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Fair Insights^o

INDIA BRIEF

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An Overview

This brief is derived from independent analysis and insights from key policymakers, thought leaders and the business community in India, Europe and the United States as well as a review of published materials from media, think tanks, and academia around the world.

Politics: Cowbelt Seethes

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In India, the northern plains watered by the river Ganga and its tributaries are known as the cowbelt. As per the 2011 census, over 300 million Indians live here. Of India's 548 members of parliament, over 20% come from this region, making it the political heartland of the nation. Despite its political heft, this region is marked by social and economic backwardness. Its human development indices are closer to Sub-Saharan Africa than to Southeast Asia. People from the cowbelt migrate to the richer places such as Delhi, Punjab, Haryana, Gujarat, Maharashtra, Karnataka and Tamil Nadu in search of work. This cheap labor underpins the competitiveness of Indian industry. The COVID-19 crisis has hit this class hardest. The government has done fairly well in alleviating hunger and providing shelter. However, migrant laborers are furious at the cavalier treatment meted out to them by the functionaries of the state. Their plight has become a political slanging match between central and state governments. Anger is running high but is not directed at anyone yet.

Economics: Historic Stimulus?

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On 12 May 2020, Prime Minister Narendra Modi announced a stimulus for the fast-sinking Indian economy. The package amounts to nearly 10% of India's \$2.7 trillion economy. The details of the stimulus were revealed by the finance minister over five days. The government called for Atmanirbhar Bharat or self-reliant India. Policy measures that form the edge of the spear target rural employment and livelihood security for migrant labor returning to the cowbelt. Another key focus for the government has been boosting liquidity. It has given robust support to state-run banks. These have poor balance sheets and supporting them indirectly props up industry, which relies on banks for credit. Prima facie, the government has announced revolutionary reforms in the agriculture and labor markets. Yet it remains to be seen how bureaucrats implement these reforms and judges interpret them.

Defence and Diplomacy: Tension on the Roof of the World

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The Communist Party of China (CCP) has long aimed for top dog status in Asia. Much before its economic growth took off like a rocket, China cut India down to size in the 1962 war. This came hot on the heels of the Great Chinese Famine of 1959-61 that killed an estimated 20-43 million people. India was then flying high under the urbane, cosmopolitan Jawaharlal Nehru who had launched the Non-Aligned Movement (NAM) to great fanfare. The anti-colonial, socialist Nehru believed in Asian solidarity, friendship with China and acquiesced in the CCP's takeover of Tibet. When he belatedly adopted a "forward policy" on the border, Mao Zedong taught Nehru a bloody lesson. China became top dog in Asia and the CCP boosted its flagging domestic popularity. This month, India and China have faced off again on the Tibetan Plateau, "the roof of the world," but it is not 1962 this time around.

Cowbelt Seethes

COVID-19 has inflicted great damage on the Indian economy. After years of relatively high growth rates, Indian growth might slip into negative territory. On 22 May 2020, Shaktikanta Das, the governor of the Reserve Bank of India (RBI), addressed a gloomy press conference and candidly admitted India was in recession territory.

India's productive regions lie in the west and the south while the bulk of its population resides in the cow belt. People from the cowbelt immigrate to metros and richer provinces for work. This cheap labor class gives Indian industry its competitive advantage. This economic arrangement has proved to be resilient. It survived the twin shocks of the 2016 demonetization of high-value notes as well as the botched rollout of the goods and services tax (GST) in 2017.

COVID-19 threatens to achieve what demonetization and GST did not. India's labor force is voting with its feet. Many have literally walked back to their native villages. Cities like Mumbai, Delhi, Bangalore and Surat have experienced an exodus of cowbelt labor. As per field reports, the crisis is not one of food, shelter or even money.

Three key factors are at play in this crisis. First, urban migrant laborers have no social support structure where they work. They are invariably poor and marginalized. They do not have friends, family or relatives around. Thanks to colonization, a rentier state forces Indians to trust family networks and social relationships instead of public institutions or government officials. Second, India's states provide limited services to migrant labor. Access to services comes through collective bargaining. Because they lack political heft, migrant laborers are the last priority for their adopted states and have poor access to even basic healthcare. When they return home, they are able to demand a better deal from local administrations. Third, COVID-19 is primarily an urban phenomenon. Rural India is far less congested than its slum-ridden cities. Chances of infection are lower. Therefore, these migrants are using their common sense to head to their native villages for safety and support.

Much of the media focuses on the migrant story as a humanitarian disaster wrought by a heartless government. The real story is the shift in balance of power from the urban to the rural economy. Direct cash transfers and a whopping 66% budget increase in rural jobs schemes will improve living conditions in villages and might rejuvenate them.

As per popular narrative, migrant labor is seething at the Modi government. It is indeed true that government officials have acted in a high-handed manner. Migrant laborers have horror stories of being beaten by police or walking thirsty, hungry and barefoot in the unforgiving summer sun. Yet the government's massive stimulus measures to the rural economy might win back this class and make the popular narrative increasingly irrelevant.

Just as American voters vote for tax breaks, poor Indians vote for cash transfers and welfare measures. Like Nehru, Modi has adopted a form of socialism that the authors termed "Sanatan Socialism" in 2018. This could well douse the anger of rural migrants towards his government and might even turn it against his political rivals.

Historic Stimulus?

Indian economy badly needs a new engine of growth. The dizzying growth rates of the past were achieved on the backs of exports of services. Unlike China or East Asia, India's growth was not achieved by big long-term bets on infrastructure and manufacturing. The Modi government's two big bets on demonetization and GST have not come off. The reasoning for both measures was that short term pain was worth the long term prosperity. However, growth has been tepid since 2016 and COVID-19 is likely to cause economic contraction.

Given the dire economic situation, most people expected the government to intervene with a stimulus. Modi has duly done so and announced a stimulus of nearly 10% of the GDP. The RBI has cut repo rates, short term lending rates to banks, to 4%, a historic low. These measures have not given India's capital markets great joy. They were hoping for helicopter money that western policymakers have dropped on American and European capital markets. In contrast, the Indian stimulus has a rural focus.

Direct cash transfers and a big increase in employment guarantee income schemes will boost village incomes. At the same time, banks have been promised guarantees for working capital loans to small businesses without collateral. The operative assumption is that this would make them lend to industries and companies under pressure.

In addition, Modi has promised a "quantum" leap in reforms that will cover land, labor, liquidity and law. The precise contours of reforms are still unclear. Many good policy statements have been ruined by poor implementation. "Death by circulars," a habit of colonial-era bureaucracies, is not unique to India but the country is infamous for unclear, uncertain and unnecessarily complex directives that ruin seemingly decent policies.

Liquidity measures face pitfalls as well. Due to stressed balance sheets, banks are risk averse and wary of lending. Companies have uncertain earnings outlook. Demand contraction could hurt their topline and bottomline. Companies could default. Then, banks could end up with more bad debts and drive a choked financial system into a major crisis.

The stimulus has divided opinion. Critics say it is just rehashing past policy. Supporters point out that even large stimulus packages are unlikely to save Japan, Germany, the UK and the US from economic contraction. They take the view that much of India still lives in villages. The stimulus will give a big boost to the economy and living standards in rural areas.

This boost has some unforeseen consequences for metros and rich states. Migrant labor from cowbelt states might become less willing to return back. Labor costs may rise and industries might suffer. Demand might dip in urban areas even as it rises in rural ones.

Currently, the government is focused on limiting the rising urban-rural divide. Yet it faces a delicate balancing act. India's urban middle class is not as resilient as the nation's rural population. At a time of low economic growth, the government faces fiscal constraints and may not be able to offer the middle class meaningful support. It might have to enhance communications with this class and other stakeholders in pain to demonstrate its cares.

Tension on the Roof of the World

After 2017, India and China are in yet another tussle. Some fighting has broken out between troops of both countries. A young Indian officer reportedly took a swipe at a more senior People's Liberation Army (PLA) officer on the border in Sikkim. The north of this border state of India is a part of the Tibetan Plateau. Few remember that Sikkim was a Himalayan kingdom that acceded to India in 1975. China disapproved. Sikkim lies between Nepal and Bhutan. India holds a strategic advantage vis-à-vis China in this border state.

The de facto 3,500 kilometer border between India and China is called the Line of Actual Control (LAC). Unlike the Line of Control (LoC) that divides India and Pakistan, the LAC is relatively peaceful. Very rarely do troops fire at each other across the border. For decades, confrontation was rare. In recent years, spats are on the rise. In 2017, a 73-day standoff occurred over Doklam. Even so, a brawl is an odd occurrence for two nuclear powers.

Apparently, fistcuffs were triggered by Chinese aggression in Ladakh. The PLA has reportedly intruded into Indian territory at three spots: the northern bank of Pangong lake, the Hot Springs area and the confluence of the Galwan and Shyok rivers. The Chinese are said to be unhappy with India for upgrading border roads and improving infrastructure. India has built an airstrip at Daulat Beg Oldi. A triumph of engineering, it is the highest-altitude airstrip in the world. In 2013, Indian and Chinese troops faced off at Daulat Beg Oldi in the most serious incident in years. Similar showdowns have followed since.

Given that China is under intense international pressure, a simple question arises: Why is it picking a fight with India right now? One argument is that it cannot attack Taiwan or be too aggressive in the South China Sea. The US Navy would intervene if China crosses some thin American red lines. In contrast, where China can act relatively freely, it is unafraid to assert itself. China has just violated Hong Kong's autonomy by imposing a new national security law on the city. Beijing has subjected Uighars in Xinjiang to mass incarceration, intrusive surveillance, brutal reeducation and more. In the case of India, China feels it can act freely. Beijing sees India as easy meat and does not expect the US to ride to rescue.

China also perceives India to be drifting ever closer to the US. It resents the Quadrilateral Security Dialogue, also known as the Quad, comprising the US, Japan, Australia and India. These four countries have been conducting joint military exercises. There has also been talk of some manufacturing moving to India from China. Most recently, US President Donald Trump has announced that he would like to expand the G7 to include India. In Chinese strategic calculus, the time to rub India's nose in the dirt might be nigh.

China has cut India down to size earlier. After many millions died in the Great Chinese Famine of 1959-61, China was in the doldrums while India was flying high. Having created NAM, Nehru was celebrated as a world statesman. He dearly wanted peace with China and gave way even on Tibet. Eventually, Nehru adopted a "forward policy" on the border that led to disastrous defeat. China might be planning an encore. Unlike 1962, this time it might have a fight on its hands. India has airfields, troops and tanks even at the high altitudes of Ladakh. Furthermore, the political leadership and public sentiment favor taking on China.

About Us

Fair Insights

Fair Insights provides strategic advice, actionable insights and consulting support on projects where an understanding of politics, geopolitics and macroeconomics is crucial. Our global network and strong local roots give us a unique edge. Our team has rich experience and rare expertise ranging from diplomacy, intelligence, public policy, geopolitics, academia and journalism.

India Brief

India is a fast growing economy that is little understood by most global organisations. Fair Insight's India Brief is a monthly report that guides leaders on key issues regarding India. It distils the signal from the noise through a rigorous analysis of publicly and privately obtained information.

Our Team



Vikram Sood was the chief of the Research and Analysis Wing (RAW), India's foreign intelligence agency in 2002-03 under Indian Prime Minister Atal Bihari Vajpayee. He is a noted scholar and the author of *The Unending Game*.



Atul Singh is the founder, chief executive officer and editor-in-chief of Fair Observer, a journal on world affairs that publishes more than 2,300 voices from nearly 90 countries. Singh read philosophy, politics and economics at the University of Oxford and did an MBA from the Wharton School. He worked as a corporate lawyer in London for Freshfields Bruckhaus Deringer and served as an officer in India's border areas.



Manu Sharma is a public policy expert who has worked at the World Bank in Washington, DC and Standard & Poor's in London. He has advised governments and businesses across Asia and Africa. Sharma has studied at the University of Cambridge and at the Lee Kuan Yew School of Public Policy.

Contact

 insights@fairobserver.com



+1 202 306 3584, +91 997 153 7996 & +91 978 007 8204