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India in 2009

Global Financial Crisis and Congress Revival

ABSTRACT

The past year was a momentous one for India. The country navigated through the shoals of an unprecedented global financial crisis with only modest negative impact, and successfully continued the world's largest exercise in democracy. The 15th general election in April-May 2009 saw the venerable Congress Party return to power with a large mandate. On the external front, although ties between India and the Obama administration have been friendly, real concerns remain about the future trajectory of Indo-U.S. relations. Relations with Pakistan and China also remain testy.

KEYWORDS: Congress Party, global financial crisis, Lok Sabha elections, U.S.-India relations, economic globalization

FIFTEENTH GENERAL *LOK SABHA* ELECTIONS

Between April 16 and May 13, 2009, India held its 15th general election since independence in 1947. Over 4,500 candidates representing nearly 300 political parties, including numerous independent candidates, fiercely contested for the 545-seat Lok Sabha (People's House, the lower house of Parliament). The elections took place in five phases between April and May in order to accommodate the estimated 714 million registered voters and minimize the logistical disruptions inevitable in the grueling five-week-long exercise. The 800,000 polling stations—complete with 1,368,430 simple and “tamper-proof” electronic voting machines, and backed by roughly 6.5 million election workers including a large number of police and security forces—stood ready to ensure full and fair participation of the electorate. Despite the massive scale of the enterprise, the elections were held with minimal disruption and with an average voter turnout of about 60%.

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On May 18, the Election Commission announced the results. Of the 420 million people who voted, roughly 119 million marked their ballot next to the picture of an open hand, the symbol of the Indian National Congress (INC or Congress Party), which thus won 206 of the 545 Lok Sabha seats. This was not only a remarkable gain from the 145 seats it won in the 2004 general election but also the closest thing to a mandate any party can realistically hope for in a fractious and deeply divided polity like India. The Congress, together with its United Progressive Alliance (UPA) coalition partners, won 262 seats—10 shy of the halfway mark of 272 seats needed for a majority. On the other hand, the Hindu-nationalist Bharatiya Janata Party (Indian People's Party, BJP), the Congress's main rival, won just 116 seats—a sharp drop from the 138 it won in 2004. In total, the BJP and its allies in the National Democratic Alliance (NDA) won 159 seats, while the so-called Third Front—a hastily cobbled alliance of communist, regional, and caste-based parties—won just 80 seats. The Third Front, widely projected to win at least 120 seats and be a “kingmaker” with immense bargaining power, actually proved to be the big loser in these elections.

Assured of the support of more than 300 Lok Sabha members, Prime Minister Manmohan Singh was sworn in for a second five-year term on May 22. This marked a watershed of sorts because Singh is only the second prime minister after Jawaharlal Nehru (India's first prime minister) to be elected for a second full term. Rank-and-file Congress members were disappointed that the party's general secretary, Rahul Gandhi (the fourth generation member of the Gandhi-Nehru dynasty and widely seen as the architect of the Congress's resurgence), refused to accept a ministerial berth. But the party faithful may not have to wait long because the 38-year-old is the party's heir apparent. Rahul's selfless, but carefully choreographed, act of renunciation added to his growing political capital.

Nonetheless, the Congress's coronation was not smooth sailing. Even as Singh was being sworn in, the Dravida Munnetra Kazhagam (Dravidian Progress Federation, DMK)—the Congress's major ally with 18 seats from the state of Tamil Nadu—announced its refusal to join the cabinet because of differences over how ministerial positions were being allocated. DMK chief M. Karunanidhi eventually joined the government a few days later, but only after securing three coveted cabinet seats, including one for his son, Muthuvel Karunanidhi Azhagiri, and four ministers of state berths. This unabashed quid pro quo was a cautionary reminder that the Congress is still 66 seats shy of a parliamentary majority to govern on its own.

WHY THE CONGRESS WON

The Congress Party's margin of victory came as a big surprise to most observers. For weeks, polls and pundits had predicted that neither of the two main parties would emerge a clear winner. Perhaps this explains why the Congress faithful celebrated so wildly in the sizzling 41 degrees Celsius (106 degrees Fahrenheit) heat to chants of "Jai Ho" (Victory Has Come), the party's victory slogan taken from the Oscar-winning film *Slumdog Millionaire*. Courtiers and senior Congress politicians paid the requisite *darshan* (homage) to the official residence of party president Sonia Gandhi, bearing giant bouquets. As the dust from the elections settled, it became apparent that the role played by Sonia and especially Rahul contributed significantly to the party's success. It seems that the adulation (and nostalgia) the Indian public has for the Gandhi-Nehru dynasty has quite possibly been passed on to Rahul.

The month-long campaign seemed to have marked the triumphant arrival of Rahul Gandhi to the national political scene. Rahul is the son of former Prime Minister Rajiv Gandhi, grandson of former Prime Minister Indira Gandhi, and Nehru's great-grandson. Rahul served as a key strategist during the campaign and was also the party's most energetic campaigner, traveling the length and breadth of the country to speak at an average of four rallies a day.¹ Beyond his hectic schedule, Rahul also made a number of risky political gambles that, in hindsight, paid off handsomely. For example, he forced the party to deny a place on the ballot to tainted candidates and incumbents (both those with criminal records and those with corruption or criminal cases pending). Rahul insisted that the Congress field younger and better educated candidates. Above all, he listened to the party rank-and-file, which advised him not to form alliances with regional and caste-based political parties.

Clearly, the Congress's decision to only have "seat-sharing" adjustments at the state level, instead of forming a national-level alliance, proved prescient. The Congress's refusal to cede votes in its strongholds to its "allies" not only gave it more space for post-electoral negotiations but also greater leeway in eventually forming the government. With the election results as vindication, Rahul, who had been dismissed as a novice only a few weeks earlier, emerged as a political force to be reckoned with and has already been dubbed as the

1. Amelia Gentleman, "Indian Voters Back Congress to Push through Reforms," *The Guardian* (London), May 17, 2009; and Vidya Subramaniam, "The Coming of Age of Rahul," *The Hindu* (Chennai), May 17, 2009.

“prime-minister in waiting” by many in the press and political circles. Arguably, the Indian public’s affection for the Gandhi-Nehru family is not restricted to Rahul but also extended to his estranged cousin, Varun Gandhi (son of Rajiv’s younger brother Sanjay and the BJP’s new star), who also won by a landslide despite being jailed during the campaign (and then released on bail) for making vitriolic anti-Muslim statements.

If Rahul and Sonia Gandhi bring pedigree and celebrity status, Manmohan Singh, the mild-mannered Oxford-educated economist who has been prime minister since 2004, brings a refreshing sense of propriety and integrity to the highest office in the land. Although lacking an independent political base of his own and wholly beholden to Sonia Gandhi, Singh, for all his awkwardness, brings a quality that no Indian politician, including the Gandhis, can match. He is by all accounts honest and self-effacing, a man who has never succumbed to the allurements of power despite a senior-level governmental career spanning more than three decades. Considering India’s corruption-ridden polity, not to mention that some 72 members of Parliament (MPs) representing various parties in the Lok Sabha are charged with serious crimes including murder, Singh is a veritable saint. Not surprisingly, his poll numbers rise sharply when the question of “trustworthiness” and “honesty” comes up.² This is in sharp contrast to his rivals, especially BJP leader Lal Krishna Advani. The BJP’s attempt to portray Advani as a gritty *lob prush* (iron man) failed to resonate with the voters. So did its efforts to disparage Singh as an unimaginative bureaucrat wholly subservient to the Gandhis and to highlight his perceived weakness and indecisiveness in dealing with Pakistan after the 2008 Mumbai terrorist attacks.³ Voters apparently settled for honesty and a conciliatory and steady hand at the helm.

The election results also seemed to defy one of the most widely held assumptions about Indian politics: that political fragmentation and a fractured Parliament consisting of unwieldy alliances across a range of parties are the wave of the future. It is too early to conclude that this election marks a shift in the political landscape with the Congress Party on its way to reclaim its once privileged dominant party status. Still, what is clear is that the disproportionate power and influence exercised by several narrow caste, regional, and other identity-based parties have been checked for the time being. Polls

2. Rajdeep Sardesai, “Manmohan Singh: A Natural Born Leader,” *Hindustan Times* (New Delhi), May 17, 2009.

3. Somini Sengupta, “Vote in India Reshapes Landscape,” *New York Times*, May 18, 2009.

showed that voters' increasing frustration and disillusionment with identity-based parties and politics have translated into votes for the Congress.⁴

Although the proliferation and ascendance of identity-based parties over the past two decades have opened up India's hitherto closed top-down political system to the country's diverse subaltern communities, these parties' record of delivering tangible benefits to their constituencies has been poor. Instead, the aspiring leaders of the various caste, regional, and other identity-based parties have tended to use their parties as vehicles for self-aggrandizement, often with impunity.

An illustrative example is Mayawati from the oppressed Dalit (Untouchable) caste. She is the current chief minister of the state of Uttar Pradesh (UP) and leader of the Bahujan Samaj Party (Majority People's Party, BSP), whose singular mission is to "uplift" the Dalits. An inscrutable and overbearing politician, Mayawati has assiduously mobilized Dalit grievances, using the message of "respect" and "empowerment" through aggressive affirmative action, into electoral success. In the 2007 state assembly elections, the BSP won 206 out of 403 seats—the first outright majority in UP in nearly two decades. It also increased its aggregate vote share in the state from 23% to 30% by garnering not only the bulk of the Dalit vote (Dalits comprise roughly 22% of UP's 175 million residents) but also votes from other low-caste Hindus and Muslims. Mayawati, who has made no secret of her ambition to be India's first Dalit prime minister, hoped to repeat her party's stunning performance in 2007 UP state elections in the 2009 national elections as well. The conventional thinking was that if the BSP could win at least 50 of UP's 80 parliamentary seats, the mercurial Mayawati would emerge in a position to bargain with either the emasculated BJP or the Congress to become India's first Dalit prime minister. However, the BSP won only 21 seats, whereas the Congress defied all expectations by winning 22 Lok Sabha seats in the state.⁵ Exit polls confirmed that both Dalit and

4. Yogendra Yadav and Suhas Palshikar, "Between *Fortuna* and *Virtu*: Explaining the Congress' Ambiguous Victory in 2009," *Economic and Political Weekly* 44:39, September 16, 2009, pp. 33–46; Emily Wax, "Voters Tell India's Ruling Party to Persevere," *Washington Post*, May 17, 2009.

5. The last time the Congress Party won an outright majority in UP was in 1984. In 2004, when the Congress came to power in the center with 145 parliamentary seats, only nine were from UP. It was not expected to do much better in the 2009 elections, but both Sonia and Rahul Gandhi campaigned particularly actively in UP. The Congress Party's electoral performance in UP winning 22 was surpassed only by the Samajwadi Party (SP, translated literally as "Socialist Party"), which won 23 seats.

non-Dalit supporters of the BSP, including Muslims, tended to desert the party in favor of the Congress.⁶

This proved fatal for the BSP in some 100 out of 400 state assembly constituencies in UP in which the voting preferences of Muslims prove decisive in determining electoral outcomes. Mayawati's autocratic style of leadership, the admitted fact that she has accrued a personal fortune of over \$12 million during her tumultuous political career, and above all, her government's all-around abysmal performance turned off many voters. Similarly, poor performances were seen for the BSP's main electoral rival in UP, the SP and the BSP's rival in the state of Bihar, the Rashtriya Janata Dal (National People's Party, RJD). Both of these habitually masquerade as defenders of the "backward" Yadav caste, but their leaders tend to the irascible, corrupt, and coarse, with more than their fair share of criminals running for office. The RJD, in fact, was summarily trounced in Bihar.

What explains why the BJP's spirited attempt to exploit the usual anti-incumbency sentiment of the Indian voter—from Singh's "weak" response to the Mumbai attacks to his administration's questionable handling of the economic downturn—failed to resonate with the electorate? It seems that the government's quick action in firing its home minister, Shivraj Patel, who is responsible for national security, and forcing out the Congress chief minister of Maharashtra, Vilasrao Deshmukh, helped assuage the palpable public anger over the government's initial response to the Mumbai attacks. Moreover, Singh's rather calm and measured handling of the post-crisis scenario by deftly mobilizing international diplomatic pressure on Pakistan blunted the BJP's accusation that the Congress's national-security credentials are suspect. As noted earlier, Singh's clean image stands in stark contrast to the self-serving arrogance of India's traditional elite political class. According to recent polls, Singh is also highly "likable," thus further enhancing his popularity.

In contrast, the BJP's Achilles' heel in recent years has been its leadership. Unlike the conciliatory former BJP leader, Atal Bihari Vajpayee, who was able to appeal both to the party's Hindu nationalist base as well as sections of the broader secular public, Advani is the polar opposite. A hard-line Hindu nationalist who propelled the BJP to power in the 1990s with his

6. For details, see data contained on the Election Commission of India (New Delhi, Government of India) website, at <http://eci.nic.in/eci_main/index.asp> and <http://eci.nic.in/press/poll_percentage_ge2009>.

uncompromising demand that a Hindu temple be built on the site of a 16th-century mosque in the city of Ayodhya, Advani remains enigmatic and divisive. Even though he strategically backed away from Hindu chauvinism and tried desperately before the elections to shift the national debate to economic and security issues, the actions of his surrogates hamstrung the BJP from recasting itself as a moderate political party. In particular, Advani's perfunctory condemnation of the party's demagogic maverick Varun Gandhi for issuing veiled threats against Muslims raised doubts about Advani's sincerity. The prominent campaign role given to the flamboyant and unscrupulous chief minister of Gujarat, Narendra Modi (currently barred from entering the U.S. because of his alleged complicity in anti-Muslim pogroms in Gujarat in 2002) further stained Advani's image as BJP leader.⁷ This not only weakened Advani's ability to woo back several key coalition allies who deserted the BJP after its 2004 defeat, it also unnerved the party's main remaining ally—Nitish Kumar, the chief minister of Bihar and leader of the Janata Dal (United). Kumar's party, which depends heavily on Muslim support in Bihar's sectarian patchwork of voting districts, demanded that Varun Gandhi be prosecuted for making "hate speeches," and party officials avoided appearing alongside Modi during the campaign. The BJP's poor showing underscores that while Hindu nationalism is enough to underpin a political party, it is not enough to form a government in New Delhi. This is because Hindus, who comprise over 80% of India's population, do not vote as a unitary bloc. Rather, electoral success in India usually depends heavily on a party's ability to reach out to an array of various groups and interests by conveying a political agenda with generalized, as opposed to narrow sectoral, appeal.

The biggest losers in this election were the communists and their allies. The communists competed for 130 parliamentary seats but won only 20, suffering huge losses in their strongholds of West Bengal and Kerala. The Communist Party of India-Marxist (CPI-M) went from being the third largest party in the 2004 Lok Sabha with 43 seats to eighth place with only 16 seats, below even regional parties like the Trinamool Congress (translated, "Grassroots Congress"), the DMK, and the Janata Dal (United). In West Bengal, where a communist government has ruled for over 30 years, the

7. "No Entry for Modi into U.S.: Visa Denied," *Times of India* (New Delhi), March 18, 2005. For background on Modi's career, see Robert D. Kaplan, "India's New Face," *The Atlantic* (April 2009), at <<http://www.theatlantic.com/doc/200904>>.

Congress entered into a strategic alliance with the Trinamool Congress, capturing 25 of West Bengal's 42 parliamentary seats.⁸ The communists, who were a big part of the previous ruling coalition in the center, were relegated to the fringes of Parliament in 2009. Exit polls once again suggested that widespread cronyism, corruption, and capricious governance—including the strong-arm tactics used by CPI-M party cadres to forcibly expropriate land from peasants for private industrial development—led to a voter backlash against the communists in particular and other leftist parties in general.⁹

Finally, if the adage that good economics is good politics is true, Manmohan Singh was the primary beneficiary because he presided over an unprecedented economic boom. In the past five years, India's economy has grown at an average annual rate of about 9%, including an impressive 6% during the global economic downturn. Adding to Singh's good fortune was the fact that growth has been broad based, in large measure because of four good monsoons before 2009 and the global commodity boom that translated into higher prices for agricultural goods. This meant that the agricultural sector, which accounts for about 18% of gross domestic product (GDP) and employs some 60% of India's population (nearly 600 million people), grew at a robust rate of about 4.5% a year over the past five years. Moreover, as if to avoid the error of his BJP predecessor—whose "Shining India" mantra glorified the urban information technology sector and overlooked the vast rural hinterland—Singh's government complemented rising rural incomes by fully or partly forgiving bank loans owed by "small farmers." This was immensely popular because most Indian peasants are actually small landholders. According to the government's own estimates, the debt writeoff for some 43 million farmers in 2008 totaled some 1.6% of GDP. Singh apparently appreciated the fact that the road to achieving political power in New Delhi goes through India's vast countryside.

In an attempt to mitigate the impact of high food prices on the rural poor, the Congress government put into place the National Rural Employment

8. The West Bengal Trinamool Congress, now known as "The All-India Trinamool Congress," was founded by Mamata Banerjee in 1997. It initially consisted of defectors from the INC in West Bengal. The party is currently a member of the ruling UPA coalition, and its leader, Mamata Banerjee, is the country's minister for railways.

9. See A. M., "The State of the CPI (M) in West Bengal," *Economic and Political Weekly* 44:30, July 25, 2009, pp. 8–13; Suhrid Sankar Chattopadhyay, "West Bengal: Left Setback," *Frontline*, May 23–June 5, 2009; and Dipankar Basu, "The Left and the 15th Lok Sabha Elections," *Economic and Political Weekly* 44:22, May 30, 2009, pp. 10–14.

Guarantee Act (NREGA), a massive public works project guaranteeing up to 100 days' work with minimum wages and other social and welfare measures. Both the central and state governments also raised minimum wages, thereby raising pay faster than prices. The urban working classes were not neglected because the central government generously boosted the pay of public employees, and, under the banner of Singh's "inclusive growth" policy, certain constituencies (in particular, civil servants) received benefits at the discretion of the government.

THE BROADER MEANING OF VERDICT 2009

With the electoral math decidedly in its favor, there is an expectation that the new Congress government will maintain a stable parliamentary majority and end the relentless political machinations and policy impasses that have plagued India for the past two decades. The fact that caste and regional political parties (and their mercurial bosses who have come to wield disproportionate influence) have seen their political power clipped, augurs well for the new government. Similarly, the wholesale rejection of the obstructionist leftist and communist parties suggests that the voters are not opposed to implementation of deeper neoliberal economic reforms. It is expected that Singh, the quintessential reformer, will finally be able to implement the "second generation" economic reforms now that his government is free from the entanglements of tired polemic debates and controls the bully pulpit.

This, of course, also means that the Congress will have to deliver on its many lofty and expensive promises and will not be able to blame any future failures on the vagaries of coalition politics. Singh, who has himself stated that the Congress's victory "comes with a challenge of rising expectations," is certainly cognizant of this. Without a doubt, the two top expectations of the Indian population are physical and economic security. The electorate, especially the urban classes, will be carefully watching how the government overhauls the country's security and strategic systems. Singh has promised to put into place a more responsive, effective, and integrated internal security arrangement to make the country safer from unexpected terrorist acts like the one that occurred in Mumbai in 2008. This is a tall order because India has dismal center-state security coordination, including in the realm of intelligence gathering. Similarly, meeting the economic aspirations and pent-up demands of the increasingly aware Indian masses will not be easy, especially

when the global economy is reeling under recession and the Indian economy faces a ballooning budget deficit, largely as a result of profligate populist policies.

The election results also underscore that no party can take the voters for granted. The bulk of Indian voters are among the world's poorest and still overwhelmingly illiterate; still, these voters go to the polls in proportionately larger numbers than the middle and elite classes.¹⁰ They tend to back parties that campaign on local issues and represent their particularistic interests and sectarian affiliations. Nonetheless, verdict 2009 seems to indicate that voters are increasingly impatient with leaders and parties that take their support for granted by appealing to their parochial identities while ignoring their material needs and physical well-being, once elected. Not surprisingly, large sections of the electorate rewarded parties seen to be providing good governance and economic opportunities. This largely explains why the ruling parties in Orissa, Bihar, and Gujarat, with strong economic development records, were rewarded at the polls. Egregiously negligent ones—including those in West Bengal, Kerala, and UP—were decisively punished. Yet, one should be cautious about reading too much into the election results. The larger picture shows that while the Congress Party increased its seats in the Lok Sabha from 145 to 206, its *total* vote share increased by barely 2%—from 26.6% in 2004 to 28.5% in 2009—far below the more than 40% it routinely used to win before the late 1970s. This was in spite of the fact that it contested more seats in 2009 than in 2004, 440 compared to 417. The Congress Party's gains were, in fact, mostly restricted to the two most populous states, Bihar and UP. In the rest of the country, the Congress's vote share remained about the same. Therefore, it is premature to conclude that the verdict of 2009 indicates a definitive return of its once dominant party status. The results also underscore what serious observers of Indian politics have long argued: the ideology of Hindutva (literally, "Hinduness") advocated by the BJP, has only limited appeal, and Hindu nationalism is not as potent an existential threat to secular India as its critics make it out to be. The BJP's overall seat tally in the Lok Sabha was reduced to 116 in 2009 from 138 in 2004 in spite of the

10. Emily Wax, "In Elections, Rural India Rules," *Washington Post*, April 16, 2009; Sunil Khilnani, *The Idea of India* (New York: Farrar, Straus, and Giroux Publishers, 1997); "India Elections Results 2009," at <<http://www.indiaelections.co.in/>>; and "Wooing India's Educated but Apathetic Middle-Class Voters," at <http://www.monstersandcritics.com/news/southasia/features/article_1473771.php>.

incendiary rhetoric following the Mumbai attacks. Its total vote share also decreased nationally from 22.2% to 18.8%. Also, the election may not signal a definitive trend toward the permanent weakening of regional parties. Some, such as the RJD; the Lok Janshakti Party (translated, People's Power Party); and the Janata Dal (Secular) (People's Party [Secular]), certainly saw their support decrease in their traditional strongholds in Bihar, Karnataka, and Kerala. But others like the Biju Janata Dal (BJD, Biju's People Party) made significant gains in Orissa.¹¹ Moreover, the elections may not necessarily mean the permanent decline of identity-based parties. In fact, the total votes polled by a number of identity-based parties actually increased, even though their seat count in the Lok Sabha may have decreased. The BSP, for example, increased its vote share from 5.3% in 2004 to 6.2% in 2009. It seems that the old saying, "the more things change, the more they remain the same," fits contemporary Indian politics as well.

A RESILIENT ECONOMY AMID GLOBAL TURMOIL

As noted, India has enjoyed robust 9% per annum growth rates since 2004, peaking at 9.7% in 2006–07, the highest in its history and almost on par with China's. Even in the midst of the global financial meltdown, India's GDP grew by 5.8% in the first two quarters of 2009, allowing it to weather the downturn better than most other countries.¹² However, growth rates are only part of the explanation. According to Arvind Subramanian, India's peculiar approach—what he terms "Goldilocks globalization," a strategy that "relies neither too much on foreign finance nor too much on exports"—explains the country's economic resilience in an unprecedented global crisis. Subramanian notes that because "India has not been a gung-ho globalizer," the two channels via which a financial crisis is transmitted—finance and trade—have had only modest impacts.¹³ India has greater immunity to global economic downturns because

11. The BJD was founded in 1997 by the former state chief minister of Orissa, Biju Patnaik—hence its name. It is currently led by his son, Naveen Patnaik.

12. For details, see Shalendra D. Sharma, "Dealing with the Contagion: China and India in the aftermath of the Subprime Meltdown," *China and the World Economy* 17:2 (March–April 2009), pp. 1–14; and idem, "A Political Economy of the U.S. Subprime Meltdown," *Economic Analysis and Policy* 39:2 (September 2009), pp. 171–90.

13. Arvind Subramanian, "India's Goldilocks Globalization," Peterson Institute for International Economics (Washington, D.C.), June 15, 2009, at <<http://www.piie.com/publications/opeds/oped.cfm?ResearchID=1238>>.

it relies heavily on foreign direct investment (FDI) rather than securities investment and other forms of capital flows to access international capital markets. The fact that the rupee is not fully convertible (and is hardly used outside India) has created a buffer as well.

On the other hand, countries that depend heavily on capital inflows or borrow large amounts of foreign capital experienced major disruptions to their exchange rates, asset prices, and financial systems because capital inflows stopped or “fled to safety.” Furthermore, unlike export-dependent countries that suffered as a result of the collapse in external demand, India’s growth has been driven predominantly by domestic consumption and investment. External demand, as measured by merchandise exports, accounts for less than 15% of India’s GDP, providing relative insulation from the vagaries of global trade. Finally, unlike the 1991 crisis, India currently has healthy cash reserves that are more than adequate to cover its debt obligations. Cumulatively, these strengths served to calm markets and mitigate a potentially destructive financial panic.

However, at the heart of India’s economic resilience lies the fact that its financial sector was not exposed to American sub-prime mortgage securities. Clearly, the conservative approach adopted by India’s central bank, the Reserve Bank of India (RBI), kept the banking sector “protected” from the global financial markets. Indian banks, some of which are quite large by global standards, based on market capitalization and the size of their balance sheets, have only a modest international presence. This is because credit default swaps were not permitted in the country, and the use of “toxic” securitized assets was actively discouraged. In addition, RBI rules helped force both public and private banks to become better capitalized. The capital-to-risk weighted assets ratio of Indian banks is 12.6%, well above both the regulatory norm of 9% and the Basel Accord norm of 8%.¹⁴ Finally, the banking sector was protected because India’s state-owned banks still hold about 70% of the nation’s banking assets. Thus, financial protectionism has ironically (and inadvertently) translated into foreign banks controlling a relatively small share (8.4%) of the country’s banking assets. Moreover, foreign banks could not flee with their assets, as they did elsewhere during this crisis.

Yet, as Subramanian aptly notes, India’s “Goldilocks globalization” has come with high costs in other respects. In particular, he says, “India never

14. The Basel Accords are banking supervision accords designed to establish international standards on banking laws and regulations.

enjoyed the kind of benefits—such as greater efficiency and productivity leading to even higher growth—that comes with deeper reforms.”¹⁵ There was much expectation that with the election victory behind him, Singh would use the honeymoon period of the first hundred days to fast-track long-delayed reforms including labor market reforms, disinvestment (which in India means partial privatization via selling stakes in government enterprises), and sharp cuts in subsidies, among other things. Yet, none of these found their way into the government’s July 2009 budget. Rather, the authorities have explained their caution by pointing to concerns about the central government’s growing budget deficit.

One widespread view is that both Sonia and Rahul Gandhi, who hold virtual veto power over the future direction of government policies, prefer populist policies such as NREGA rather than implementing deeper economic reforms. It remains to be seen if Singh can convince the Gandhis that populist measures have only short-term benefits with potential overriding long-term consequences. Robust growth is essential not only to fund the government’s pro-poor policies but also for long-term economic growth and poverty alleviation. It could be a potential missed opportunity for India if the Singh government succumbs to the exigencies of populism and fails to put in place the “second-generation” neoliberal economic reforms. Until meaningful reforms are implemented, the cliché will be confirmed that “in Indian politics, there is only a strong consensus for weak reforms.”

In 2009, India experienced its worst monsoon season in decades. The monsoon rains, which fall mostly between June and September and constitute 75%–80% of the country’s annual rainfall—were far below average, leaving vast swaths of the Gangetic Plains parched. Because the monsoon rains coincide with the peak planting season, the negative impact on the agricultural sector is already being felt. Not only are hundred of thousands of acres lying fallow, even the sown areas are at risk of withering as water levels in wells and reservoirs fall precipitously to compensate for the water shortfall. Although India has sufficient food reserves to mitigate inflation, and the central government has announced plans to assist farmers, this may not be enough to save many of the impoverished smallholder peasants from financial ruin and possible destitution. A poor monsoon also means a sharp drop in power production: hydropower provides one-quarter of India’s electricity.

15. Subramanian, “India’s Goldilocks Globalization.”

The lack of reliable energy supplies has already hurt GDP growth, and impaired production in 2009 could stymie it further. For example, a mediocre monsoon season in 2002 slowed GDP growth that year by two full percentage points, from 5.8% to 3.8%.

INDO-U.S. RELATIONS IN THE ERA OF OBAMA

The widespread perception in India that the Obama administration has not given the country the attention it deserves is not without merit. President Barack Obama's remark that "you should not pay lower taxes if you create a job in Bangalore, India, than if you create one in Buffalo, New York" raised eyebrows in New Delhi, as did the president's signing a joint communiqué with Chinese President Hu Jintao pledging the two countries to jointly promote stability in South Asia. To New Delhi, this was tantamount to "tilting" and legitimizing China's "destabilizing" role on the subcontinent.¹⁶

New Delhi is cognizant that it may be unreasonable to expect Obama to match his immediate predecessor's strong commitment to Indo-U.S. relations. (President George W. Bush had, in fact, made ties with India one of the cornerstones of his foreign policy.) Yet, there is serious concern that a lack of meaningful engagement could potentially sidetrack the recent gains both sides have made in their bilateral relations. During her visit to India in July, Secretary of State Hillary Clinton apparently tried to make amends by profusely praising India's political and economic achievements. Yet, she also made it clear that the U.S. expects India to become a more engaged global stakeholder in fighting terrorism, supporting multilateral efforts in concluding the Doha Round, combating climate change, and pressing for nuclear non-proliferation. If the Obama administration wants India to cooperate, it will first have to deal with many of India's lingering requests, including finalizing a number of important initiatives left over from the Bush administration such as bilateral defense and civilian space agreements.

However, cooperation on some of these issues will not be easy. New Delhi knows well that then-Senator Obama was one of the staunchest opponents of the Indo-U.S. nuclear deal and that now-President Obama is deeply committed to nuclear non-proliferation. It will create much bilateral tension if Obama presses ahead to try to bring holdouts (e.g., India, Israel, and Pakistan) into the

16. "Obama Ends Tax Sops to Outsourcing Firms," *The Hindu*, May 6, 2009, at <<http://www.thehindu.com/2009/05/06/stories/2009050650060100.htm>>.

Comprehensive Test Ban Treaty (CTBT), the Fissile Material Control Treaty (FMCT), and above all into the Nuclear Non-proliferation Treaty (NPT) framework. New Delhi has repeatedly stated that it will not be a party to the NPT and CTBT unless the security environment in Asia improves.

Similarly, Obama, who is a strong proponent of the Kyoto agreement on climate change, has served notice that he expects India and other emerging economies to reduce their greenhouse gas emissions, even though they may have been exempted by the initial protocol. Secretary Clinton's call that India must assume greater responsibility by accepting some caps on its emissions received a rather sharp reply from Jairam Ramesh, a senior Indian government minister. Ramesh berated Clinton, stating that given India's already low per capita emissions, the legally binding emissions targets were "unfair" and would undermine the country's economic growth. He reiterated the Indian government's long-standing position that rich nations must first finance the import of expensive green technologies to help less-developed nations reduce emissions.

Privately, India is also deeply concerned about growing protectionism in the U.S. and has formally noted that the recent "cap and tax" bill passed by the U.S. Congress is punitive because it places tariffs on goods from countries that do not follow America's "unfair" emissions targets. Yet, both countries are now part of the G-20 and despite their differences must work together for the common good. Indeed, the Obama administration has a natural ally in India, provided that it treats India as an equal partner. After all, both countries share common security concerns including the fight against global terrorism, preventing the return of the Taliban in Afghanistan, encouraging a stable Pakistan, and limiting Chinese influence in Southern Asia.

Perhaps to show New Delhi that the U.S. values its relations with India, President Obama gave Prime Minister Singh a red carpet welcome during Singh's official visit to the U.S. in the third week of November, complete with a 21-gun salute and the first state dinner at the White House. This respectful reception helped ameliorate some Indian concerns, but India still remembers that, although New Delhi and Washington enjoyed a warm relationship during Bill Clinton's presidency, it did not translate into major substantive agreements. (President Clinton, in fact, also hosted then Indian Prime Minister Atal Bihari Vajpayee to a state dinner at the White House.) Obama and Singh failed to make significant progress on the completion of the nuclear-energy cooperation agreement approved by both countries'

legislatures in 2008, but they did outline an extensive list of joint U.S.-India initiatives to enhance trade, education, and military ties. The latter included cooperation to combat the spread of nuclear weapons, a commitment to put a moratorium on nuclear-weapons testing, and a global treaty proposal to ban the production of weapons-grade nuclear fuel. It remains to be seen if Obama can successfully pick up where President George W. Bush left off and use his considerable political skills to further deepen U.S.-India relations.

INDIA'S RELATIONS WITH PAKISTAN AND CHINA

In his most forceful speech on the topic, Prime Minister Singh stated on January 6, 2009, that Pakistani authorities “must have had” a hand in the November 2008 Mumbai terrorist attacks. While Singh stopped just short of accusing Islamabad of directly aiding the Pakistan-based militant group Lashkar-e-Taiba (Army of the Righteous), he was explicit in alleging Pakistani complicity by noting that “there is enough evidence to show that, given the sophistication and military precision of the attack, it must have had the support of some official agencies in Pakistan.”¹⁷ Singh further criticized Islamabad’s reluctance to crack down on terrorists operating “freely” in its territory and its “inexcusable” failure to have never brought any of the perpetrators to justice. For these reasons, he demanded that Pakistan hand over the perpetrators of the Mumbai attacks to India where they would face justice.

Pakistan’s prevarication and failure to hold the perpetrators accountable not only further strained the already tense relations between the two nuclear-armed neighbors, but it also brought an abrupt end to discussion of all substantive issues that divided the two countries, as New Delhi suspended all dialogue with Islamabad. Eventually, Pakistan’s belated pledge to bring the perpetrators to justice seemed “halfway” enough for Singh to meet with his Pakistani counterpart, Yousaf Raza Gilani, during the Non-Aligned Movement summit meeting in Sharm el-Sheik, Egypt, in July 2009. Beyond all expectations, both countries agreed in a joint statement to cooperate in fighting terrorism, sharing real-time intelligence on terrorist threats, and attempting to resolve their differences peacefully. Given that the two countries had come close to war in the aftermath of the Mumbai attacks, the joint

17. “Isolate Pakistan for Using Terrorism as State Policy: PM,” *ibid.*, January 6, 2009, at <<http://www.hindu.com/thehindu/holnus/000200901061505.htm>>.

statement clearly “represented a . . . not insignificant breakthrough.”¹⁸ Yet, the resumption of substantive dialogue between the two neighbors will depend much on Pakistan reining-in the extremist and terrorist groups operating within its territory and, in particular, prosecuting those responsible for the Mumbai attacks. The Indian public is still deeply traumatized and seething with anger over the brutal murder of 160 innocents during the Mumbai carnage. However, Pakistan has yet to translate words into deeds.

Given the unprecedented extent of high-level interaction between New Delhi and Beijing in recent years, relations between India and China have actually remained surprisingly acrimonious. Trade friction between India and China has intensified even though Asia’s two fastest growing economies enjoy robust bilateral trade—about \$52 billion in 2009 with the goal to achieve \$60 billion in 2010. China is, in fact, India’s biggest trading partner, but India has, nonetheless, filed a number of anti-dumping cases against China via the World Trade Organization (WTO), in addition to banning the import of many Chinese toys and food products on safety grounds.

However, it has been lingering territorial disputes in Arunachal Pradesh and Aksai Chin that have been the main sources of acrimony in bilateral relations. It seems that China took the planned visit by the exiled Dalai Lama to Arunachal Pradesh, in particular to Tawang (birth place of the revered Sixth Dalai Lama that lies within the borders claimed by both India and China), as deliberate provocation. Since the summer, incursions by China’s troops into Indian-controlled territory have increased and, in October, Beijing went so far as objecting to a visit by Prime Minister Singh to Arunachal Pradesh to campaign for local elections, stating that “we request India to pay great attention to China’s solemn concerns, and not stir up incidents in the areas of dispute.”¹⁹

New Delhi sternly countered back, asserting that Arunachal Pradesh is an integral part of India, and demanded that China stop meddling in India’s domestic affairs. (The Chinese embassy was apparently issuing visas for residents of Arunachal Pradesh and Jammu & Kashmir on separate pieces of paper instead of on their Indian passports, suggesting that these states were not part of India.) At a summit of Asian leaders in Thailand in late October,

18. Lydia Polgreen, “India and Pakistan Agree to Fight Terror Together,” *New York Times*, July 17, 2009.

19. Peter Wonacott, “China, India Stoke 21st-Century Rivalry,” *Wall Street Journal*, October 26, 2009, at <<http://online.wsj.com/article/SB125625173429702481.html>>.

Chinese Premier Wen Jiabao and Manmohan Singh agreed to resolve their differences with “understanding and trust.” Yet, border incidents, especially Chinese cross-border incursions, have continued unabated as recently as mid-December. It seems that India and China may be destined to be rivals. After all, as an old Chinese proverb says, “Two tigers cannot share the same mountain.”