

## India on the Eve of the Commonwealth Games

It never rains but it pours: never has a saying been more apt than for much of India this monsoon season. After a run of anaemic monsoons, this year has seen the heaviest monsoon for over thirty years. The climate change which has provoked dreadful floods in India's neighbours has largely been benign here, bringing replenishment of long-depleted water supplies, vital to the good health of the economy and most importantly to the vast swathes of India's population who are still dependant on agriculture.

There are of course less fortunate exceptions: there have been floods but largely in the far northern areas away from the agricultural belt. Some parts of the East, unbelievably, have missed out on the monsoon bonanza: in particular key rice-growing areas are still in water-deficit. But by and large, this heavy monsoon should offer reasons to be cheerful – as should the latest growth figures: a brisk 8.8% for the April-June quarter.

Yet the mood is far from cheerful as the clouds finally part in time to welcome those arriving for the Commonwealth Games. Why the gloom? The main reason is a growing sense that the coalition Government has been unable to deliver on the reform programme which had seemed possible a year ago.

This is not the time for anyone to push through difficult reforms, with key State Elections round the corner: India's second biggest state Bihar next month and West Bengal, where people are sniffing the possibility of the Communists being defeated, early next year. So there is an impression of policy drift, as the political currents become stronger.

This is part of an increasing impression of political leadership vacuum. The estimable Prime Minister is now well into his second term. To many commentators, Dr Singh was always a caretaker Prime Minister, keeping the seat warm for the next generation of Gandhis. He, like the previous Congress "care-taker", Narasimha Rao, has shown a lot more mettle than many expected. But the sense of vacuum is becoming more and more palpable: that feeling American voters get as US Presidents' second terms wear on is beginning to prevail here.

"Lame duck" would be too strong a term, but the country increasingly needs to see the anointed successor, Rahul Gandhi, begin to look like a man who can govern. For the moment he is focusing on cultivating the grass roots, in particular deep in the countryside where the rural poor and tribals flock to see him.

This may well be essential to consolidating the Party's base but it is the easy bit – especially for a relaxed and attractive member of the Gandhi dynasty - driving policy is a different kettle of fish. Rahul's relative youth (he was 40 this summer) is, of course, an issue. But even in India voters are getting used to Ministers in their 30s, and, from a UK

perspective, the recent visit by the young Conservative leadership duo inevitably begged the comparison.

There is then the inevitable disappointment at the slow pace of progress on key requirements needed to accelerate poverty eradication and make for sustainable growth: in both hard and soft infrastructure. The much-vaunted highway-building programme is well off the rails (to coin a phrase).

Last week an intervention from Congress leader (and Rahul's mother) Sonia Gandhi, over the need for caution over land acquisition, has brought reform of road building administration to a grinding halt- much like the traffic on the heaving roads of the national capital. The urgently-needed education reforms have got bogged down in Parliament and in implementation. And the preparations for the Commonwealth Games have on occasions showcased an ugly India which is all too familiar to its citizens.

For business, as usual quiet in its complaints about Government, tidings have not been uniformly good either. Underlying the solid growth figures and a surge in exports, there are other realities: expansion of industrial production has fallen to its lowest level for over a year; the trade deficit is at its highest for almost two years; inflation remains stubbornly high (although a recent change in the measurement used pushed the headline figure below 9%); much needed tax reforms have been delayed, probably by a year. The current mini-bull run on the markets is being treated with due suspicion by domestic investors.

There have also been some bad headlines for big business which are giving the business community plenty to think about. The Mumbai High Court found against Vodafone in its long-running (and massive) tax case. Vodafone have returned to the Supreme Court, but the income tax authorities are making it known that they are now scrutinizing other potentially vulnerable deals.

Vedanta, the London-listed resources company, had environmental clearance refused, very publicly and luridly, for a major bauxite investment in Orissa (much to the consternation of the Orissa Government).

Lafarge have also met a regulatory road-block on a significant investment. This is not the place to comment on the rights and wrongs of these particular cases but one lesson is clear: India does not have a politically and environmentally sustainable approach to producing the resources and services needed to maintain the growth levels it requires to drive down poverty.

Finally, in this gloomy catalogue, the security situation deserves its place. The problems in Kashmir are as bad as they have been for a long time: the entire Kashmir valley is under curfew for the first time this century. Progress is proving elusive in tackling the so-

called Maoist insurgency running from the north-east down through several eastern Indian States. Talk of political solutions is growing as the security forces find the going tougher than they may have expected. But political disillusion is older in these deprived regions than in Kashmir even.

Does all this mean the party is over? Not likely. Growth is likely to remain very strong for the foreseeable future (driving the economy to the \$2 trillion in 2012/13) and with that will come many business opportunities, large and small.

The feed-through from this good monsoon, an incident-free Commonwealth Games, a down-turn in inflation and some good Congress results in Bihar might make the atmosphere altogether brighter by the end of the festive season which is just beginning here. But for the moment, the celebrations look likely to be muted.

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September 2010