

India: Politics Drowning Policy

In a two-week swing through India in mid-February, we found a government overwhelmed by sweetheart deals and scandals and an economy still strong but with a worrisome softening of the investment market. Foreign policy is proceeding in a workmanlike fashion. The upshot of the scandals, however, is that the government will be even more cautious in making policy decisions, especially those that involve legislation.

A merciless political season:

- *The scandals:* One central government minister is in jail for his role in a sweetheart deal in allocating the 2G telecom spectrum. The Prime Minister has had to replace his top anti-corruption official because he had a corruption case pending against him. A string of other cases, ranging from titillating to severe have similarly sent the stock of the government crashing – and affected the reputation of Manmohan Singh as well. Most of Manmohan’s accusers believe he is guilty of inattention rather than graft, but this is cold comfort. In the second half of February, this was practically the only subject other than the revolution in Egypt that got front page coverage. It was aggravated by Manmohan’s very cautious approach to a cabinet reshuffle, which squandered the opportunity to put in a vigorous and clean new team.
- *Parliamentary fallout:* Parliament basically did not function during its winter session. The budget session always starts in the third week of February. Not passing the budget would bring down the government, so a nonfunctioning budget session is not an option. The government therefore had to agree to the appointment of a Joint Parliamentary Committee to investigate the scandals. The committee reflects the party composition of parliament; so many people wanted to participate that the parliament had to expand its size from 20 to 30 members. It will apparently take testimony from Manmohan Singh. This is a bitter pill for the Congress party.
- *Trouble in the coalition:* The DMK, one of the two major Tamil Nadu parties and the party of the jailed ex-telecom minister, has now announced its intention to withdraw from the coalition. This will probably not bring down the government, which has enough support from “outside” parties possibly willing to enter the government to ride out the storm. But it will be the overwhelming preoccupation of the country’s leaders.
- *State elections always around the corner:* Five state elections are due in the next few months. Two to watch:
 - Tamil Nadu, home to powerful Home Minister Chidambaram and of some of the most colorful movie-stars-turned-politicians in the country. Local analysts believe that the state government will change hands, bringing in the party that has normally allied with the BJP, currently in opposition at the center. Current coalition talks in Delhi are part of the state drama.
 - West Bengal, where the Communists who have run the state government for four decades are likely to lose, but the result may be an unstable standoff between the

Trinamul Congress and the Congress party itself. There are powerful personalities in play, and this state contest too may backwash on to national politics.

- *Brokers and wannabes*: Inevitably, political power figures in the government are emerging as would-be brokers, with an eye on their own next move. Watch the ones whose states have high-profile elections coming up:
 - *P. Chidambaram*, the powerful Home Minister appointed to galvanize security after the attacks on Mumbai. Rumors are rife about his wanting another job – his old Finance Ministry perch? Or even the prime ministership? – But his take-charge, tough-guy style has won him enemies as well as admirers.
 - *Pranab Mukherjee*, currently Finance Minister and formerly holder of most of the senior cabinet jobs in India, a Bengali with a taste and talent for brokering and political maneuvering. He was the architect, with BJP leader L.K. Advani, of the winning formula for the Joint Parliamentary Committee. He has up-and-down relations with most of his party leadership as well as with the contending personalities in West Bengal; he wants to be king-maker in West Bengal and at the Center, and is also rumored to have his eye on the presidential palace.
- *The next generation?* It has been assumed, at least since the 2009 elections and arguably even longer, that the next Congress prime minister would be Sonia Gandhi's son Rahul, who has been reorganizing the Congress youth wing. His fans are puzzled, however, by his relative remoteness from all this high-powered political maneuvering, and wonder if Sonia is keeping him in the wings for too long.
- *The bottom line*: It's hard to find ministers who have much appetite for policy these days, and harder still to find anyone who believes they can put through legislation on anything other than the budget.

A mostly robust economy, a continuity budget

- *Still growing*: Prospects for GDP growth are still excellent – well above 8 percent. The government, convinced that its employment scheme has won them votes in rural India, is trying to extend that “business model.”
- *Infrastructure up*: On each of our trips to India in the past five years, our personal, unscientific benchmark for infrastructure development has been strongly positive. Examples this time: the new airport in Delhi (regular visitors who haven't seen it will be dazzled), and the completion of the freeway between Delhi and the airport.
- *Business expansive*: The major corporate personalities we spoke to are confident. They continue to buy up overseas businesses and look for new overseas markets. Africa and Latin America are often-mentioned destinations.
- *Two worries*: Foreign direct investment is off by about 20 percent; and the aggregate growth of domestic investment has slowed.
- *The budget*, submitted February 28 (after we left India), is an exercise in continuity rather than new policy. It projects a slight decrease in the deficit (4.6 percent for the national budget, 7.6 percent for the combined national and state budgets, down about 0.5 percentage points in both cases). The best news: a timeline for putting in place the General Sales Tax, a complicated venture since the states must buy in. The worst: a projected drop in subsidies – which would be good news but is hard to believe in light of increases in world prices for food and fuel. Missing in action: measures to encourage foreign direct investment (see above about the difficulty of passing legislation).

Foreign Policy: Steady On

- *The United States:* There is still a warm afterglow from the Obama visit. Follow up on some of his commitments (e.g. India's membership in the nonproliferation export control groups) is moving forward. Except for the chronically disgruntled, Indians are generally pleased with where we are. They have not really picked up on, and do not understand, the restiveness in Washington about lack of movement on the U.S. trade agenda.
- *Pakistan:* A new series of talks is set to resume. Expectations are uniformly low (both in India and in Pakistan).
- *China:* There are widespread misgivings about what China is up to in the region. This comes with increased interest in raising India's profile in East Asia.

Policy outlook: Summing up, the next six months will be a time to focus on solving problems that do not require legislation. There are some indications that the climate is changing on some of the issues that have bedeviled U.S. economic interests in India for years – the investment cap in insurance, for example. But until the parliamentary investigation is past and the government has found its sea legs again, major legislation is unlikely.