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Restarting India's faltering economic revolution

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The sharp defeat of Narendra Modi's Bharatiya Janata Party in the state of Bihar has put the prime minister's reform plan and political legacy at risk. He still has time to act, but governments usually grow more timid the longer they hold office.

A trading people who had succeeded at commerce around the globe, Indians long were held back by an officious bureaucracy notable for its inefficiency and corruption. The first systematic economic reforms were implemented in the 1980s, but a succession of weak governments never allowed their people to fulfill India's high promise. According to the Economic Freedom of the World report, in 2013, the latest year for which numbers are available, India ranked a dismal 114 out of 157 nations rated.

Nineteen months ago Modi won a dramatic victory and seemed poised to transform India's economy and more. Some called him the Indian Reagan.

However, his government has not delivered much change. One reason was that the opposition continues to control the legislature's upper chamber, giving them the ability to obstruct legislation.

Moreover, Modi always was more pro-business than free market. Indeed, one of his priority bills would make it easier to seize private land, a measure understandably feared by farmers.

Finally, the government has been timid despite its sizable legislative majority. Deficits continue. Banking remains state-directed. Privatization has disappointed. The law still discourages creation of family firms.

Many reformers worry that Modi missed his chance to transform the economy during the "honeymoon" period immediately after his election triumph. Since then, Modi has lost his electoral magic.

In February a new anti-corruption party won the vote in Delhi. Last month a coalition of two regional parties worked with other opposition parties, such as Congress, and triumphed in Bihar state.

Nevertheless, it would be foolish to count Modi out. He continues to dominate the Indian political system and made a deft overture to the opposition during a recent special parliamentary session on the constitution.

The list of necessary reforms is long. Everyone points to lifting restrictions on foreign investment, modernizing the sclerotic legal system, and creating a comprehensive bankruptcy code. Public sector banks are loaded with bad debt. There's also electricity restructuring, privatization, subsidy reductions, tax reform and labor rules.

The economy is not the only issue requiring the premier's attention. In Bihar the BJP pandered to religion and caste. Its opponents warned that a BJP government would be intolerant toward minorities, including imposing a ban on killing cows, considered sacred to Hindus.

Religious intolerance — which mostly means majority Hindu attacks on Muslims and Christians — has worsened since Modi's election. The latest incidents have been mob attacks on Muslims thought to have eaten or smuggled cattle.

Popular Bollywood star Aamir Khan brought the issue to India's mainstream when last month he criticized the sense of "insecurity and fear" felt even by his own family; his wife, said Khan, wondered if they should leave the country. BJP adherents, including home affairs minister Kiren Rijiju, responded by bitterly attacking Khan. Rijiju complained that the actor had brought "down the image of the country and the prime minister." Of course, the harsh response only reinforced Khan's point.

Sectarian violence does more than harm innocent Indians. It also discourages foreign investment. Religious intolerance provides skittish investors with another reason to put their money elsewhere.

More state elections are pending. To win, the BJP should focus on economics, which is what boosted Modi and his party to last year's overwhelming victory. With an expanding population India needs strong economic growth to move people out of poverty. Finance minister Jayant Sinha said India needs at least eight percent growth annually for decades to provide sufficient jobs.

This kind of progress isn't easy or common. Yet India's current growth rate, around seven percent so far this year, suggests that India could take off after sustained, real economic reform.

Despite the recent challenges to his government, Modi retains a rare opportunity to advance his nation. Moreover, given his Hindu nationalist background, Modi also is well-positioned to reinforce tolerance and secularism in government. Doing so would promote domestic stability in a nation with tens of millions of people of different religious faiths, strengthen economic growth by encouraging foreign investment, and enhance India's international influence.

Will the 21st century be another American Century, the Chinese Century or something else? If Modi makes tough decisions in leading his country forward, the 21st century might end up being the Indian Century. But if so, he can't delay much longer in putting his words into action.

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