

## India: Why politics and ideology will matter for business in 2018

By Pratyush Rao

One of the challenges facing foreign investors in India in 2018 traces its origin to the humble doormat, though the doormat in question was no ordinary one. It depicted the Indian tricolour, and was sold by a global online retailer until it was forced to withdraw the product in early 2017. Indian External Affairs Minister Sushma Swaraj had deemed the doormat offensive and threatened to rescind all Indian visas issued to the company's foreign employees if it was not taken down. Ironically, on the same day that Swaraj issued the threat, Prime Minister Narendra Modi was courting foreign investors at a global investment summit in his home state of Gujarat.

These events highlight some of the contradictions within Modi's ruling Bharatiya Janata Party (BJP), particularly the juxtaposition between its nationalist origins – the party has its ideological roots in the hardline Hindu nationalist Rashtriya Swayamsevak Sangh (RSS) – and its more pragmatic, pro-business elements. These incongruities highlight some of the political risks that foreign companies are likely to face in India in 2018, especially if they find themselves caught in the crossfire of the country's rapidly polarising ideological debates. These debates, which have intensified in recent years, have pitted India's pluralistic public culture against more strident, conservative and religious-based concepts of nationalism. In addition to being more culturally sensitive, businesses will need to gain a better understanding of the broader political and social environment.

### The battle of ideologies

Founded in 1925 as an anti-colonial organisation, the RSS is the BJP's ideological parent. Both share a commitment to the Hindu nationalist cause. The RSS believes that Hinduism should supplant secularism as the guiding principle of Indian society.

Since the BJP won the 2014 general elections, the government has provided policy patronage to themes, symbols and elements traditionally associated with Hinduism, such as yoga, Sanskrit and Vedic sciences (which have sources in ancient Indian scripture). Although such developments have largely played out in the social and cultural spheres, the left-wing liberal elite often patronised by previous Indian National Congress (INC) governments (and which has traditionally shaped the public discourse) argues that the BJP's pursuit of cultural nationalism is part of a long-term project to reshape Indian society, and the very nature of political debate.

### The invisible hand in policymaking

The Modi government has introduced a range of policy measures aiming to simplify regulations for foreign businesses, many of which have been immune from some of the ideological surround sound. These steps include scrapping the Soviet-style approach to development in the form of five-year plans, and curtailing the practice of arbitrary and retrospective tax enforcement against

Behind Indian Prime Minister Narendra Modi there is a party - the BJP - and an ideology, Hindu nationalism (Sam Panthaky/AFP/Getty Images)



foreign companies. The administration has also taken steps towards open and transparent auctions for government resources, such as telecom spectrum and coal, while relaxing its approach to previously heavily regulated sectors such as railways, civil aviation, defence and construction. Most importantly, the government was able to roll out the long delayed (albeit still imperfect) Goods and Services Tax (GST) in July 2017. This helped to create a single customs union in India for the first time and made it easier for foreign operators to do business in the country.

Nevertheless, the online retailer's experience demonstrates how foreign companies can find themselves trapped between some of India's increasingly polarising ideological fault lines. While the BJP's project of cultural nationalism has so far largely been confined to political, religious and social spheres, there are indications that cases such as the controversial doormat are not aberrations. Hindu nationalist groups are seeking to exert more influence on economic policy and – by extension – on the commercial environment, in much the same way that socialists in previous INC governments sought to influence economic policy.

For example, the Bharatiya Kisan Sangh (BKS) – the RSS-affiliated farmers' union – and other influential RSS members in the government in 2016 and 2017 reportedly lobbied for a little-known Indian company against one of the world's largest seed companies in an intellectual property dispute. The case led to the federal agriculture ministry cutting royalties on genetically modified cotton seeds by 70%, prompting the foreign company to seek arbitration in Indian courts. The ministry also floated the idea of a compulsory licensing regime that would all but force foreign companies to hand over proprietary technology to major Indian seed companies.

### Who's the boss?

Although Modi does not share the RSS's resistance to foreign capital or suspicion of foreign companies, the RSS's ability to press millions of grassroots volunteers into the BJP's service during elections means that Modi cannot afford to alienate the organisation. He is likely to continue to accommodate the RSS by ceding some political space to it in areas such as culture and education, while seeking to retain broad control over economic decision-making. However, Modi is broadly likely to treat the RSS's drive as advice rather than diktats.

Nevertheless, the relationship between the government and the RSS warrants monitoring, as it will affect the operational and regulatory environment. The two currently have a well-functioning coordinating mechanism: the RSS holds biannual meetings with the government, during which RSS leaders offer feedback to ministers on the government's policies and performance. Several RSS-linked think tanks feed policy inputs to the government, while many private secretaries to BJP ministers are RSS appointees. This gives them access to key government files, but also ensures that both the BJP and the RSS are in sync on decision-making.

However, the relationship between the government and the RSS is not static. At least two factors could affect it in 2018. First, the RSS is increasingly concerned about the impact of the government's economic policies – particularly demonetisation in 2016 and the introduction of the GST in July 2017, which caused widespread supply chain disruption. Wary of losing support among farmers and small traders – groups that were seriously affected by the two policies – the RSS is likely to make demands for greater fiscal support for farmers, and tax breaks for small and medium traders.

Second, there is a growing risk that a failure to revive the economy may force Modi to choose political considerations over economic ones in a bid to preserve his Hindu support base. This is likely to increase the space for the BJP's far-right affiliates to exploit social fault lines to consolidate political power ahead of state assembly elections in 2018 and general elections in 2019. A political environment in which parties leverage emotive and controversial social issues for electoral support could foster the spread of adverse nationalist rhetoric, potentially posing risks for foreign businesses in 2018. Foreign businesses will need to ensure they understand the social and political environment in which they operate to avoid being blindsided by adverse events.



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