2014.

However heartfelt Modi's decision to "dedicate" the government to the poor and the oppressed may have been, the move was not without political insight, since the biggest criticism that Modi's "Vibrant Gujarat" model has received over the years is precisely of being excessively pro-business, while leaving poor and minority communities, especially Muslims, behind.

In the same address, Modi also reached out to the opposition, explaining that "various governments in the past tried to do some good work in their own way for which they deserve appreciation". But most importantly, he managed to build upon two of the most important symbols of independent India's national pride and unity – the freedom fighters and the Constitution – in order to bring out what according to him is "the biggest significance of this election": the victory of the "common man"; a category to which, of course, he personally belonged.

I salute all freedom fighters and also salute makers of the Constitution of our country as because of them, the world is witnessing the power of democracy. When global leaders called me, I told them about millions of voters of India. They were surprised. It is the power of our Constitution that a poor person belonging to a poor and deprived family is standing here today. This is the power of our Constitution and hallmark of our democratic elections that a common citizen can also reach this height. The BJP's victory and somebody else's loss is a point for debate later. Citizens have realised that this democratic setup can fulfill their aspirations.

According to several accounts, during the first year of Modi's tenure, even rivals and many Muslims appeared to be positively impressed by his posture<sup>48</sup>. Many hadn't expected his discourse to focus to such an extent on unity, inclusive growth and boosting India's international role, rather than on Hindutva, "Hindu Rashtra", or other issues that are relevant to radical Hindus. In a CNN interview recorded in September 2014, days after the head of al-Qaeda Ayman al-Zawahiri issued a video calling

---

<sup>48</sup> Z. Janmohamed (2014).

for Islamist resurgence in India<sup>49</sup>, Modi even said that “Indian Muslims will live for India; they will die for India. They will not want anything bad for India”<sup>50</sup>.

The new Prime Minister understood that starting to show trust for Muslims and their patriotism – a loyalty often questioned by Hindu radicals at least since Partition – was a necessary, although not sufficient, step to remove the Muslims’ own trust deficit towards the BJP, and eventually bring them on board. Mobashar Jawed (M.J.) Akbar, one of India’s most prominent and well-known Muslim authors, a former Congress MP who in 2002 had compared Modi to Hitler<sup>51</sup>, decided to join the BJP in March 2014. Modi’s project for India had convinced him that

We either move together or we barely move at all. It was an incisive definition of inclusive growth. At a time when Modi could have been forgiven for being emotional, he was practical, clearly focused and determined to pursue an economic vision. [...] We need a national recovery mission. Only someone who has delivered can offer a credible promise of leading such a critical mission. [...] And there is, among the visible choices, only one person best suited to lift the nation out of a septic swamp<sup>52</sup>.

### Losing the grip?

The fact that Modi handled the subject of minorities with a particular wariness and a great deal of political skill does not mean that all of his party colleagues did the same – let alone some of the radical fringes of Modi’s Hindu nationalist power base, whose inability (or unwillingness) to fall in line soon

---

<sup>49</sup> “Al-Qaida leader Ayman al-Zawahiri calls for Islamist resurgence in India”, *The Guardian*, 4 September 2014

<sup>50</sup> J. Traub (2015); and F. Zakaria, “Interview with Narendra Modi”, CNN, 21 September 2014.

<sup>51</sup> “M.J. Akbar: Then And Now”, *Outlook India*, 24 march 2014.

<sup>52</sup> “Journalist and ex-Congress MP M J Akbar on why he chose to join BJP”, *Economic Times*, 24 March 2014.

became evident. Just one day after the new BJP-led National Democratic Alliance government took oath of office, for example, the new Minister of Minority Affairs, Najma Heptullah, made an unusual statement that surprised, or even shocked many. She said that "Muslims are not minorities. Parsis are. We have to see how we can help them so that their numbers don't diminish" and that "this is not the Ministry for Muslim affairs, this is the Ministry for minority affairs"<sup>53</sup>. Days before the general election, Amit Shah, a close aide of Modi and the current President of the BJP, had made incendiary statements with regard to the communal clashes that had erupted in the Muzaffarnagar district in Uttar Pradesh a year earlier. He stated that the upcoming election was "an election for honour, for seeking revenge for the insult, and for teaching a lesson to those who committed injustice"<sup>54</sup>. Provocative statements by BJP and RSS leaders in Modi's India are not always an exception. But by the time of the election and still months later, "optimism" – one of Modi's favourite concepts during the campaign – had saturated public discourse to such an extent, that downplaying the seriousness of such seditious stances was not a difficult task, at first.

Only months after the Heptullah incident, however, India witnessed the first, alarming outburst of intolerance and actual violence since Modi's government had taken office. Not only Muslims started to be targeted by radical Hindu militants, but Christians too. First in Fall 2014, when amidst a resurgence of talk about so-called "love jihad" talk and allegations of terrorism against Muslims<sup>55</sup> (maybe also inspired by al-Zawahiri's video), the RSS launched a so-called *ghar wapsi* campaign: re-conversions of non-Hindus "back" into Hinduism, in a strive to "free

<sup>53</sup> S. Tripathi, "Najma Heptullah's flawed understanding of 'minority'", LiveMint, 30 May 2014.

<sup>54</sup> "Amit Shah's 'revenge' remark in riot-hit area sparks controversy", NDTV, 5 April 2014.

<sup>55</sup> R.J. Nair and F.J. Daniel, "'Love Jihad' and religious conversion polarise in Modi's India", 4 September 2014.

India of Muslims and Christians by 2021” and “create a Hindu Rashtra”, as the Hindu activist Rajesh Singh put it during one of the “homecoming” ceremonies. A leader of the far-right Hindu group Dharm Jagran Samiti (DJS) affiliated to the RSS, Singh also claimed that “the BJP is our political organisation. They are our brothers. We have ensured that they won the election. Modi is a Hindu leader. [...] This is our golden age”<sup>56</sup>.

In December 2014, the RSS claimed it had converted 57 Muslim families, more than 200 individuals, in Agra – home to the famous Muslim-built monument, the Taj Mahal – and said that thousands more were in line to be “welcomed back” to Hinduism<sup>57</sup>. Weeks later, a series of episodes of vandalism – including arson, stone-throwing, and burglary – targeted Churches and Christian Symbols in and around Delhi. Although the RSS denied its involvement, the attacks prompted India’s Roman Catholics and other Christians – about 2% of India’s population – to denounce what they perceived as, and indeed looked like, a deliberate campaign of violence by Hindu far-right extremists<sup>58</sup>. In late January, approximately 5,000 people attacked the majority Muslim village of Azizpur in the north-eastern state of Bihar, after a Hindu boy was allegedly abducted and killed over a love affair with a Muslim girl. According to the press and other reports, the mobsters set two dozen houses on fire, killing four Muslims<sup>59</sup>.

Opposition leaders and minorities called on Modi to take a stance on the upsurge of communal violence and explicitly condemn the RSS conversion campaigns. In Parliament, the BJP suggested that it favoured a central law banning forceful religious conversions, but at the same time the party avoided

<sup>56</sup> P. Srivastava, “‘We will free India of Muslims and Christians by 2021’: DJS leader vows to continue ‘ghar wapsi’ plans and restore ‘Hindu glory’”, *Daily Mail*, 19 December 2014.

<sup>57</sup> “RSS ‘re-converts’ 200 Agra Muslims, says more in line”, *The Times of India*, 9 December 2014.

<sup>58</sup> N. Najar and R. Suhasini, “Catholics Fear Campaign of Church Attacks in India”, *The New York Times*, 2 February 2015.

<sup>59</sup> “Hindu widow saved 10 Muslims in Bihar riots”, *India Today*, 19 January 2015.

to comment the involvement of the RSS, its ideological parent, in this practice. To this day, however, anti-conversion laws have been passed only at state level and, critics claim, they have targeted Christians and other minorities far more often than Hindutva groups<sup>60</sup>.

Even US President Barack Obama expressed his concern about India risking to become "splintered along the lines of religious faith". He addressed the issue twice: first during his visit to India in January 2015 and then again days later after his return to the US. Some months later, the United States Commission on International Religious Freedom issued a report on India denouncing increasing instances of communal and "religiously motivated killings, assaults, riots, coerced religious conversions, actions restricting the right of individuals to change religious beliefs, discrimination, and vandalism", including "attacks of Hindus on Muslims" and advocates of secularism<sup>61</sup>.

Despite domestic and international pressure on the Indian government to condemn the violence and take up the issue of religious freedom, it took several weeks before Modi spoke out. Eventually, he addressed the subject mid-February, 2015, on the stage of an event honouring Indian Catholic saints<sup>62</sup>. "My government will ensure that there is complete freedom of faith and that everyone has the undeniable right to retain or adopt the religion of his or her choice without coercion or undue influence", he said. "My government will not allow any religious group, belonging to the majority or the minority, to incite hatred against others, overtly or covertly", he added. Modi, who spoke in English even though his usual language is Hindi, made no reference to specific episodes of violence or individual groups, but religious leaders in India and abroad praised him for his

---

<sup>60</sup> S. Daniyal, "How India uses the absurd charge of 'forced religious conversions' to target minorities and Dalits", Scroll.in, 14 April 2017.

<sup>61</sup> United States Commission for International Religious Freedom, "India - 2015 International Religious Freedom Report", p. 1.

<sup>62</sup> A. Gowen, "Comment on religious tolerance by Indian leader sparks national debate", *The Washington Post*, 19 February 2015.

long-awaited remarks. Political commentators have speculated that the timing of the statement – just days after the BJP suffered a heavy defeat in state elections in Delhi – suggests Modi had avoided commenting on the episodes earlier in order not to alienate his Hindu nationalist base. The massive drift of Christian and Muslim voters towards the Aam Aadmi (or Common Man) party in the election, however, might have persuaded him to speak out. Interestingly, the statements brought the Prime Minister at odds with some BJP members, who accused him of “pandering” to a “secular” crowd and even expressed their disapproval on Twitter with the hashtag *#secularmodi*<sup>63</sup>.

### Blackmailed

During the months following the first outbursts of violence, Modi reiterated his government’s stance on religious violence on some more occasions. “Our constitution guarantees religious freedom to every citizen and that is not negotiable [...] Any discrimination or violence against any community will not be tolerated”, he said in an interview in June<sup>64</sup>.

Only in his second year in office, Modi could not afford to let resurgence of communal and religiously motivated violence undermine his government’s and India’s international image, which he had promised to boost along with foreign investment. But most of all, the growing brutality by Hindu extremists threatened to sabotage his ambitious reform programme. In fact, increasing intolerance not only risked alienating the international community, but especially those supporters who had trusted him on account of his economic development agenda, rather than for inspiring radical Hindus across the country. As an Indian newspaper in January 2015, “the tensions are palpable, with many of those who are intent on pushing for the right-wing economic agenda uncomfortable with the antics of the Hindu

<sup>63</sup> “PM Modi’s Comments on Religious Tolerance: Tweet and Sour Responses”, NDTV, 17 February 2015.

<sup>64</sup> “PM Narendra Modi says Constitution guarantees religious freedom to every citizen and that is not negotiable”, *The Economic Times*, 2 June 2015.



religious right, seen as a distraction, or worse, a hindrance". The fight within the BJP, he added, "is between those who want the government to use power in the service of liberalisation and, to a lesser extent, globalisation, and those who define the primary goals of the party in terms of social and cultural assertion of the Hindu majority"<sup>65</sup>. With major reforms struggling to take off, and several state assembly elections ahead, this situation could soon become a serious problem for Modi.

As a result, investigations were conducted by the police and the Central Bureau of Investigation, and several people were arrested over the 2015 episodes of violence, both in the victims and the attackers' communities. But despite the arrests, and despite Modi addressing the issue again on some occasions, the wave of violence did not come to an end. According to the estimations by the Indian government, communal violence witnessed a 17% rise in 2015, with 751 incidents recorded across India as against 644 the previous year. Casualties from communal turmoil also increased, with 97 victims and 2,264 injured, up from 95 and 1,921 in 2014, respectively<sup>66</sup>.

Among others, the number of episodes of violence linked to a phenomenon known as "cow vigilantism" started to swell all over India, though especially in those states – the majority – where cattle slaughter is banned by the law. The cow being a sacred animal to Hindus, and cattle traders in India – the world's third-biggest beef exporter<sup>67</sup> – being mostly Muslims and Dalits, groups of men calling themselves "vigilantes" started to target Muslim farmers, as well as their businesses and families, in the name of "cow protection". In a trail of violence that shows no signs of abating at the time of writing, the attacks often result in mobs and brutal killings, with the livelihoods of Muslim farmers across India increasingly put at risk, as a recent report claims<sup>68</sup>.

---

<sup>65</sup> S. Nambath, "*Economic reforms and the Hindutva project*", *The Hindu*, 9 January 2015.

<sup>66</sup> "Communal violence up 17% in 2015", *The Times of India*, 25 February 2016.

<sup>67</sup> "India is world's third-biggest beef exporter: FAO report", *The Indian Express*, 29 July 2017.

<sup>68</sup> Z. Siddiqui, K.N. Das, T. Wilkes, and T. Lasseeter, "Special report: In Modi's

Episodes such as the lynching in September 2015 of Mohammed Akhlaq – a Muslim man accused of stowing meat in his refrigerator –, the hanging of suspected cattle traders Azad Khan and Muhammed Majloom, or the thrashing of traders in Maharashtra for allegedly storing beef in Spring 2017, up to the brutal killing of 15-year-old Junaid Khan on a train just days before Muslims celebrated Eid last year, have had some resonance on international media and have sparked debate and outrage in India, although several reports have documented a much longer list of similar episodes over the last three years<sup>69</sup>. Moreover, the country's already high-charged atmosphere – at least with regard to communal relations and religious freedom – has been further exacerbated by an upsurge in episodes involving the harassment of “secular” or “rationalist” university professors by right-wing activists, physical attacks against students and women, as well as the shooting of the senior journalist and fierce advocate of secularism Gauri Lankesh outside her house in September<sup>70</sup>.

### Words matter, but silence too

On the back of intensifying pressure from civil society groups<sup>71</sup>, oppositions, and the international community<sup>72</sup>, Modi took up the issue of intolerance and religious violence once again in August 2017 – over two months after Junaid Khan's killing. By all means, he chose a significant setting to address the subject; namely the ramparts of Delhi's Red Fort, from where he

---

India, cow vigilantes deny Muslim farmers their livelihood”, Reuters, 6 November 2017.

<sup>69</sup> “India: ‘Cow Protection’ Spurs Vigilante Violence”, Human Rights Watch, 27 April 2017.

<sup>70</sup> S. Mondal, “Why Was Gauri Lankesh Killed?”, *The New York Times*, 13 September 2017.

<sup>71</sup> “A Narrowing Space: Violence and discrimination against India's religious minorities”, Centre for Study of Society and Secularism & Minority Rights Group International, Report, June 2017.

<sup>72</sup> “India: Hate crimes against Muslims and rising Islamophobia must be condemned”, Amnesty International, 28 June 2017.

addressed a large crowd and a huge television audience in a speech for the 70th anniversary of India's independence. "This is the land of Gandhi and Buddha", he said in Hindi. "We have to move forward taking everyone along. [...] This is a part of our country's culture and tradition. We have to successfully carry it forward, and that is why in the name of faith, violence cannot be allowed" he added, concluding that "the path of violence in the name of faith can never succeed in this country. The country will never accept this"<sup>73</sup>. The condemnation was welcomed by political and religious leaders both in India and around the world. The international media, too, praised his statement.

However, critics and human rights groups claim that, for most of the time, the Modi administration has remained silent over increasing intolerance and violence across India. This imputation is not entirely without good reason, given that several of the incidents listed above – not to speak of "minor" episodes that didn't result in actual mobs or killings – have often only triggered belated or inadequate responses, if any, by government officials or by the Prime Minister himself<sup>74</sup>.

Above all, however, a growing number of observers point out that, beyond the words, Modi's administration has failed to take substantial countermeasures to stop discrimination and hate-crimes against Muslims and other minorities from spreading across the country. "The gap between slogan and implementation [...], a deliberate gap", as an observer put it shortly after Modi's Red Fort speech last summer, is what should really be worried about. Modi, in sum, has been playing "good cop, bad cop" by condemning communal violence, while doing little to rein in radical fringes of his party<sup>75</sup>.

---

<sup>73</sup> "Modi denounces violence in the name of religion", Vatican Radio, 15 August 2017.

<sup>74</sup> N. Bhowmick, "As India's Muslims are lynched, Modi keeps silent", *The Washington Post*, 28 June 2017.

<sup>75</sup> T. Wilkes and R. Bhatia, "Modi urges India to reject violence in name of religion", Reuters, 15 August 2017.

Indeed, despite increasing episodes of intolerance and sporadic, while still commendable, declarations, it seems that taking significant policy steps to prevent India's uniquely diverse society from further crumbling along religious and communal lines has not been a top priority on the government's agenda. At least not yet. Economic and fiscal reforms have (although not everyone agrees<sup>76</sup>) and so has the need to keep consensus within the ruling party's power base broad. How? By trying to keep the balance between the claims arising from both of its souls: the pro-development soul, more interested in economic reform (middle-classes and business owners), and the Hindu nationalist soul, more involved in ideological, social and cultural issues, while also concerned with the economy. Abandoning the message of economic development would alienate pragmatic supporters. Yet, at the same time, Modi's BJP seems to fear that taking a more resolute stance – supported by actual policies – on issues such as the need to protect minorities and punish intolerance, would mean risking the same outcome with conservative Hindu supporters<sup>77</sup>.

## Conclusion

To be sure, the mounting wave of intolerance and communal tensions during the four years of BJP government is not the only way the promised "Change" in India has unfolded under Narendra Modi's administration. And, of course, communal violence is not new to India. Despite a certain *longueur*, Modi's government has worked to implement groundbreaking reforms and tried to introduce measures to tackle corruption, curb tax evasion and attract foreign investment. Modi himself has devoted much of his personal appeal to market India's image and reputation around the world, forging new strategic alliances

---

<sup>76</sup> "India's prime minister is not as much of a reformer as he seems", *The Economist*, 24 June 2017.

<sup>77</sup> "What Hindu Nationalism Means for India's Future", cit.

and trying to feed the perception of India as an "alternative" regional and global power in an international landscape that is increasingly uncertain; but certainly dominated by the rise of China. Innovation, connectivity and technological transition are at the core of the government's agenda. No one doubts that the targets of job-creation, sustainable growth and equitable redistribution of the dividends of modernisation are even more important, but they are also much more difficult to achieve; especially in a populous country like India. If, and how, Modi will succeed in leading India closer to this goal is yet to be seen. But on this aspect, a rush to judgment wouldn't be entirely fair.

However, Modi's reform efforts didn't stand alone. Unpopular measures – demonetisation for example – or clamorous defenses of religious freedom, have been counterbalanced with well-placed, savvy political moves aimed at reassuring his base; the one that helped him rise to power, to be clear. For example the appointment of Yogi Adityanath, a controversial Hindu nationalist priest, as Chief Minister of India's most populous state; or the choice of Ram Nath Kovind, a low-caste politician backed by Modi's conservative religious faction, as the BJP's presidential candidate. On a lower – more "populist"? – level, critics claim, some red-tape, or announcements with a great deal of resonance, might have served a similar purpose. Like the then suspended law banning cattle slaughter announced in July 2017, for example; or the launching of Yoga as an international brand for India; even the recent, albeit embraceable, bill to prosecute Muslim men who divorce their wives using "triple talaq", or instant divorce<sup>78</sup>.

Just after attending Yogi Adityanath's swearing-in ceremony, Modi's only comment about an appointment that had left many speechless, came with a series of tweets stating that "Our sole mission & motive is development"<sup>79</sup>. Identity and economic

---

<sup>78</sup> "Triple Talaq: India introduces law which could jail Muslim men who instantly divorce their wives", 29 December 2017

<sup>79</sup> "Hardline priest Yogi Adityanath's elevation a sign Modi is moving toward Hindu India".

reform must be “one and the same image”, Modi had said prior to his election. And so far, his strategy has not been inconsistent with this vision: it was focused on balancing among either claims within his base – identity and reform – while avoiding to implement substantial policies to protect India’s pluralism, and punish violent chauvinism. Has it worked? Yes, to some extent. Especially if we look at one major factor: today, Modi is closer to his goal than he was four years ago. He has strengthened consensus and, ultimately, his power to reform India. Moreover, to this day, the balance between identity and reformism has also offered a kind of guarantee: when advancing reform was more difficult, the BJP could always campaign on identity, and vice-versa.

Indians, surveys show, are more confident today in their government than they were some years ago, and consensus for Modi has reached an all-time high<sup>80</sup>. State assembly elections have been won, too, and the BJP has been steadily increasing its footprint across the nation. Twenty-three states have gone to the polls since May 2014, and the BJP now has a government in 15 of them, on its own or with an alliance<sup>81</sup>. Moreover, 2018 will be an important year for the Rajya Sabha: its members are elected to a six year term, but one-third of the seats are up for election every two years. This year, over 60 retiring members of the Rajya Sabha will have to be replaced. New members will be appointed from states that have gone to the polls and where, in most cases, the BJP has won. On these premises, it seems quite possible that the BJP or its allies will soon have a majority in the Rajya Sabha.

Will Modi use this power to transform India into a modern, global leader? Or will he let India drift towards a Hindu Rashtra? We won’t know before 2019, when the country will hold its next general election. The BJP has good chances to win again: and this time, foreseeably, with a majority in both

---

<sup>80</sup> B. Stokes, D. Manevich, and H. Chwe (2017).

<sup>81</sup> “State elections since 2014 and the BJP’s growing footprint”, *The Times of India*, 18 December 2017.

chambers of Parliament. We do know, however, that polarisation in India is growing. And the strategy of balance between competing claims might soon become increasingly difficult to be put in place. All the more so if reforms will fail, or take too long, to bring major progress on India's economic growth, job creation and infrastructural improvement.

Here, the question is whether Modi will prove really pragmatic, as he likes to describe himself, or if he will feel compelled to resort to increasingly majoritarian positions, in order to keep consensus high, opposition weak, and push his reform agenda through. In the first case, clearer stances will have to be taken, zealots isolated and violent extremism hindered from bringing discredit on economic reforms<sup>82</sup>. In the latter case, sooner or later polarisation might reach a critical point, and the highest price will be paid not only by India's minorities, but by Modi's reforms, too.

---

<sup>82</sup> S. Nambath (2015).





## 4. Confronting BRICS: the Indian Dilemma

Geethanjali Nataraj and Garima Sahdev

---

### The origin, evolution and the rise of BRICS

It was in 2001 that Jim O'Neill, a former chairman of Goldman Sachs Asset Management, wrote a paper for Goldman Sachs's "Global Economic Paper" series, and coined the buzzword "BRICs" (which became BRICS in 2011 after South Africa joined the bloc). Little did anyone know then that the concept of BRICS would one day challenge the status quo and turn out to be a game-changer for the global economy, hitherto controlled by the United States and the other G7 countries. The key figures and statistics discussed in the paper convinced Mr. O'Neil of the enormous growth potential of the BRICS economies and their promising place in global financial governance. Again, in 2011, Goldman Sachs predicted that the United States would be the only Western power to remain among the world's top five economies, steadily losing ground to the emerging economies led by China and followed by India. Describing a dramatic shift in economic power, the leading global investment firm said that by 2050, the BRICs (this was before South Africa joined the bloc) would account for 40% of world GDP<sup>1</sup>. The key findings of the PwC "World in 2050" Report similarly predicted that the emerging markets (E7), led by China and India, would grow twice as fast as the G7 economies by 2050, provided they enhanced their

---

<sup>1</sup> D. Wilson, K. Trivedi, S. Carlson and J. Ursúa, *The BRICs 10 Years On: Halfway Through The Great Transformation*, Goldman Sachs, Global Economics Paper no. 208.

institutional capacity and infrastructure to reap the benefits of their long-term growth potential<sup>2</sup>. The Paris-based OECD predicted that even within the BRICS framework, the combined GDP of China and India was expected to surpass that of the G7 economies by 2025, and also overtake the US, Japan, and the Eurozone<sup>3</sup>. The group currently accounts for 40% of the world population, and the combined GDP of the five countries amounted to 22.26% of world GDP in 2016.

From its first formal meeting – that of the foreign ministers of Brazil, Russia, India and China – in St. Petersburg on the sidelines of the 2006 G8 Outreach Summit, the BRICS (composed of five countries on three continents that differ geographically, politically, economically as well as culturally), have travelled a long way, achieving several milestones. The bloc had its first summit in 2009, and since then its heads of state have met annually – most recently for the 9th BRICS Summit in Xiamen, China. In 2011 South Africa joined the bloc, prompting surprise from many quarters given its significantly smaller GDP and population as compared to the original BRICs, with some even dismissing it as the beginning of the weakening of the group's power<sup>4</sup>. The GDP of South Africa in 2016 was worth \$US294.84 billion, amounting to 0.48% of the world economy<sup>5</sup>. The numbers are minuscule compared to India's and China's GDP for the same year, worth \$US2,263.52 billion and \$US11,199.15 billion respectively<sup>6</sup>, (and respectively accounting for 3.65% and 18.06% and of the world economy)<sup>7</sup>. But in deciding to extend the membership to the largest economy in Africa, the BRICs graduated into a promising

<sup>2</sup> Pricewaterhouse Coopers Global, *The World in 2050. The long view: how will the global economic order change by 2050?*

<sup>3</sup> OECD, "Looking to 2060: Long-term global growth prospects - Bloomberg Brief", 2012.

<sup>4</sup> J. O'Neil, Interview to Mail & The Guardian, S. Naidoo, "South Africa's presence 'drags down Brics'", 23 March 2013.

<sup>5</sup> Trading Economics, "South Africa GDP"

<sup>6</sup> Trading Economics, "India GDP"

<sup>7</sup> Trading Economics, "China GDP"

political-diplomatic entity – a new, powerful bloc in the existing world order – far beyond the original concept founded on comparable economic performance to accommodate the needs of the financial markets.

In 2014 the BRICS states agreed to set up a \$US100 billion BRICS New Development Bank and Contingency Reserve Arrangement, representing their macro-policy coordination and widely seen as the embodiment of South-South cooperation intended to rival the World Bank and the IMF respectively. With the goal of increasing the global competitiveness of the BRICS economies and an eye on facilitating market inter-linkages, the bloc adopted a comprehensive “Strategy for BRICS Economic Partnership” at the 7th BRICS Summit in Ufa, Russia. The document will serve as a blueprint for the group’s trade, investment and commerce ties up to 2020, and is quite crucial considering the burgeoning trade deficits of all the member countries with China – one of the prime issues confronting the BRICS.

This gradual yet phenomenal entry of the BRICS into the top fifteen world economies has marked the single-most significant shift of power since the creation of the Bretton Woods twins that for a long time disregarded and marginalised the major emerging economies like China, India, and Brazil in global economic governance. For some time now, these countries have been steering the global economy, having contributed to half of the world’s growth. The fact that the BRIC countries (sans South Africa) not only remained rather resilient to the 2007 twin crises – the global financial crisis and the European sovereign debt crisis – but were also growth drivers for the global economy made the entire financial world sit back and watch as the balance of economic power spectacularly tilted from the West to East. There are varying projections of the future economic strength of this bloc. Yet the consistency in the pace of their rising economic strength stands in sharp contrast to the rise in their voice with Washington-based lenders. Perhaps emboldened by this marginalisation and the delayed reform process in the existing ultra-conservative global economic and

financial regimes, the BRICS came up with their own alternative, financial institutions: the New Development Bank and the Contingent Reserve Arrangement.

The BRICS' structure and aims are a great opportunity to reshape the world economy and the power distribution of the financial system. But the main engine of the organisation is China, the Asian powerhouse, an old partner and at the same time a consistent matter of concern for India. Through BRICS, China has been positioning itself as the next world leader, which would require a resetting of the existing international order, the strengthening of principles of international law, and promoting multilateralism as an "engine of development for the world" – of which China has arguably been the biggest beneficiary. This becomes more conspicuous as the United States prepares to retreat from the world stage, with the Trump administration deploring the fruitlessness of multilateral arrangements such as the Paris Climate Accord and the Trans-Pacific Partnership (renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP, after the US withdrew). The Chinese leadership has time and again made significant references to "resolutely upholding the international order with the United Nations being the core of global governance"<sup>8</sup>, in sharp contrast to the American leadership's critical view of the multilateral body.

However, China's rise to global prominence is eventually about power. With the parallel but later rise of India as a regional and a potentially global power, there is well-founded anxiety in New Delhi about how China will conduct its inevitable transformation into a global power, whether it will be contentious or accommodative of New Delhi's parallel rise. Furthermore, India's geopolitical reality – of having two nuclear states on its borders, its misgivings over Sino-Pakistan ties and a contentious border dispute with China – make it a necessity for New Delhi to contain the ever-growing Chinese sphere of

---

<sup>8</sup> President of the People's Republic of China at the 19th National Congress of the Communist Party of China, October 2017.

influence on the Asian continent.

The real quandary, therefore, in conceptualising the BRICS as a powerful political-diplomatic entity is New Delhi's historic China dilemma. It is no secret that China has been the main engine behind the BRICS phenomenal rise in world affairs. But New Delhi's problem is precisely about how to manage China's rise within this framework. It has long considered Beijing as a partner in demanding reformed global economic governance, particularly in the IMF and the World Bank. However, China remains a major path-blocker for New Delhi in global political and security governance, in particular in the UN Security Council and the Nuclear Suppliers Group.

Since there's nothing more than a common growth trajectory that's binding the odd friends – with their diverse demographics and polity (of authoritarian regimes and democratic governments) – together today, the bloc has been frequently downplayed by pundits. Added to this, the Chinese dominance in the bloc has spawned a growing roster of puzzled skeptics and academics wondering whether the BRICS can think beyond their national interests to be more than an economic alliance.

### **Intra BRICS areas of cooperation and trade; synergies and rivalries**

Prior to the formation of BRICS as a bloc, there were no significant economic ties among these countries. In fact, excepting China, India doesn't have natural trade ties with the other BRICS members – Russia, Brazil and South Africa – and if China is factored out, the total exports of the bloc would be less than 5% of India's exports, while imports stand at a meagre \$US15 billion – compared to India's total imports of almost \$US450 billion in 2014-15<sup>9</sup>. Beginning in 2006, after their first informal meeting in New York, these countries

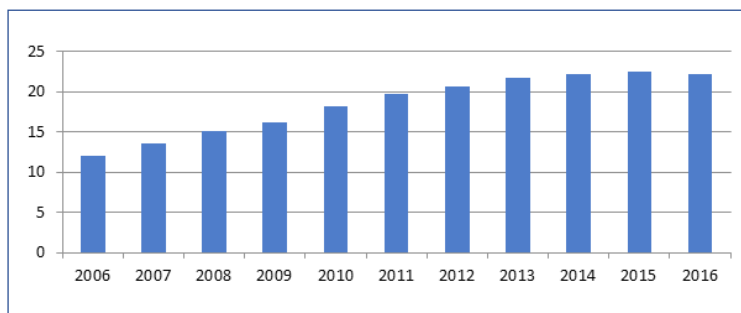
---

<sup>9</sup> S. Sharma, "Goa BRICS Summit: Does trade imbalance make India the weak-link?", *Business Today*, 14 October 2016.

started from scratch to become a powerful economic bloc – and a formidable rival to the existing order – extending their cooperation to areas beyond the economy, like tourism, education culture, and sports. Barring Russia, all the other four countries share a common colonial past and relative economic backwardness. It is thus easier for them to come together and build a consensus on most global issues. Steeped in their anti-hegemonic approach, the bloc is joined by Russia, which continues to be under the spell of the self-reliance narrative of the Soviet era. The three agreements – Treaty for the Establishment of a BRICS Contingent Reserve Arrangement; Agreement on the New Development Bank, and Cooperation Agreement on Innovation – demonstrate this self-reliant strategy, far from the conditional traditional aid based on Western corporate values with a complete disregard for local needs. This is significant, as skeptics have long cited shortcomings such as the BRICS lack of a permanent secretariat or a statute laying out its aims and objectives, or not having politico-cultural similarities like the G7 countries. Even with only minimal institutional structures to support them, the BRICS have continued to rise in vitality, while at the same time evolving a set of institutional frameworks and mechanisms aimed at effective integration. The member countries hold more than 100 meetings every year in different formats and levels of dialogue to strengthen cooperation and solidarity, and to promote their common long-term economic interests, including the democratisation of global economic governance. Figure 1 shows the growing share of BRICS countries in world GDP and Figure 2 shows the intra-regional trade that exists between them.

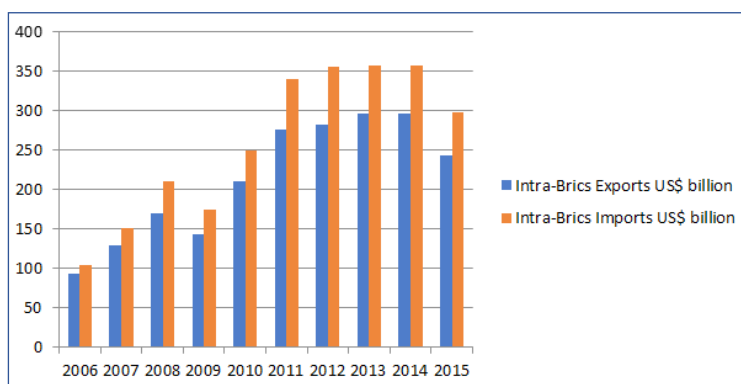
In addition to setting up the New Development Bank and the Contingent Reserve Arrangement (CRA), BRICS has also adopted a MoU for Establishment of BRICS Agricultural Research Platform to promote sustainable agricultural development and ensure food security in the BRICS member countries. The first annual BRICS Film Festival was also organised in 2016 in New Delhi in the run-up to the 8th BRICS Summit, in Goa. The five countries also signed co-production agreements

FIG. 1 – SHARE OF BRICS COUNTRIES IN GLOBAL GDP (%)



Source: IMF, *World Economic Outlook*, April 2017

FIG. 2 - INTRA-BRICS TRADE



Source: Exim Bank, *Intra-BRICS Trade: An Indian Perspective*, Working Paper no. 56, October 2016

with each other with the objective of creating not just a big market for their films but also to increase intra-BRICS tourism with the spread of their culture and cuisines. The first BRICS National Games were held in Guangzhou, China, in June 2017. Considering that all member countries face similar challenges in disaster management, it is one of the important

areas of cooperation, where the countries hold regular meetings on capacity-building and the useful practices followed in other BRICS countries, and have recently finalised the roadmap for implementing the three-year Joint Action Plan (JAP) for BRICS emergency services (2016-18).

However, regardless of their common goals of economic growth and development, and establishing fairness and equity in global governance, the five BRICS countries not only have very little commonality in terms of language and culture but also in political institutions and governance, infrastructure development and economic structures. This has resulted in asymmetric gains among member countries, as well as a consequent divergence of national interests. For instance, in India and Brazil, physical infrastructural bottlenecks have not only deterred many potential investors but have also been largely responsible for the manufacturing sector's consistently dismal performance in their economic growth story. While China gets a giant share, accounting for nearly fifty percent of the total BRICS manufacturing output. The response has been an increase in protectionism and discriminatory measures imposed to protect domestic commercial interests.

Furthermore, these countries are at different levels of socio-economic development. Barring South Africa, whose economy is a modest quarter of that of Russia's – the next smallest – the other three countries – India, China, and Brazil – have huge populations and figure among the biggest economies of the world. See Figure 3 for the population in BRICS countries and Figure 4 for their GDP growth rates.

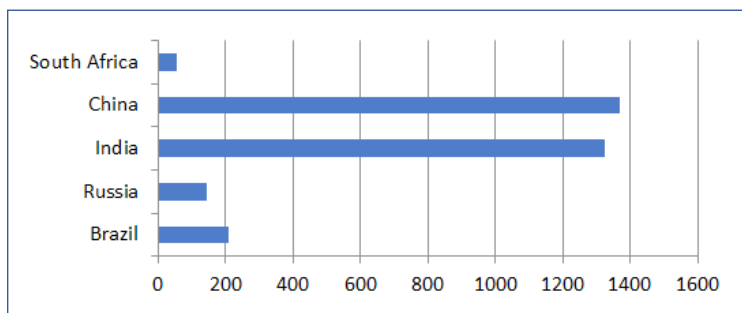
The disparity in per capita GDP is, in fact, a bigger concern, with Brazil and Russia vastly outperforming the other three. According to the Asian Regional Economic Outlook report, India has the lowest per capita GDP (\$US5,238) among all BRICS nations, besides having the highest regional disparity of per capita income in the bloc<sup>10</sup>. Its high economic growth

---

<sup>10</sup> Regional Economic Outlook, "Asia and Pacific: Building on Asia's Strengths during Turbulent Times", IMF, April 2016, p. 104-108.

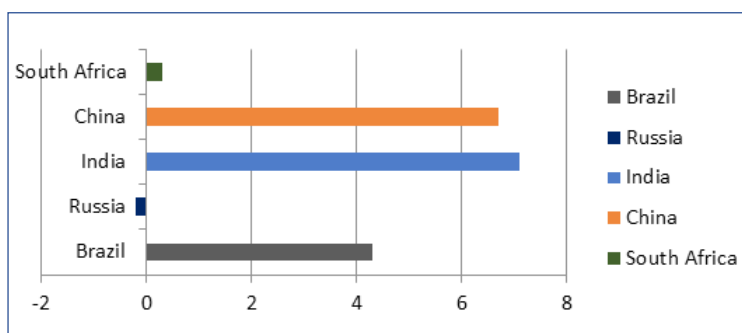


FIG. 3 - BRICS-POPULATION BREAK-UP IN MILLIONS



Source: World Bank, World Development Indicators

FIG. 4 - GDP GROWTH RATE 2016

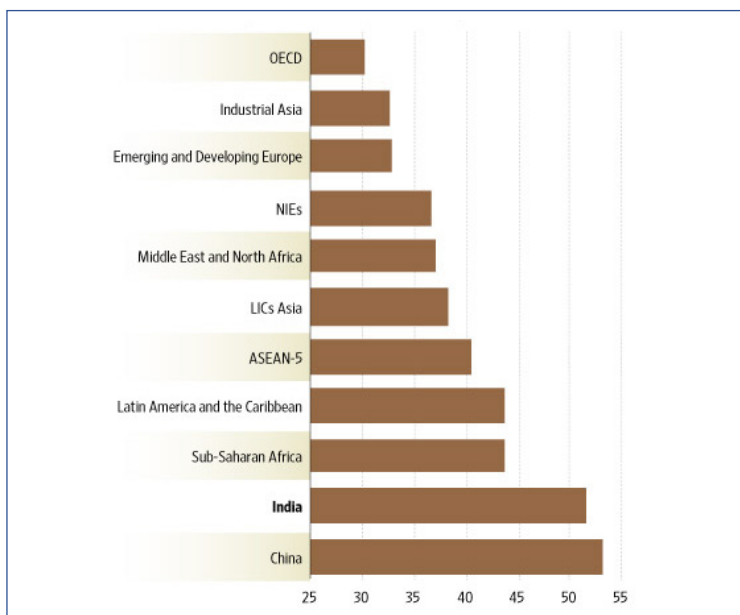


Source: World Bank

rate is yet to be translated into social equity. This is significant and demands the key attention of policy-makers in India and China, as the Gini coefficient has been rising for the two countries at a time when it is coming down for the rest of the world. See Figure 5.

Consequently, they all have different financial and institutional

FIG. 5 - NET GINI-INDEX IN GINI POINTS, 2013;  
AVERAGE ACROSS THE REGION



ASEAN-5: Indonesia, Malaysia, the Philippines, Singapore and Thailand;

LIC: Low-income countries;

NIE: Newly Industrialised Economies;

OECD: Organization for Economic Cooperation and Development

Source: IMF

capacities to deal with the global challenges of climate change, food security, humanitarian crises and human migration, as discussed later in the paper.

Even as the BRICS nations are integrating fast with the global economy and are deepening their engagements towards achieving their common goal of reforming the global governance architecture, the intra-trade relations and investments among the five BRICS countries are abysmally low at less than 5% of their total trade, standing at \$US242 billion, and involving mostly low-end commodities and raw materials. China

has been the major importer of these input goods to fuel its manufacturing growth, and some studies even suggest that the bloc has found its origin and synergy precisely in China's overwhelming need for raw materials – and it is precisely this factor giving rise to reciprocal trade that will indeed serve as the mortar for the BRICS<sup>11</sup>. China is now the main trading partner of all BRICS countries and has had a decisive role in increasing their export share. In fact, Brazil posted its highest ever trade surplus in 2016, fundamentally driven by a rise in exports to China and a fall in imports from the country. China continues to be the most important market for Brazilian and Russian natural resources, and has already substituted for European Union exports to Russia amidst the complex geopolitics of the region. It is also India's largest trading partner at \$US71.5 billion. However, while India has had a major share in intra-BRICS trade, the trade figures are heavily tilted in favor of China. India imports \$US61.3 billion worth of Chinese products while it exports just \$US10.2 billion worth of goods to China<sup>12</sup>. The Chinese economy is, in fact, bigger than the combined economies of India, Brazil, Russia and South Africa. Its dominance in intra-BRICS trade mostly derives from the yuan's undervaluation and Beijing's hidden export subsidies – an issue that all other BRICS countries are grappling with, and all of them except Brazil, face huge trade deficits with China. While Beijing has made a clarion call for free and fair trade at the multilateral arena, it remains protectionist in the sectors where its own interests could be hurt.

In the absence of policy coordination among the five countries to further trade and investment, there has been a prevalence of non-tariff barriers and a threat of increased protectionism within the bloc to shield local industries, in a way challenging the bloc's high ground on free trade. In fact, a 2015 report by

---

<sup>11</sup> A. Oropeza García, "The role of China and the BRICS project", *Mexican Law Review*, vol. 7, no. 1, 2014, pp. 109-136.

<sup>12</sup> M. Goyal, "How China beats India hollow in trade and dominates Indian homes, markets and economy", *The Economic Times*, 16 July 2017.

Global Trade Alert says that the trade policies implemented by the individual members of BRICS have impacted the commercial ties between them more negatively than the protectionist measures implemented by the leading industrialised countries, in particular, the G7 countries<sup>13</sup>. Nearly a third of the measures affecting the commercial interests of the bloc arose from within the bloc. The report mentions China being the hardest hit by BRICS protectionism. For its part, India has aggressively imposed anti-dumping duties – which sometimes have been counterproductive – on a wide range of Chinese goods including steel, electric and electronic products, fibers and yarn, and consumer goods. Cheap Chinese exports intensified by a weaker yuan have nearly decimated the Indian toy industry and seriously threatened struggling factories, as cited in ASSOCHAM (Associated Chambers of Commerce and Industry of India) reports. Furthermore, India's competitive generic pharmaceutical industry – accounting for the largest share globally, the bulk of it going to fellow BRICS member, Brazil – is largely dependent on imports of raw materials for active pharmaceutical ingredients from China, and faces Chinese trade restrictions, thus impeding the flow of pharma exports to China, while ensuring a burgeoning trade deficit.

Yes, China is the dominant economic power in the group. And more than any other BRICS country, India has been at the receiving end of Chinese dominance and has sought greater market access. With an eye to giving impetus to intra-BRICS trade and investment ties, the first ever BRICS Trade Fair was organised on the sidelines of the 2016 BRICS annual summit in Goa where over 300 exhibitors from key economic sectors ranging from agriculture and food processing to IT, manufacturing and infrastructure from the participating countries gathered, thus connecting all types of business in the BRICS nations, as well as the BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) nations

---

<sup>13</sup> S.J. Evenett, “[The BRICS Trade Strategy: Time for a Rethink](#)”, VOX CEPR's Policy Portal, 7 July 2015.

which were invited to the 2016 summit. The BRICS Business Council has also been set up to identify and tackle the challenges faced by BRICS businesses, and to strengthen trade, business and investment ties among them.

## **BRICS as a platform for diffusing tensions**

But that is that. The group is now beyond simple economic numbers. Unlike the Western-dominated governance institutions like the IMF, WB and the G7, where economic power determines leadership, the BRICS stress a democratic share of power in the group. Perhaps that is the reason why both India and China were able to keep their heated border dispute on hold to ensure a successful BRICS Summit in Xiamen this year. Even at the Goa Summit, India managed to get a resolution passed listing Pakistan-based terror groups. India and other BRICS countries were also successful in forcing China to drop the idea of enlarging the bloc earlier this year.

The Xiamen Summit in 2017 was one of the most successful BRICS summits in recent years, not because of any big, game-changing announcements but because the Narendra Modi-led Indian government and Xi Jinping's China ensured that their contentious border dispute didn't disrupt the impending annual meeting of the bloc. The summit came days after the two sides, locked in a bitter 75-day standoff in Doklam, agreed to pull back their troops in an uneasy truce. What is more significant is the fact that neither side projected the outcome as a victory or defeat of one side against the other (which could have come with implications for the supposed political solidarity of BRICS nations). Rather than posing an ultimate threat to BRICS unity, the summit provided the five countries with an opportunity to prove the functionality of the organisation with both New Delhi and Beijing choosing to save their confrontation for another day and defusing their growing differences just in time before the summit. This further indicates the utmost importance that both India and China accord to

their engagement with BRICS to establish a credible intercontinental approach to take on the West's hegemony.

The bitter reality remains, though, that the BRICS don't have a challenge solely in the form of the admonishing West, but a battle to win among themselves too. As the former Indian President, Mr. Pranab Mukherjee stated during his 2016 China visit, "The Sino-Indian relationship now transcends bilateral dimensions and has regional and global salience". The Sino-Indian rivalry remains one of the greatest geopolitical challenges on the Asian continent today and has potential consequences for the BRICS as an influential multilateral framework, as well as for economic cooperation among the smaller countries of the region.

Efforts at closer political cooperation have collapsed over differences about who ultimately owns the bloc. Both China and India are looked up to as the leaders of the developing countries in the multilateral arena, and as bridge builders between the developing and the developed world. They are the second and seventh largest economies in the world, and the first and the third largest contributors to global economic growth respectively. Furthermore, they are both members of nearly all multilateral institutions and among the biggest investors in practically every part of the world.

Even so, an increasingly assertive China harbouring ambitions of rising to global prominence is no longer just a matter of speculation. But its increasing political and economic muscle is eventually about power. Through the BRICS, China has been projecting itself as the leader of a new multi-polar world order which promotes multilateralism and is based on cooperative engagement with global and regional organisations. Even as the Trump administration in the United States continues to disparage multilateral treaties and agreements such as the Paris Climate Accord and the CPTPP, Beijing has set its sight on global governance institutions. Even its recent initiatives like the Asian Infrastructure Investment Bank and the Belt and Road Initiative are not essentially a sign of revolt to the existing multilateral institutions, but a tack to show its

might in those institutions through its institutional statecraft. The Chinese leadership has time and again made significant references to “resolutely upholding the international order with the United Nations being the core of global governance”<sup>14</sup>, in a sharp contrast to the American leadership’s critical view of the multilateral body. However, in its call for democratisation of the international governance institutions, at the very least Beijing needs to bring New Delhi to the same table, for its efforts to gain credibility – something that it has conspicuously refused to do. That an emerging India is an imminent impediment to its ambitions is evident in Beijing’s recent postures in demonstrating its intentions and clout as the “only power” in Asia. Its move to block India’s NSG bid, ignoring India’s protests against the China-Pakistan Economic Corridor project (passing through Pakistan-administered Kashmir and central to the Belt and Road Initiative), its non-cooperative stance with respect to the Masood Azhar issue are all belligerent ways to seemingly and partially reverse New Delhi’s growing economic and political clout.

For its part, India has managed to irk Beijing with its continued refusal to be a part of the Belt and Road Initiative – the Chinese initiative introduced in 2013 to advance its geopolitical dominance in a loop sweeping from the South China Sea to Africa and Europe up to Eurasia – because it infringes on India’s sovereignty. China has long wanted a statement of endorsement from the BRICS on BRI. Beijing sees an interrelation between the two forums – BRF and BRICS – as a platform for interconnected development involving developing countries, particularly in the area of infrastructure. Russia and South Africa are already a part of the initiative. But India’s opposition remains a sticking point in Beijing’s ambition to advertise the Initiative as “win-win cooperation” between countries. China has now been focusing on other forums like the Shanghai Cooperation

---

<sup>14</sup> President of the People’s Republic of China at the 19th National Congress of the Communist Party of China, October 2017. “[Full text of Xi Jinping’s report at 19th CPC National Congress](#)”, China Daily.com.

Organization (SCO) where it managed to link the Initiative with the SCO meeting in 2017, although with riders that all development projects must be based on the “principles of mutual respect, equality, and mutual benefit”. This shifting of focus from the BRICS to other intergovernmental forums would only dilute BRICS’ geopolitical significance and its commitment to South-South cooperation.

The power-politics embedded in the BRICS has been taking newer forms with both New Delhi and Beijing using considerable leverage with other members within the group as well as with external emerging and developing nations to spread their economic influence and ensure that their concerns prevail. Countries like Mexico and Thailand have hailed the BRICS’ plan of enhancing cooperation through outreach dialogues with other developing countries. During the 2016 BRICS Summit in Goa, India invited leaders of the BIMSTEC – India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal – to discuss matters of mutual interest to the emerging and developing countries of both groups. In line with this trend of host countries inviting other countries of their choice, China invited five external countries – Egypt, Guinea, Mexico, Tajikistan, and Thailand – to this year’s BRICS Summit in Xiamen, China. However, China has been suggesting establishing a permanent “Friends of BRICS” forum, which would open the BRICS membership to countries outside the five emerging economies – a suggestion that has met with resistance not only from India but from other BRICS members as well over concerns about diluting the BRICS’ original goals.

The real quandary, therefore, in conceptualising BRICS as a powerful political-diplomatic entity is New Delhi’s historic China dilemma. China, the Asian powerhouse, has been the main engine behind the BRICS phenomenal rise in world affairs. And while it has been a consistent foe to India, it is also an old partner. New Delhi’s problem is precisely about how to manage China’s rise within this framework. It has long considered Beijing as a partner in demanding reformed global



economic governance in the IMF and the World Bank. While India and China are rivals on the Asian continent, and particularly in the Indian Ocean region, they actively cooperate with each other in global economic and environment forums, such as the United Nations Framework Convention on Climate Change (UNFCCC) and the World Trade Organization (WTO) where the two countries have stepped up cooperation. They both now lead global climate action since Washington ceded its global leadership on that front. India's formal entry into the China-led Shanghai Cooperation Organization earlier this year was another attempt at competitive cooperation and a convergence of geopolitical interests. It is noteworthy here that while the intentions of the original members, led by Russia and China, may have been to create a potential "eastern counterweight to NATO", for Beijing and the new entry New Delhi the core objective is to synergize their joint efforts in multilateral trade negotiations and promote regional connectivity, energy trans-shipment, and stability, giving it a pan-Asian touch<sup>15</sup>. Interestingly, the organisation – which has three of the original BRICS members, Russia, India, China – restrains the raising of bilateral issues, and prohibits interference in the domestic affairs of member countries, in line with both India and China's common (independent) approach to international human rights and humanitarian intervention. Both India and China – representing the BRICS – abstained in the 2011 UN vote on military action in Libya, and repeated their stance on Syria and Iran, breaking ranks with the West.

Perhaps it is in this maturing of bilateral relations that there's an increasing recognition on both sides of the need to sideline irritants and focus on and multiply the ways to expand areas of agreement. This has taken prominence, especially after the 2008 global financial crisis, by engaging each other in bilateral and multilateral fora. The recent success of the BRICS in defusing tensions between the two countries proves that the bloc

---

<sup>15</sup> D. Darling, "[Is the SCO Emerging as Eastern Counterweight to NATO?](#)", Real Clear Defense, 30 August 2015.

can indeed serve as a good forum for the two countries to set a vision for bilateral ties and strengthen mutual cooperation in their joint efforts at reforming global governance structures. While irritants are bound to persist in bilateral relations, the BRICS work on the principle of functionalism, i.e. prioritising areas of cooperation on the low-hanging fruit model, leaving friction points aside for its successful functioning that can help build trust and bring the countries together. Recent efforts like academic cooperation in the form of the BRICS Universities League, a consortium of leading BRICS universities; cultural exchanges through the BRICS National Games and BRICS Film Festival could prove vital in improving mutual understanding between the two countries. Earlier BRICS summits also had instances where India and China showed coherence in overlapping interests. For instance, both India and China had vied to host the BRICS bank, before Shanghai was agreed upon as the headquarters of the new bank after intense negotiations to settle the dispute. Differences over the initial subscribing capital in the New Development Bank were also reined in after India and Brazil insisted on the equal sharing of capital to avoid the colossal mistake of creating another Bretton Woods-like neo-liberal institution controlled by China. In addition, multilateral platforms like the China-led Asian Infrastructure Investment Bank, the ongoing Regional Comprehensive Economic Partnership (RCEP) negotiations, and the building of the Bangladesh-China-India-Myanmar corridor also act as binding factors.

## **BRICS as the mouthpiece of the developing world**

Despite their differences, the BRICS have been forging a new paradigm of international development cooperation. Regardless of the recent slowdown of growth in BRICS states that may have evinced that the group was losing steam, experts believe that the bloc not only continues to be the most important driver for strengthening South-South cooperation but also has the potential to be the harbinger of global economic governance

in transformation. The BRICS countries have portrayed themselves as the epitome of the global south, providing leadership of the G-77 to pursue collective economic and development interests; the G-20 for demanding equity in global financial governance; and at the UNFCCC through the BASIC (which after South Africa's accession to the BRICS is now defunct). With South Africa as a representative of the entire African continent, it was no less than a diplomatic victory for Mr. Zuma, the President of South Africa who secured a berth for the country, with Nigeria being the other contender in the race. Significantly, it ensured that the bloc no longer remained just a club with economic dynamism, but one that could prospectively maneuver the reconfiguration of global power relations. Hence, it no longer mattered if there was a slowdown in the BRICS' economic growth or that another set of emerging economies was grouped under another oft-discussed acronym, MINT – Mexico, Indonesia, Nigeria, Turkey. This is because the loose association of five emerging economies has gradually acquired the momentum to transcend economics to pursue a reformist agenda in global governance – governance that is more responsive to the differentiated needs and concerns of the developing nations.

The fast development of the middle-income countries demands services from international development institutions that are not subject to stringent conditions like undertaking extreme austerity measures or structural adjustment and taking away policy space from the recipient country. The BRICS' aim in the framework of international development cooperation is based precisely on the premise of dealing with such situations by easing funding-access hurdles for member countries. South-South cooperation works on the idea of decoupling developing economies from the exploitative global North. In any case, this cooperation offers a better alternative to developing countries for expanding their markets due to comparable levels of economic development. Countries like Mexico and Thailand have hailed the BRICS' plan of enhancing cooperation through outreach dialogues with other developing countries. During the

2016 BRICS Summit in Goa, India had invited leaders of the BIMSTEC – India, Myanmar, Sri Lanka, Thailand, Bhutan, and Nepal – for discussing matters of mutual interest to the emerging and developing countries of both the groups. In line with this trend of host countries inviting other countries of their choice, China invited five external countries – Egypt, Guinea, Mexico, Tajikistan and Thailand – to this year's BRICS Summit in Xiamen, China.

The objective has been to build an open and “diversified network of development partners” for meeting commitments under the “2030 Agenda for Sustainable Development”. Faced with the rising tide of protectionism in the global North, emerging markets and developing countries look to the successful BRICS experiment as a source of empowerment for the global South, breaking the monopoly of the developed countries in global governance. Economic cooperation being the bedrock of the BRICS mechanism, the twin BRICS financial institutions funded at \$US100 billion each – the New Development Bank (NDB) and the BRICS Contingent Reserve Arrangement (CRA) – are innovative approaches to the international development cooperation that developing countries have been striving for in their dialogue with the global North for decades now. The bank is the first development institution ever created by emerging economies without involving any assistance from developed countries. More importantly, the NDB has been financing demonstrable projects in developing countries outside of the group, having doled out about \$US6 billion for 23 infrastructural projects across BRICS countries. In addition, the bank allows other middle and low-income countries to apply for funding aids, and will soon open its membership to other countries outside the bloc.

All of this has some positive implications for the global development-finance architecture. South-South cooperation has not only surged in the last two decades but now exceeds North-South trade by around \$US2.2 trillion. In fact, trade between Africa and the BRICS has outgrown even the intra-BRICS

trade<sup>16</sup>. According to a 2014 World Bank report, the global infrastructure, and in particular the developing countries, are facing an annual financing gap of some \$US1 trillion – of which only 40% can be provided by the existing multilateral development institutions<sup>17</sup>. To keep this massive infrastructure deficit from translating into economic and social costs, the BRICS twin institutions have stepped up their funding for infrastructure and sustainable development projects. The BRICS bank, in fact, gives priority lending to transport and communications, electricity, and water supply projects, as opposed to the World Bank which provides development loans for specific projects like the building of dams, harbors, roads, etc, without taking into consideration the specific local needs of the recipient country. If the current demand for infrastructure continues, and should BRICS Bank membership be expanded – as has been proposed – with proper coordination and risk management, the bank could well become the prime donor for member countries as well as for some low- and middle-income countries outside the bloc. There have been instances of regional development cooperation dwarfing World Bank loans in the past, too. The Corporación Andina de Fomento – Banco de Desarrollo de América Latina or the Latin American Development Bank, today lends more infrastructure funds in Latin America than the World Bank and the Inter-American Development Bank combined<sup>18</sup>. What truly sets them apart is that, barring Russia, all the other BRICS countries are themselves combating massive poverty and under-development in their own countries as well as in their foreign development aid programmes. This allows them to share their best practices, experiences and innovation.

Following the United States' withdrawal from the Paris Climate Treaty, the BRICS, led by India and China, have taken

---

<sup>16</sup> O. Stuenkel, "South-South cooperation: Towards a new paradigm?", *Post Western World*, 11 May 2013.

<sup>17</sup> World Bank, *Global Infrastructure Facility*, 8 October 2014.

<sup>18</sup> B. Mander, "CAF: the future looks bright for LatAm", *Financial Times*, 6 February 2012.

to global climate action leadership. The BRICS Bank has earmarked \$US811 million for renewable energy projects in member countries and has been vocal about supporting only green, environmental-friendly infrastructure projects rather than coal-fired plants and oil refineries. Remarkably, the \$US50 billion bank dwarfs the United Nations' \$US10 Green Climate Fund. However, unlike the Washington-based multilateral lending institution, which has stopped the financing of coal-fired projects, the BRICS Bank hasn't incorporated environmental safeguards into its policy framework. This could translate into borrowers turning to the NDB for support for their non-green projects.

Another outcome of the successful South-South economic engagement by BRICS was recently seen in the implementation of the IMF's 2010 quota and governance reforms. The BRICS countries had jointly drafted amendments to IMF voting policy. Four of these countries – Brazil, Russia, India and China – are now among the ten largest members of the Fund, gaining more influence in the governance architecture in step with their rising economic strength. This also meant that more than 6% of the quota shares shifted from the United States and the other G7 countries to emerging and developing countries. While the reform process has been slow and remains incomplete, it does prove a point that the rich, industrialised nations cannot afford to cede full control over these governance institutions to the emerging economies and developing nations without harming the credibility of these multilateral institutions.

### **BRICS as a counterbalance to the rising protectionism and anti-globalisation tendencies across the world**

At the same time, while being an influential group pushing for reforms in the global financial architecture led by the IMF and World Bank, the BRICS have put up an inconsistent, fractured front on global issues like rising protectionism, and nationalist,

anti-immigration and anti-globalisation tendencies all over the world. The rivalry for power and influence within the bloc and outside it has also seen spillover effects on the BRICS' projecting itself as a politico-diplomatic entity.

Emerging economies like China and India – which once were the largest aid recipients – are now increasingly using development aid as a foreign policy tool, once the exclusive domain of the rich, industrialised countries. Some studies even suggest that the BRICS as an anti-imperialist, anti-Western hegemonic bloc is a progressive rhetoric, practicing the same exploitative policies of the erstwhile imperial powers in Africa and Latin America in their quest for natural resources for sustaining their high economic growth<sup>19</sup>. Considering that the intra-BRICS investment flows have so far been dismally low, the BRICS, pressured by the intensification of global economic competitiveness post-Cold War and their partial decoupling from the OECD economies, have had to also seek new partnerships with potential supplier countries, irrespective of their geographical location<sup>20</sup>. This has resulted in a lack of motivation for the BRICS countries to band together and assume leadership on issues that do not pose an immediate threat to them.

There is an absence of coordination among the bloc members on key global concerns, arising out of a conflict of interest among them. A case in point was the failure of the bloc to unite behind a candidate from the developing countries for the position of managing director of the IMF in 2011, after the resignation of Dominique Strauss-Kahn. The original BRICS members – Brazil, Russia, India, China – supported the French nominee rather than the Southern candidates such as South Africa's National Planning Minister Trevor Manuel.

This is further accentuated by structural disparity and China's

---

<sup>19</sup> L. Cotula, S. Verneulen, R. Leonard and J. Keeley, *Land grab or development opportunity? Agricultural investment and international land deals in Africa*. London, FAO, IIED and IFAD, 2009.

<sup>20</sup> M. Vom Hau, "How the BRICS Exert Influence in the Global Politics of Development", E-International Relations, 24 October 2017.

dominant position *vis-à-vis* the other members. The massive trade deficits that these countries run with China are not conducive to their economic development. For instance, members tried to prevent China from contributing more to the BRICS initial corpus of \$US50 billion and increasing its economic clout, considering that the amount was small in proportion to the huge infrastructure deficit in developing countries. In the end, the bloc stayed with the even contribution model as South Africa couldn't afford more, even if it meant a capital crunch in the bank. A lot of thinking is therefore devoted to preventing China from becoming too powerful in the bloc.

Again, in 2012 the bloc failed to unite and zero in on World Bank leadership from developing countries although they had long campaigned for Washington to loosen its grip on the leadership. Furthermore, while on the one hand the BRICS have been vocal against rising protectionist tendencies in the West, on the other the ongoing trade disputes among them present an awkward contradiction. The BRICS have also so far shown weak cooperation in cybersecurity and Internet governance, with both China and Russia favouring "cyber sovereignty" – allowing every sovereign government to regulate the Internet without any outside interference – a concept that China has also been pushing at the BRICS, as against India and Brazil's vision of a free and open Internet.

A lot has changed since the last presidential election of the World Bank group. Since then, the BRICS have emerged stronger as an institution with their own bank and contingency reserve. The bloc has since expanded its politico-diplomatic activities, having successfully managed a quota and voting reform at the IMF, presented a united resistance to unilateral sanctions on Iran and condemned worldwide unilateral military actions. India-China rivalry aside, the two countries came together on the BRICS stage to call for direct dialogue on North Korea, while earlier rallying behind Russia over the Crimean conflict. In this context, any hopes from the BRICS to zero in on the next IMF presidency from within the group would not be



misplaced.

With the convergence of their interests and their growing regional and global footprints, clashes between India and China are bound to occur within the bloc and outside it in the multi-lateral arena. However, the Xiamen summit – like the previous eight summits – showed that the two countries, keeping their rivalry aside, converge on issues that tend to threaten multi-polarity and globalisation – of which both India and China have arguably been the biggest beneficiaries.

## **Conclusion**

In sum, the BRICS bloc is a formidable force to reckon with and has established itself on the world stage with the world's two fastest-growing economies as a part of it. It is in the best interests of all member countries to set aside their differences and seek to strengthen the existing multilateral and bilateral relations between the nations and work towards increasing the competitiveness and economic growth of the BRICS economies so that the partnership remains intact. For India in particular, the rationale of using the BRICS to raise its international stature would be ineffective as long as the disparity between the Indian and Chinese economies exists and their interests don't converge. But given that the world is beset with political, security and economic challenges, forums like these could help to bring countries together and coordinate on the challenges confronting the world economy. The BRICS are growing more relevant and increasingly institutionalised. Economic growth rates continue to outpace the rest of the developing world's. According to the United Nations Development Programme (UNDP), the combined GDP of Brazil, China and India will be greater than the combined GDP of the US, the UK, Canada, France, Germany and Italy by 2020. More importantly, the bold idea of a BRICS development bank and a common monetary unit further demonstrate their intention to drive the transition from unipolar global financial governance to a multipolar system – a

system that amplifies the voice of the emerging economies and reflects the reality of the global economy.

## 5. Modi's World. Vision of a "Potential Superpower"

Ugo Tramballi

---

"We could find several definitions but I really do wonder what point there would be: we are not a superpower", Vikram Singh Mehta, former President of the Confederation of Indian Industries (CII), CEO of Shell India, and now President of Brookings India, told me in his office in Delhi. The topic of our discussion was the Indian temptation to be a superpower and its potential to move at the centre stage of global geopolitics. "If you look at the picture as a whole a simplification is needed", explained Mr. Mehta. "You could say", he continued, "India is the world's second or third largest economy. You could add its Army is the biggest in the world, perhaps. But we cannot avoid our reality: we are still a poor country in terms of GDP per capita. Our priorities are job creation, better education, and improved healthcare. How many children are still dying from malnutrition, how high is the mortality rate of mothers during childbirth? Only a handful of us would like for India to be a superpower, very few succumb to this fascination"<sup>1</sup>.

Vikram S. Mehta was right and wrong at the same time. Combating poverty and social exclusion is an essential part of the modern history of India. Despite many failures and widespread corruption, for any party, government and opposition alike, the social issue was and still is the centrepiece of their policies. It is still an essential task to strengthen the national fabric, also because poor, disadvantaged, members of the lowest castes and *dalit*

---

<sup>1</sup> U. Tramballi, "Intervista - Populismi e globalizzazione visti dall'India", in "Reportage dall'India 2: Effetto Modi", Slow News, Il Sole 24 Ore, 1 May 2017, <http://ugotramballi.blogilsole24ore.com/>.

in India are also voters. More than 25 years of economic growth strongly reduced the level of extreme destitution but, still, the poor number at roughly 300 million, according to official figures. As Amartya Sen suggests, there are two nations, living side by side: the first India lives a lot like in California, the second and more populous lives a lot like in sub-Saharan Africa.

Also, historically, India's international stance has been anti-imperialist. The Non-Aligned movement was conceived at the Bandung Conference in 1955 and formally launched in Belgrade, in 1961, with the decisive contribution of Jawaharlal Nehru. The founder of the Indian Union played a leading role among the newly independent countries. The core of Nehru's thinking was a world without blocs nor superpowers. After achieving independence from the Raj, the Prime Minister abolished the post of Commander-in-chief of the Indian military. Unlike Pakistan – exactly because of Pakistan – for Nehru, the most compelling priority of the new India was to preserve democracy.

Today, unexpectedly, the World has changed. To some extent, the old bipolar system was a guarantee of international order, comfortably fit for less powerful countries. The new American reluctance and its present crisis of leadership, the Russian inability to build an attractive and sustainable system for a group of potential allies, China's ambitions, and the destabilising effect of new "asymmetric" threats (militias and religious terrorism) are forcing new emerging actors to behave differently, to respond to diverse challenges and, accordingly, to define a new set of interests, friends, partners, alliances, and a new balance of power.

First and foremost, China is the real driver, forcing India to redefine its role both in the Subcontinent and in Asia as a whole. And – for many reasons – in the whole world. "China's rise, even aside from the aggressive behaviour it has exhibited in places like the South China Sea, would be a challenge for India because it opens up the possibility of China dominating its neighbours, including India. China's wealth and the influence that it brings to bear on international politics is just as

great a challenge, especially when India's interests clash with those of China"<sup>2</sup>.

Inevitably, the way India is defining herself today and will act in the near future, will be deeply influenced by Narendra Modi's vision, his "Hindu nationalism", and his personality.

## Chinese syndrome

Countless international institutions are predicting India will be the third largest economy by 2030. In spite of this, "India's defence capability remains underdeveloped. This is as much an issue of lacking the required technology (both hardware and software) to deal with a widening threat-spectrum, as much it is about outdated military doctrines and strategies. Secondly, though a long-term issue of wide scope, India needs to start developing its defence industrial base at a much faster rate than it has demonstrated the will for"<sup>3</sup>.

On June 16, 2017, the Chinese People's Liberation Army started to extend a road from Tibet to Bhutan, a peaceful and small kingdom that every year measures both GDP and GNH, the Gross National Happiness<sup>4</sup>. The disputed road lies at the junction of the borders between India, China, and Bhutan, close to the Siliguri Corridor, aka "Chicken neck", the only small passage between India and its remote northeast states, and the most sensitive point along the 4,057 km Sino-Indian border. According to a treaty with Bhutan, India is in charge of the military protection of the Himalayan kingdom and recently sent new troops in the region. "It would be very complacent to rule out escalation" after the 16th of June confrontation. "It's

<sup>2</sup> R. Rajagopalan, "India's Strategic Choices: China and the Balance of Power in Asia", Carnegie India, 14 September 2017.

<sup>3</sup> A. Paliwal, "Filling the Capability Deficit", in S. Singh and P. Das (Eds.), *Defence Primer 2017. Today's Capabilities, Tomorrow Conflicts*, Observer Research Foundation (ORF), 2017.

<sup>4</sup> "Sustainable and equitable socio-economic development; environmental conservation; preservation of culture; good governance".

the most serious crisis in India-China relations for 30 years”<sup>5</sup>.

The worst face-off happened in October 1962, when China invaded India along the disputed border between the two countries and delivered a humiliating defeat to the Indian army. The fighting occurred mainly in the Aksai Chin and Arunachal Pradesh border region, close to Kashmir. However, Mao Zedong was poised to cut the Siliguri corridor and take over Assam. It was President J.F. Kennedy who (despite being in the midst of the Cuban missiles crisis) gave his strong diplomatic support to Jawaharlal Nehru, forcing China to back down and to announce a unilateral ceasefire.

A few months before the latest confrontation in the Siliguri area, on January 2017, the outgoing Obama administration requested to grant India membership to the Nuclear Supplier Group (NSG), which controls trade in sophisticated civil nuclear technology. But this time China, a longstanding opponent of this step, came out strongly against India's admission. In Beijing's opinion, the latter could not be a “farewell gift” to the outgoing American President. In the meantime, China blocked Indian efforts to get the UN Security Council to designate as terrorist Masood Azhar, leader of the Jaish-e-Mohammed, a jihadist group active in Kashmir.

India was granted an NSG waiver in 2008 that gave her the right to engage in nuclear trade but not to cast a vote in the organisation's decision-making bodies. New Delhi never signed the Non-Proliferation Treaty (NTP) but is one of the largest producers of radiological material in the world. Despite the long wait, at the end of June 2017, China's opposition was again on display at the 27th Plenary Meeting of the group, in Berne.

China's muscular attitude, from the contested border to nuclear-related issues, represents a clear change in a foreign policy guided for decades by the Deng Xiaoping's motto “Hide your strength and bide your time”. A new approach that is in

---

<sup>5</sup> Shashank Joshi cited in A. Gowen and S. Denyer, “China and India are dangerously close to military conflict in the Himalayas”, *The Washington Post*, 17 August 2017.

apparent contradiction with the profitable and long-lasting economic relations between the two countries, the common BRICS's membership, and frequent high-level meetings. China is a less and less potential, increasingly actual threat for India. A new phase has started in South and East Asia. By now, China's expansionism has reached the critical point where the magnitude of its trade and economic interests requires a political and military global projection. All the modern superpowers went through this path from trade to militarism. "It is time for us to take centrestage in the world and to make a great contribution to human kind", confirmed Xi Jinping last October, in his speech at the 19th Party Congress. China "is standing tall and firm in the East".

But India is not yet ready to balance a superpower at her gates: the gap is huge. In 2015, China's defence budget was about US\$215 billion, more than four times India's (US\$51.3 billion)<sup>6</sup>. According to another report, the Chinese defence budget in 2016 – approximately US\$145 billion – roughly matched the combined 2016 budgets of India, Australia, Japan, the Philippines, Singapore, and Vietnam (US\$147 billion)<sup>7</sup>. Such a military gap mirrors the pattern of China's GDP when compared to those of the other six countries. In 2030, GDP is forecasted to amount to US\$36.1 trillion for China and a combined 27.7 trillion for the six Australasian countries.

Since he was elected Prime Minister, Narendra Modi set in motion several initiatives to boost growth: "Make in India", "Look East and Act East", "Neighbourhood first". But they were predominantly economic measures, focused on trade, to promote more and better industrial productivity. Emulating his forefathers at 7 Race Course Road, or 7RCR, the Prime Minister's official residence since the 1980s<sup>8</sup>, Modi focused

---

<sup>6</sup> S. Perlo-Freeman, A. Fleurant, P.D. Wezeman and S.T. Wezeman, "Trends in World Military Expenditure, 2015", SIPRI Facts Sheet, April 2016.

<sup>7</sup> *Military Balance 2017*, International Institute of Strategic Studies, London.

<sup>8</sup> Actually, the address now is 7 Lok Kalyan Marg, People's Welfare Road. In 2016, New Delhi municipal council said the old name, taken from a local horse-racing

more on economic development than on national security. In a way, India is still distant from the critical juncture when trade and political supremacy go together. A geopolitical milestone that China has already embraced and developed.

A decade ago, China was the world's largest arms importer. Today it is the world's third largest arms exporter. Narendra Modi would probably dream to have such a record in his "Make in India" programme. Almost 60% of the country's military hardware is still foreign-made. In this plan with a double purpose – the "indianisation" and the growth of the national industry – defence production was one of the 25 sectors identified by the government's scheme to boost the share of manufacturing in GDP to 25% (now it is 16%) and create 100 million additional jobs.

Last June, Tata Advanced Systems Ltd and US Lockheed Martin Corp. have signed an agreement to produce F-16 fighters in India, which is in need of 200 more fighter planes. The deal came days ahead of Narendra Modi's visit to the US but still, it is not enough to reach a real turning point. "We should achieve a level of 40-50% of indigenous content by the end of this financial year", the former Defence Minister Manohar Parrikar said on March 2017. "The increase in indigenous content in the past two years has been 10-15%, which will increase to 20-25% in the next financial year. The target is 70%. That will take four to five years. By the end of the term of this government [May 2019] we should touch 60%".

India today has the world's third largest military and, with 274 trillion Rupees, (€39.5 billion) defence budget this year, it is also the world's sixth largest spender in defence. But the measure of military power "cannot solely be based on an assessment

---

track from the colonial days, "does not match with the Indian ethos and value system".

<sup>9</sup> *India Today*, 6 March 2017. At the end of that month, Manoham Parrikar quit the union cabinet to become the Chief Minister of Goa. From September 2017, in a government reshuffle, the post has been given to Nirmala Sitharaman, the first full-time woman Defence Minister of India after Indira Gandhi.



of resources. Rather, the question is how a nation decides to convert those same resources into favourable outcomes, or to put it more bluntly, how it translates military hardware into military effectiveness, and how that same military effectiveness is harnessed as a means of grand strategy"<sup>10</sup>.

## Searching for strategic friends

### India's near abroad

The emerging Asian superpower – in a word, China – is forcing India to question its long tradition of non-alignment for the first time since its foundation in 1947. The refusal to be part of any international alliance or bloc and the almost ideological lack of ambition to become a leading actor in Asia are rooted deeply into the Indian political culture, both in the Congress and the BJP (Bhartiya Janata Party). Nevertheless, for decades, India developed and strengthened her regional dominant role in the Subcontinent, both on the economic field and in the strategic domain.

No country in the region, not even Pakistan, has ever been able to challenge India. But it is now China to question the balance of power and the *status quo* in southern Asia, the very Indian backyard. Protecting its huge economic investments in Africa is not the only reason why Beijing decided to build the first military base outside the Chinese national territory, in Djibouti: the Horn of Africa is a kind of natural aircraft carrier overlooking the Indian Ocean, New Delhi's *mare nostrum*. "What we see today is the geographic expansion of the Chinese defence profile way beyond Pakistan to cover India's other neighbours in South Asia and the Indian Ocean. The scope of Chinese defence cooperation now includes potential military basing arrangements in the region"<sup>11</sup>.

---

<sup>10</sup> "India: The Next Superpower?", IDEAS Special Report SR010, London School of Economics, London, 2010.

<sup>11</sup> R. Mohan, "Neighbourhood Defence", Indian Express, 28 March 2017.

The *Global Times* is a populist and controversial tabloid edited by The *People's Daily*, the official newspaper of the Chinese Communist Party. On March 2017, just before the visit of the Defence Minister, General Chang Wanquan, to Sri Lanka and Nepal (accompanied by the deputy commander of the Chinese Navy), the *Global Times* warned India not to meddle with Beijing's strategic cooperation with South Asian countries: China "will have to fight back, because its core interest will have been violated. This is not what we hope for, but the ball is in India's court"<sup>12</sup>.

Confirming the new strategic dimension of China – the critical connection point between trade and militarism – the *Global Times* bluntly added: "When an increasing number of Chinese companies get established in these countries" under China's One Belt One Road Initiative (OBOR), "it is inevitable that Beijing will boost defence collaboration with them to protect not only China's, but also the region's interest". A few years ago, after India and Vietnam agreed to joint oil explorations in the South China Sea, China accused India of interfering in a region where it did not belong.

But – again – while India is now focusing on making Bangladesh a centrepiece of its "Act East" policy, Delhi's ambition is eminently economic. "Act East" is a set of connectivity plans, both maritime and land-based, to engage with Myanmar, the Gulf of Bengal, and Southeast Asia up to Thailand. On the contrary, the Chinese One Belt One Road Initiative is having an increasing geostrategic value. In Bangladesh, as already happens in Sri Lanka, China plans to convert its economic assistance into political and security leverage. It is hard not to detect the strategic dimension of the ports China is building both in Colombo on the West and in Hambantota in the South of the island.

Sri Lanka represents a rare example of Indian interventionism in the Subcontinent – excluding of course the complex and sensitive file of Pakistan/Kashmir, and the Bangladesh war of

---

<sup>12</sup> "India over-sensitive on China's engagement in South Asia", *Global Times*, 21 March 2017.

independence in 1971. In 1987, Prime Minister Rajiv Gandhi decided to offer humanitarian assistance to the Tamil rebels in the Jaffna peninsula. During "Operation Poomalai" (Flower Garland), at the beginning of June, the Indian Air Force air-dropped 25 tons of civil supplies. Having coerced the Colombo government to devolve power to the rebel provinces and grant official status to the Tamil language, India decided to return order in those Northern and Eastern provinces with a military intervention.

With the "Operation Pawan" (Wind), Rajiv Gandhi deployed an Indian Peace Keeping Force (IPKF). The majority of the Tamil militias agreed to a ceasefire, except for the Liberation Tigers of Tamil Eelam (LTTE). The Tigers then waged a three-year-long vicious war against the Indian troops. At the end, in 1990, India withdrew from the Jaffna peninsula and from the rest of Sri Lanka.

In 1988, Rajiv Gandhi also sent Indian troops to the Maldives to avoid a *coup d'état*. In this operation, short and successful, the Prime Minister helped the country's democratically elected President to reassert his power.

On 21 May 1991 in Sriperumbudur, in the Indian state of Tamil Nadu, during the general election campaign, Kalaivani Rajaratam, *nom de guerre* Dhanu, a LTTE suicide bomber, killed Rajiv Gandhi. It was the Tigers' revenge for the Indian intervention and the "betrayal" by the former Prime Minister. The war in Sri Lanka continued until 2009.

When Narendra Modi landed in Colombo on 13 March 2015, it was the first official visit of an Indian Prime Minister in Sri Lanka since 29 July 1987, the day when Rajiv Gandhi signed the disastrous "Indo-Sri Lanka Agreement to Establish Peace and Normalcy in Sri Lanka". "Such past demonstrations of hegemonic power are in stark contrast with India's current approach to Sri Lanka, focusing on cooperation rather than coercion"<sup>13</sup>. On June 2017, after another visit by Narendra Modi

---

<sup>13</sup> C. Xavier, "From Rajiv to Modi, Coercion Replaced by Cooperation", *Indian Express*, 28 July 2017

to Colombo – a “grand success”, according to *The Hindustan Times* – following a visit by Sri Lanka’s Prime Minister Ranil Wickremesinghe to Delhi, Indian Navy aircrafts began flying to assist the Sri Lankan Air Forces in expanding maritime domain awareness in the Bay of Bengal. In recent years, bilateral defence strengthened sharply, with annual joint exercises and technical exchanges. In Colombo, past Indian interventions fostered strong distrust towards Delhi. But Narendra Modi, with a strong political mandate at home after the elections of 2014 and a new pragmatic approach in foreign policy, dramatically changed the Indo-Sri Lankan ties.

What is at stake for India in the Gulf of Bengal seems to be promising. The 2.2 million square km of the Bay of Bengal are almost as many as those in the Mediterranean Sea (2.5 million square km). The Bay connects South and Southwest Asia, and its eastern borders reach the mouth of the Straits of Malacca, a highly strategic location. About one-quarter of the world’s traded goods, almost 80% of China’s energy imports, more than 90% of Japan and South Korea’s oil and gas imports, flow through the sea lane corridor of Malacca.

“Trade and investments connections between South Asia and Southeast Asia lag well behind what might be expected based on geography and markets”<sup>14</sup>. The region spanning from India to Thailand is inhabited by more than 1.7 billion people, about one quarter of the total world population. In spite of this, it accounts for less than 2% of world trade. Such a poor record is a consequence of the Cold war alignments, of Myanmar’s long isolation and, last but not least, of persisting tensions between India and Pakistan. This rivalry inhibited efforts to promote any substantial free trade agreement among the countries of the South Asian Association for Regional Cooperation: a mere 5% of its total trade and less than 1% of its investments take place within the region.

---

<sup>14</sup> E.L. Frost, “It’s Time to Deepen Integration Around the Bay of Bengal”, Carnegie India, 31 May 2017.

Yet, once again, India's inability to exercise power, transforming a mere predominance in regional leadership – thus articulating a clear and attractive vision for South Asia – decisively heighten the weak regional economic and political integration.

### Enter Japan

Indian private companies have been actively present in Africa for the last 150 years, mainly in the Eastern part of the continent. Trade, infrastructures, and IT are the pillars of India's brand, which has become more and more popular over the last four decades. More recently, the Indian industry developed cheap and adaptable technologies fitted for the African demand of modernity but at a cheaper cost. Last June, Mukesh Ambani, Chairman and Managing Director of Reliance Industries, India's most valuable company, unveiled the "smartphone of India": a phone with a data dongle to create a 4G phone and "priced in a manner so that effectively the hardware is for free".

It is not the only Indian product with a great purchase potential in the African market. "India has become a world leader in frugal engineering, the capacity to design and produce goods that are not just 10-15% cheaper than in Western countries but 50-90% cheaper. Tata Motors has produced the cheapest car in the world, the Nano, which costs US\$2,000"<sup>15</sup>. Also, India's telecom industry is the least expensive in the world, with calls costing just 2 US cents per minute.

For many years, Japan focused on active development assistance in Africa. In recent times, Tokyo's governments extended their traditional human development and first-aid assistance to a broader activity, with a growing emphasis on business and private sector, supported by a stronger investment in infrastructures.

A mature and industrialised country and a world-class financial system like Japan, together with a growing power – possibly

---

<sup>15</sup> S.S. Anklesaria Aiyar, "Twenty-Five Years of Indian Economic Reforms", Cato Institute, 26 October 2016, no. 803.

reaching superpower status – like India: an unexpected partnership full of promise, a sort of full-package bid to a region in need of investments and growth, between the two most powerful democracies in Asia.

This is the framework that gave birth to the Asia-Africa Growth Corridor (AAGC), an ambitious scheme from development projects and infrastructure investments, to opportunities for small and medium enterprises between India and Japan on one side, and the African continent from the Maghreb to South Africa on the other. But the aim of AAGC is not just business – it is geoeconomic, possibly a strategy of political counterweight. The corridor “promises to open up a new era of cooperation and offers renewed impetus to efforts long overshadowed by the hyperactive African role of China”<sup>16</sup>.

The launch of the Indo-Japanese economic corridor took place on 25 May 2017 at the African Development Bank meeting in Gujarat, the Western Indian state where Narendra Modi was born and ruled as Chief Minister from 2001 to 2014. Just a few days before, on 14 May, in Beijing, China celebrated the official summit of its One Belt One Road Initiative. It could hardly be a mere coincidence of places, dates, and events.

India boycotted the Beijing’s summit and the government’s reaction was pretty tough for diplomatic standards: “We are of the firm belief that connectivity initiatives must be based on universally recognised international norms, good governance, rule of law, openness, transparency and equality”. They must follow “principles of financial responsibility; balanced ecological and environmental protection; transparent assessment of project costs; skill and technology transfer. Connectivity projects must be pursued in a manner that respects sovereignty and territorial integrity”<sup>17</sup>.

---

<sup>16</sup> D. Thomas, “Asia-Africa Report: Abe and Modi eye African cooperation”, *African Business*, 21 August 2017.

<sup>17</sup> I. Bagchi, “India slams China’s One Belt One Road initiative, says it violates sovereignty”, *The Times of India*, 14 May 2017.

There is an important similarity between India and Japan. Under the pressure of China's new expansionism and the new American unpredictability, Delhi needs to distance herself from the traditional policy of non-alignment and self-reliance. Meanwhile, Tokyo needs to overcome its strategic inertia after 70 years under the US security umbrella. Both players are forced to behave on a different, pro-active way compared to the past, and both acknowledge their huge limitation in competing alone with China-led initiatives.

"New Delhi is perhaps one of the sharpest and loudest critics of China's Belt and Road initiative, Japan was the first country to come out in India's support" during its standoff with China in the disputed area of Doklam, at the Bhutan border<sup>18</sup>. India and Japan can neither replace the American military and global power, nor contain China's. A formal strategic alliance would be very difficult and too provocative: ultimately, both have an outstanding bilateral trade with Beijing and a big stake in a cooperative relationship. But by staying together, India and Japan could more easily achieve an effective balance of power with Chinese ambitions, at a time when they are getting more and more unilateralist. "The two countries now clearly see each other much more strategically", Indian foreign secretary, S. Jaishankar, recently said. "The agenda for India-Japan relations has elements today that could not have been contemplated some years ago".

## Internationalist America or Trump's America?

"Ditching deal has become Trump's main foreign policy", wrote last October *The Washington Post*<sup>19</sup>. The list is long and weighty: leaving UNESCO, rejecting the Joint Comprehensive

---

<sup>18</sup> D. Baruah, "New Delhi and Tokyo: Asia's New Leaders", Carnegie India, 20 September 2017.

<sup>19</sup> A. Taylor, "Trump may be kicking off a new age of nuclear weapons", *The Washington Post*, WorldViews newsletter, Analysis, 13 October 2017.

Plan of Action with Iran, the Trans Pacific Partnership, the North American Free Trade Agreement, the Paris agreement on Climate Change, the nuclear-arms treaties with Russia, a trade agreement with South Korea, the threats to NATO, inviting Japan, Saudi Arabia, and others to create their own nuclear capabilities. “President Donald Trump is challenging the two foundations of America’s post-war primacy in Asia – the willingness to act as the market for Asian goods and bearing the main burden of defending its allies in the region, including Japan”<sup>20</sup>.

The turning point of the Indo-American relations was, to many extent, the speech President Bill Clinton gave on 22 March 2000 at the Central hall of the Parliament in New Delhi. His five-day official visit in India occurred 22 years after Jimmy Carter’s disastrous one. “I do not presume to speak for you or tell you what to decide. It is not my place”, Clinton declared to his exhilarated Indian audience. The local press defined his speech a “jugalbandhi”, a performance of Hindustani classical music. Ambika Soni, a Congress party (the main opposition at the time), member of the Lok Sabha, described her colleagues as “jumping on chairs and over benches to shake his hand”.

Early in the Fifties, the Cold War, the socialist stance of the newly independent Union, and the Indian leading membership of the Non-Aligned Movement brought the United States to choose Pakistan as his strategic ally in the Subcontinent. By keeping the country in the developing world front, Indira Gandhi bolstered the Indian economic and security relations with the Soviet Union. The Russian invasion of Afghanistan, Pakistan’s islamisation under President Muhammad Zia-ul-Haq, and the military support to the Afghan armed resistance of the mujahedin, widened the gap. The Pakistani regime of General Zia was declared as the “front line” ally of the United States in the fight against the threat of Communism by the Reagan administration.

One generation later, after the end of the Cold War, the

---

<sup>20</sup> C. Raja Mohan, “[The Case of Alliance](#)”, *Indian Express*, 14 September 2017.



disappearance of the Soviet Union, and September 11, followed by the American intervention in Afghanistan, the US administrations repeatedly urged India to take on a larger role in securing Kabul. Again, during his visit to New Delhi last September, Secretary of Defence James Mattis reiterated the American request to improve the Indian military cooperation in Afghanistan. Washington is not pressing India to send fighting troops to join the International Security Assistance Force in Afghanistan (ISAF), but India could do a lot to improve the government's military capability in Kabul.

However, the purpose of the Secretary of Defence's visit in Delhi was not limited to Afghanistan. "With the recent India-China standoff in Bhutan, it is abundantly clear that South Asia faces a serious Chinese threat. What is less clear is whether in the immediate aftermath of the Doklan confrontation, Delhi will be *more* interested in deepening its partnership with the United States"<sup>21</sup>. Setting aside the extremely unlikely case of a formal alliance, to strengthen her partnership with Washington is precisely what Modi's India wants to do, pushed by the Chinese threat.

Given the unprecedented willingness to enter a new era of closer relations with the United States, the problem might lie in Washington, right at the White House, in the Oval Office. Narendra Modi is thus sharing the same dilemma of the Japanese Prime Minister, Shinzo Abe: do not take American policies in Asia (and beyond) for granted, anymore. After all, the same not-so-Hamletic doubt is shared by a large number of world leaders.

"I am a big fan of Hindu and India", said Donald Trump to a cheering crowd of Indian Americans during a campaign rally in New Jersey. "Under the Trump administration we are going to be even better friends. There won't be a relation more important to us". Narendra Modi was of course "a great Prime Minister". After the elections, when the then-Pakistani Prime

---

<sup>21</sup> R.M. Rossow, "U.S.-India Insight. Doklam and Defense Ties", CSIS Washington, vol. 7, no. 8, 25 September 2017.

Minister Nawaz Sharif called to congratulate him on his victory, Trump described him as “a terrific guy” and Pakistan as a “fantastic country, fantastic place, and fantastic people”<sup>22</sup>. But, eternally surprising, last January his administration decided to suspend about 1.9 billion dollars in security aid as a pressure to take action against terror groups both in Pakistan and Afghanistan. From the Indian point of view, however, the move will unlikely prompt Islamabad to stop providing protection to groups active in Kashmir. President Trump was so fond of the Subcontinent and its leaders, to neglect the danger when last summer India and China were speaking openly and seriously of an armed conflict for the first time since 1962 – two nuclear powers with a combined arsenal of at least 380 warheads and over 2.6 billion people.

## Pakistan, the dear Foe

“South Asia is home to expanding and maturing nuclear weapons, programmes and widespread, frequent and organised domestic and cross-border terror attacks”, reported a 2017 paper of the Bulletin of the Atomic Scientists in Chicago. All the concerned locations were highlighted on a map with different colours. In yellow, nuclear facilities and likely nuclear-capable military bases identified by experts; in red, the known, open-source, record of terrorists’ attacks, incidents, or thefts, transportation accidents or personnel reliability programme failures involving nuclear or radiological materials and facilities in India and Pakistan; in blue, all terror attacks in 2015; in green, all terror attacks in 2014. The map is a chromatic and highly dangerous forest of nuclear and terror<sup>23</sup>.

If Donald Trump were consistent with his statements, we should see a dramatic shift in such a dangerous region (South

---

<sup>22</sup> “How to deal with Trump”, *India Today*, 13 March 2017.

<sup>23</sup> H.E. Haegel and R. Verma “The terrifying geography of nuclear and radiological insecurity in South Asia”, *Bulletin of the Atomic Scientists*, 22 January 2017.

Asia). India would become the most important strategic partner for the United States, and Pakistan the favourite for Beijing, as Delhi was for the Soviet Union in the second half of the Twentieth century. With the growing consent of Islamabad, Pakistan is indeed turning into the best Chinese tool in the Subcontinent. The US\$62 million investment in the China-Pakistan Economic Corridor (CPEC) is the "flagship" of the wider OBOR plan, according to Chinese President Xi Jinping.

Many could assume that China is a greater challenge than Pakistan for India. China is indeed a strategic and long-term concern in terms of geopolitical rivalry, however embedded in a framework of mature bilateral economic ties. BRICS is not yet a powerful institution but, still, it is a good balancing factor: valuable cooperation versus zero-sum competition. Pakistan, on the contrary, is a present and ongoing danger for India: diplomatic ties are reduced to the essential and bilateral trade equals a mere US\$2.2 billion for a combined population of 1.5 billion.

The Indo-Pakistani common history of the last 70 years is punctuated by four wars, dozens of crises and acts of terrorism. There were few opportunities to reach peace and mutual understanding. Atal Bihari Vajpayee's bus visit to Lahore in 1999, right after the Kargil war; Modi's stopover, again in Lahore, on Christmas Day in 2015; the friendly attitude of Pervez Musharraf during his tenure as Prime Minister between 2001 and 2008, despite having been the leading strategist behind the Kargil conflict when he was Chairman of the Joint Chief of Staff. Musharraf wanted to change the army perspective toward India. But he proved to be an exception. The army, the very institution dominating Pakistan's politics by being always – directly or indirectly – in power, never changed its sense of irreverentism and insecurity toward India.

There are many reasons why the Indo-Pakistan confrontation has many common features with the Israeli-Palestinian conflict. In both cases, one of the two contenders is too large and powerful, and the other too narrowly focused on revenging and

gaining momentum, to find it convenient enough to enter in a diplomatic process with its foe. Last but not least, the stalemate lacks the diplomatic power of an external, qualified, and honest broker. Donald Trump contemplated an external mediation prior and right after taking office, but his interest soon dissipated. China is willing to exploit Pakistan in its competition with India. “Lasting peace between the two South Asian rivals will not be possible without a structural change and alteration of the strategic culture within Pakistan”<sup>24</sup>.

## **A reluctant superpower**

Generations of journalists, scholars, and foreign ministers observing India have asked the same question: will India survive? They asked this during the tragic days of Partition and the proclamation of the Union, when at the Red Fort Jawaharlal Nehru promised to his new fellow citizens a “tryst with destiny”. Again, they did so during the first elections in 1952; after the war with China in 1962, and when Jawaharlal Nehru died two years later. They returned to ask the same question when Indira Gandhi and her son Rajiv were assassinated in 1984 and 1991; after the destruction of the Babri Masjid mosque in Ayodhya, as well as after each of the frequent outbursts of sectarian violence that plagued the country since her very birth. After every tragic event the question was always how fragile and complex the India fabric was.

Now the common question has turned into: will India become a superpower? In fact, for all its social unbalances and despite its ethnic and sectarian divisions, at the stroke of the Twenty-First century, India is the world’s best democratic hope to balance a rising undemocratic China: today, in its region; tomorrow, who knows, maybe on the global stage. The definition of “Asian largest democratic country” is not trivial but

---

<sup>24</sup> A. Tellis, “[Are India-Pakistan Peace Talks Worth a Damn?](#)”, Carnegie Endowment for International Peace, Washington, 20 September 2017.

substantial and long-lasting. Prime Minister Manmohan Singh once said that liberal democracy was the natural order of political organisations in today's world. All the alternative systems were "an aberration". Conversely, in his opening speech at the 19th Communist Party Congress, last October, Xi Jinping once again rejected liberal democracy and reiterated his idea of a "flourishing socialism with Chinese characteristics" as a different choice for the developing world.

In 1991, when then Finance Minister Manmohan Singh and Prime Minister Narashima Rao launched their structural economic reforms, fewer than 50,000 engineers per year graduated in India. About twenty years later, the public and the private colleges admitted 1.5 million students per year, and primary education is now universal<sup>25</sup>, just like voting rights. In 1991, India's main and limited exports were textiles. Today, India sells computer software, business services, pharmaceuticals, cars and auto components around the world. IBM has more employees in India than in the United States. "Software and business services are estimated at US\$180 billion in 2015-16, up from virtually nothing in 1991"<sup>26</sup>.

China is faster and better because accountability is not a concern for the Secretary General of the Communist Party. At best, he needs to please the other six members of the Standing Committee. The decision-making process for a Prime Minister in democratic India is slightly more complicated. The Party in Beijing has already decided by decree that it will showcase a "world-class" military in 2035 and that China will be proclaiming itself a "superpower" in 2049, at the hundredth anniversary of the People's Republic. Vice-versa, India never stops to wobble over her role in the world. Since his election in 2014, Narendra Modi displayed an ambitious foreign policy, becoming the closer partner of the United States and Japan, at least compared with his predecessors. Nevertheless, the essence of

---

<sup>25</sup> A. Choudhary Mahayan, "1.5 Million Engineers Pass Out in India Every Year, Fewer Getting Hired", Dazeinfo, 28 October 2014.

<sup>26</sup> S.S. Anklesaria Aiyar (2016).

Modi's world is not so different from the one Prime Ministers from the Congress Party chose for India since the end of the Cold War. "Non-alignment remains the dominant vocabulary for Indian foreign policy, and preserving freedom of action – strategic autonomy – is one of its key principles"<sup>27</sup>.

Undeniably, when it comes to foreign policy India is a one-party system, and a reluctant one. However, in about thirty years, at the centennial of the independence, it is fair to expect that India will be the other superpower in Asia, together with China, and perhaps far beyond the edges of the continent. No matter how reluctantly.

---

<sup>27</sup> T.C. Schaffer and H.B. Schaffer, *India at the Global High Table – The Quest for Regional Primacy and Strategic Autonomy*, Brookings Institution Press, Washington D.C., 2016.

## Policy Recommendations for the EU

---

The relationship between India and the European Union is marked by some basic and mutual misunderstandings.

The perception of the former is that the EU acts just like the G20 or the SAARC: groups of nations working together for common, yet limited or generic, goals.

In fact, the EU is much more than that. However, India already has bilateral connections, fruitful trade, and economic relations with many key and influential EU members. Each of these nations protects and develops the relations on its own, often in competition with their EU partners. A telling example is the prolonged detention by India of two Italian marines over the killing of two Indian fishermen in Kerala. Brussels showed a very tenuous reaction to this controversy; the sole antagonist of the Indian government was Italy. Despite this “European” crisis, other EU members improved their business ties with New Delhi, sometimes to the detriment of Italy.

From the European side, there is a quite widespread belief that doing business with India is much more arduous than with China. This is the case with all kinds of business: trade or diplomatic negotiations, direct investments, or any kind bargaining. The societal, linguistic, and religious heterogeneity of democratic India, something Amartya Sen called “The argumentative Indian”<sup>1</sup>, does not make relations easier for foreigners, certainly not for companies and individuals with a superficial understanding of the country.

---

<sup>1</sup> S. Amartya, *The Argumentative Indian*, UK, Allen Lane, 2005

These are perhaps the very reasons why the EU and India signed a Strategic Partnership agreement only in 2004 and a Joint Action Plan in 2005. The following seven years saw worthless negotiations and almost a complete lack of effective results. “While Brussels fixated on the need for climate change, migration or enforcing 48-hour working weeks, New Delhi kept invoking its right to pollute the environment and disregard labour rights in the pursuit of economic growth”, Garima Mohan and Constantino Xavier stated in a recent report on Global Governance, Security, and Strategy in the EU-India Partnership<sup>2</sup>.

The EU and India promoted an annual bilateral summit only in 2012. But after six such high-level meetings, the summit is “still high on rhetoric and low on substance”. The Europeans should, at last, formulate a targeted India strategy that goes beyond the traditional approach, by offering solutions to India’s domestic challenges.

To draw up a list of possible policy recommendations for the EU, we have also sought the opinion of the Indian co-authors of this Report.

- In Europe, we see China’s Belt and Road Initiative (BRI) as a big economic opportunity to do business with and through China. On the other hand, India feels much more directly affected because of its geopolitical proximity, in addition to having an unresolved border conflict with Beijing. **The EU should reassure India about the infrangibility of EU-India bilateral economic and diplomatic relations, despite the BRI.** Europe should clearly show that, despite difficulties that might arise in the future, Europe has a strategic interest in improving its relations with India to the same qualitative and quantitative level reached with China.
- The key political value for both India and the EU is the same: democracy. Democratic ideals need greater support than ever before, particularly with the US

---

<sup>2</sup> *Putting the Strategy into the EU-India Strategic Partnership*, GPPI and Carnegie India, New Delhi 2017.



retreating from global affairs and an autocratic China attempting to take its place. Democracy comes at its own speed but through a complex maze of checks and balances that enable it to stand firmly. **Together, India as the world's largest democracy and the EU as the birthplace of democratic ideals, need to stand together.** (Gautam Chikermane)

- Policy makers in India do not perceive the EU as a decisive strategic partner. **Improvements on the European Common Defense would increase EU credibility in Delhi.** An effective contribution to prevent a possible return of the Taliban in Kabul, for instance, is essential. On the contrary, a Western defection in Afghanistan would boost Jihadist militias and increase the danger of terrorism also in India.
- Negotiations on an EU-India Bilateral Trade and Investment Agreement (BTIA) began in 2007 but lost momentum over contentious issues such as tariff rates, NTBs, IPRs, and a bilateral investment treaty. In October 2017, EU and Indian leaders called for a “timely re-launch” of the FTA talks, following the 14th EU-India summit. The EU is currently one of India's biggest trading partners, and India is the EU's 9th biggest. With the EU share in total Indian trade decreasing, **BTIA is the way to improve India-EU ties.** (Geethanjali Nataraj and Garima Sahdev)
- Both India and the EU are lagging behind the Big 3 (the US, China, and Russia) in developing artificial intelligence for strategic as well as business purposes. **Together, India and the EU can find common ground to help develop not merely specific technologies but entire ecosystems.** This would mean creating a regulatory infrastructure and physical resources that invite the best minds from both these areas to develop ecosystems that serve businesses, governments, and militaries. (Gautam Chikermane)

- The EU and India have released a joint statement for cooperation on the Paris agreement on the mitigation of climate change. The EU is a leader in green technology. With the US pulling out of the agreement, **the EU and India stand to gain from a joint leadership on global governance matters.** On climate financing too, prospects for cooperation are ripe. Together with green technology, the EU should give support to India in areas such as skill development, not only in scientific terms but also in training and financing. (Bidisha Ganguly; Geethanjali Nataraj and Garima Sahdev)
- The EU should offer its expertise in areas of higher and lower education, urban governance, credit, land, housing, and the labour market. It could also help shrink the informal economy and enlarge the tax base in India. This is an essential part of the present and future reforms that the Delhi government is going to realize. **This is why the EU should not teach or dictate solutions but only offer its knowledge base and capabilities if requested.**
- **The EU is the only partner with which India holds a bilateral human rights dialogue.** Like in other fields (e.g. migration or climate change), such a dialogue provides a unique opportunity for both sides to discuss a broad range of human rights issues, including religious and minority rights, gender issues, decent work, or capital punishment. Although an agreement is yet to be reached, **the EU and India** – both of whom have strong enough political and legal traditions in the protection of human rights *and* pluralism – **should boost cooperation in multilateral fora on such a delicate matter.** This is all the more important today, with an increasing number of illiberal and even authoritarian forces rising to the world stage. Beyond dialogues, either side should take the initiative and demonstrate it can be a valuable partner in the promotion of tangible policies to protect

human rights, internationally. Leadership – global leadership – is not only measured by power (be it economic or military), but also by the ability to provide better, and safer, living conditions for all, including minorities and less advantaged categories.



## The Authors

**Gautam Chikermane** is Vice President at Observer Research Foundation. His area of research is Indian and international economic policy. He is also a Director at CARE India. Earlier, he was New Media Director at Reliance Industries Ltd and has served in leadership positions at some of India's largest newspapers and magazines – Executive Editor (Business), Hindustan Times; Editor Special Projects, The Indian Express; Executive Editor, The Financial Express. A Jeffersen Fellow at the East-West Center, he has authored three books: *Tunnel of Varanavat* (2016); *The Disrupter: Arvind Kejriwal and the Audacious Rise of the Aam Aadmi* (2014); *Five Decades of Decay* (1997); *\$20 billion to \$2 Trillion in Seven Decades: 70 Policies that made India a Global Economic Power* (Forthcoming 2018).

**Bidisha Ganguly** is the Chief Economist at the Confederation of Indian Industry. At CII, she regularly interacts with various stakeholders including companies from different sectors of industry such as infrastructure, finance and manufacturing. She leads a team of economists and is responsible for the economic policy and research work of the confederation which include providing content on macroeconomic trends to the CII membership and making policy recommendations on their behalf. She regularly makes presentations to various councils and committees of CII on developments in the economy. As part of the country's premier institution that represents the concerns of industry, she has had the opportunity to interact closely with a wide range of stakeholders including government representatives, multilateral institutions, global investors, the media and Parliamentarians.

Prior to CII, she was engaged in the financial sector where she spent 10 years working with various firms, tracking global and Indian macroeconomic developments. She has moved to a more policy-oriented role in CII, where she has been since 2002. She has worked in different divisions including Economic Policy and Taxation, Banking and Finance and Infrastructure.

**Nicola Missaglia** is a Research Fellow at ISPI's Asia Centre, in charge of the India Desk and of the Institute's Digital Publications. Before joining ISPI, he has served for several years as the Scientific Coordinator and Managing Editor for the international think tank Reset-Dialogues on Civilizations. He holds a Research Master's degree in Political Theory and Contemporary History from Sciences Po Paris' Doctoral School (France). A member of the International Association of Journalists (Brussels), he contributes to Italian and international magazines and is editing the 2017 issue of ISPI/Treccani's Geopolitical Atlas. His research interests focus on nation-building processes, conflict and political transitions, identity politics and religious divides in the South Asia and MENA Region.

**Geethanjali Nataraj** is currently a Professor of Economics at the Indian Institute of Public Administration (IIPA), New Delhi. Prior to joining IIPA, she was a Senior Consultant Scholar with Brookings Institution, India Centre, New Delhi. Till recently, she was Senior Fellow cum Professor at the Observer Research Foundation, New Delhi and Policy Lead, Trade and Investment, Knowledge Partnership Programme, DFID India and IPE Global. She has carried out research on international trade and investment issues, regional trading agreements, infrastructure issues and trade policies of developing countries and economies of Japan and China. She has been a consultant and visiting researcher to ADBI (Tokyo), Policy Research Institute, Ministry of Finance, Government of Japan, Department of Economics, University of Antwerp, Belgium, Visiting Fellow to Bruegel, a Brussels based think tank and a Visiting Faculty to

Ministry of Foreign Trade, Cairo, Egypt and Institute of Finance Management, Tanzania. She has also completed an advanced course in WTO from the International Law Development Organization (IDLO), Sydney, Australia and carried out research for the Australian National University, Canberra and JETRO, Japan. She is also a non-resident Advisor to South Asia Democratic Forum (SADF), Brussels, Belgium. She is an experienced researcher with a keen interest in International trade issues with nearly 20 years of experience behind her.

**Garima Sahdev** is a researcher in International Trade and Investment Law. A former researcher at the Graduate Institute, Geneva, and Observer Research Foundation, New Delhi, she has carried out extensive research on the interplay between trade and environment, trade and human rights, trade and development, Renewable Energy Subsidies and Clean Energy Trade Wars, WTO law, BRICS, Regional Trade and Investment Agreements, and the Mega-Regionals; and has published research papers and articles in reputed journals. She has previously worked with the Asian-African Legal Consultative Organisation, undertaking research in important areas of International Law having a bearing on the interests of Developing Countries. She has an LLM degree in International Economic Law from the Graduate Institute of International and Development Studies, Geneva. A keen observer of international affairs, she also has a postgraduate diploma in International Law and Diplomacy.

**Ugo Tramballi** is ISPI Senior Advisor in charge of the Institute's India Desk. He joined the Metropolitan section of "Il Giornale" in 1976; Middle East correspondent in Beirut from 1983 to 1987, war correspondences from Lebanon, Iran, Iraq, Afghanistan, extensive coverage of India and Pakistan. Moscow correspondent from 1987 to 1991. Global correspondent and columnist with the Economic newspaper *Il Sole 24 Ore*. He covered the Middle East peace process, India's reforms, South Africa transition, China rise, globalisation and World Politics,

the World after 9/11, Uprisings in the Middle East, Financial crisis and populism. Member of the Istituto Affari Internazionali (IAI), Centro per la Pace in Medio Oriente (CIPMO) and World Economic Forum's Media Leader.



