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Peering Into India's Future: Xenophobia and Neta-Babu Raj

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Yet again the walls will be dirty, and the loud-speakers will blare. Yes, India goes to vote, yet again! What are the issues involved, and what does it portend for the future? Here is a hard look on all sides of the cross-roads that India is at today, and where its going to go.

Even in the 50th anniversary of independence, almost everything important to the future of India and her people seems to be thrust upon her. The Lok Sabha election that no one actually wanted is now upon her, not to mention the fall of two governments since the last election in 1996. At this rate, India could break Italy's record of most changeovers in government in a given election cycle. With Rajiv Gandhi's Italian-born widow, Sonia Gandhi, finally entering the election campaign, India's government could be competing with the Italian government for the dubious distinction. That's the political scene.

In the economic arena, most of the reforms have been the result of either internal crisis or external pressure. Unsustainable deficit in the "Oil Pool" led to the phase-out of administered prices of petroleum products, and fiscal stringency forced the announcement of divestment from several public sector undertakings (although not much actual divestment has yet taken place). The World Trade Organization and the US compelled India to promise gradual elimination of Quantitative Restrictions (QRs) on imports, to open up the banking sector to foreign institutions, and to deal with the issues of intellectual property rights and patents. This process of implementing reforms is probably not surprising since the initiation of liberalization in 1991 was itself caused by dwindling foreign exchange reserves. India's economic reforms, as all parties recite, are irreversible. But the reforms, which can't be reversed, do not seem to advance much, either. Earlier, India was resigned to the Hindu rate of growth; now, she seems incapable of anything more than a Hindu rate of liberalization.

Election 1998

This is indeed the age of coalition governments in India. But the resultant instability has dire consequences. And that is unlikely to change with the new election, the Bharatiya Janata Party's claims to the contrary notwithstanding. Maybe it would depend on the extent to which the BJP can play the power game with other parties—form alliances—and can throw populist sops to the electorate. BJP has succeeded in joining hands with parties in the Southern states, where historically it has had little support. The Southern march may increase the vote count, but it won't much increase the seat count. BJP has also learned the game of promises: It extended an olive branch to Muslims and minorities and has sworn to deal with the mandir-masjid issue through legal and consensual routes. The Uniform Civil Code would not be put in place immediately, but it would be allowed to evolve over time. It had the first ever mass meeting of women, and assured free education to all girls—not just primary or secondary, but college and post-graduate education, too. Just when economic reforms were fostering a bit of competition, BJP has pledged to the whining Indian industry that it will go slow. It plans to direct multinationals toward areas where they won't directly compete with Indian industrial giants. It's the giants who are frightened; entrepreneurs are flourishing since the partial abolition of the license-raj. Restrictions will be placed on foreign institutional investors (FIIs) to curb their influence on Indian bourses. How would that benefit India? No one dares say it publicly. But tying the hands of FIIs would free up those of Indian mavericks to play the game of the early 1990s with stock prices.

Add the charismatic Atal Bihari Vajpayee to these populist promises, and the BJP looks like a winning horse on the track. There is no one in the arena who can match Vajpayee's oratory or his image of a clean, honest man with a strong mind and a soft heart. He is like Ronald Reagan, Bill Clinton and Jimmy Carter rolled into one. When projected as a prime ministerial candidate, he is indeed formidable. In a recent poll, he was the most favored future prime minister at 27 percent, with Sonia Gandhi at 17 percent as the distant second. In the Southern states, however, Gandhi beat Vajpayee by a mob. Despite its Southern alliances, the BJP may still be the party of the North. And unfortunately for the BJP, the North is no longer the dominant player in the political

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arena.

Then there is the United Front, a coalition of 13 parties. The United Front and Laloo Yadav's newly formed Jan Morcha (a nine-party conglomerate), make the bedrock of secular forces for this particular election. However, the opportunism of some of the secular forces of the last election in embracing the BJP has taken some steam out of their claims. Probably only in India that parties which divide people along caste lines can claim to be secularist, while the one that divides along religious line is called fundamentalist. What is caste without religion? It's not just Hinduism Christianity and Islam too have castes in India.

The shining star of the season is Mamata Banerjee, who broke from Sitaram Kesri's Congress. For the first time, she will pose a respectable challenge to the ruling Marxist party of Jyoti Basu in West Bengal. If nothing else, that will dampen the fervor of some of the violent revolutionary gangs in the area. People not just of West Bengal but from all of India should thank Mamata for the courage to break away from the Marxist-accommodating Congress in that state. For the Congress, the independence anniversary ironically will relegate it to playing second fiddle to the BJP and regional parties for some time to come. Sonia Gandhi's, and probably Priyanka Gandhi's, work on the campaign trail will surely draw crowds — but they are unlikely to translate into seats in the parliament. Who will prefer Rome Raj to Ram Rajya?

What does the election scene, as it has shaped up at this point, portend for India's economy?

1998: The Year of Xenophobia and Neta-Babu Raj

The BJP's pledge to go slow on liberalization, to rethink the areas where multinational companies are allowed, and to curtail the range of investments by FIs clearly indicates the real fear of outsiders in the Indian industry. The other political parties have not made such distinct promises, but that's largely because they are still scrambling to put together their own coalitions. More importantly, the BJP's prescriptions have become the conventional wisdom among economic and political power circles. The turmoil in East Asia has provided a perfect alibi. The dangers of currency convertibility, inflow of portfolio investments, and unrestricted imports of consumer and capital goods are now as obvious as pointing a finger at East Asia on the map. No more arguments; conventional wisdom reigns supreme.

Again, the internal crisis of confidence and external circumstances - IMF demands on East Asia - have coalesced to thrust India into a liberalization slowdown. Recent newspaper headlines proclaimed that 85 more items were put on OGL (Open General License). No prior permission is now required to import these items. One would have thought that the list would include information technology products, to move India into the 21st Century and allow her hard-working software engineers to compete globally. The list included cosmetics and stockings. Well, Indian women are now free to compete! It is absolutely mind-boggling to think that someone actually had to get a license to import stockings. And this was before East Asia and the phantom of fear.

Combine the consensus among politicians and captains of industry with the performance of India's most crucial bureaucrat - the governor of the Reserve Bank of India, Bimal Jalan. Within less than two months of his appointment, there has been an avalanche of proscriptions, regulations and diktas. Many a reform achieved in the financial and money markets have been made moot in a short time. And all this occurred without any uproar or even an argument. People have always doubted India's understanding of the need for reforms and therefore her commitment. No one has built a constituency for reforms; the reforms were largely reactions. Fortunately for India, because of the collapse of the Soviet Union and the presence of a Manmohan Singh and a P. Chidambaram, the reactions turned out to be liberalizing. They could just as easily have been of the opposite kind. But now, the fear of outsiders is again ushering in the Neta-Babu raj.

Lessons From the Past

As Professor Bibek Debroy, prominent consulting economist and author suggests, the events that occurred in various '98s past may indicate what 1998 holds for India. In 1298, the Mongol chief Qutlugh Khan tried to conquer India. Even though Alauddin defeated him, in 1398 Taimur Lang succeeded in capturing Delhi. Vasco da Gama anchored at Calicut in 1498, and that began European domination. In 1598, the architect of Din Ilahi, Sheikh Mubarak, passed away. Din Ilahi had prohibited construction and repair of mosques with government funds. This may hint at the fate of constructing a temple at Ayodhya or of the claims on Kanchi and Mathura. Continuing on, in 1698, Marathas lost the important Jingee Fort to Aurangzeb. In the same year, Prince Azam Shah allowed the East India Company to purchase three villages in Bengal. The Nizam of Hyderabad

surrendered to the East India Company in 1798. In 1898, Sister Nivedita arrived in India and was initiated by Swami Vivekananda. The conclusions: There are well-grounded historical reasons for India to be afraid of outsiders. And the BJP, playing down the mandir-masjid issue, may have a good shot at forming the government, if not winning a clear majority. The year 1998 will then be the year of xenophobia and Neta-Babu raj.

The sweeping prognosis offered here is mostly based on broad principles and patterns. India, the ancient and resilient civilization which has withstood a multitude of invasions, is nothing if not full of contradictions. It is her ability to hold together Yin and Yang, thesis and antithesis, that explains her continued survival. On one hand, there is the new governor of the RBI, the crisis of confidence, and the specter of outsiders. On the other hand, Atal Bihari Vajpayee is of the old Jan Sangh, which had championed a market economy before it became fashionable. The BJP's finance minister-in-waiting, Jashwant Singh, has a good knowledge of history and a sharp and analytical mind. If not the BJP, then Congress still has Manmohan Singh; and the United Front, P. Chidambaram. So it will be the battle of historical forces and a few good men. India will again hold both together.

The Outlook for Investors

Moving on to more mundane matters: Should an NRI or an "outsider" invest in India in 1998? Of course, India eventually does learn from her mistakes. Invest at the Hindu rate. A Hindu rate of liberalization can't demand much. But join hands with the new class of entrepreneurs, and avoid the industry moguls; it will be good for your future and India's future. People who earn their fortunes are generally good losers, not people who acquire them. Hopefully the next chamber of commerce will be formed of this new class of men and women.

However, one must match one's patience and resilience with that of India. And India's knows no bounds. Just look at Enron. It survived change in state and central governments and fought a protracted legal battle. Now it has full counter-guarantees on the Dabhol power project which no one else is likely to get, and has plans to invest about \$2 billion in India. Rebecca Mark, though, probably spent more hours with ministers in Delhi and Bal Thackeray in Mumbai than with her family in Houston. India does reward her virtues: patience and resilience. What if you don't have them? Go to East Asia.



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