



Pathfinder Economic Flash

India Modified: Any Lessons for Sri Lanka? Meeting the Aspirations of a Rising and Impatient Middle-Class.

Pro-growth, Pro-business Leader in the Driving Seat

Narendra Modi's dramatic victory has given him a resounding mandate to pursue his pro-growth / pro-business agenda. He campaigned unreservedly on a strongly developmental platform. The results indicate that the majority of Indians want higher growth, lower inflation and less corruption. The Prime Minister-elect has built up a strong administrative track-record during his tenure as Chief Minister of Gujrat. This is cited to demonstrate his capacity to implement robust reforms to revive the stalling growth in the Indian economy, which has declined from 9% to 5.5%. The Congress Party played an important part in introducing reforms which gave India 15 years of 7% - 8% growth. However, in its last term the Congress Government presided over a period of 'policy paralysis' and was also dragged down by a series of corruption scandals, which ironically came to light largely because of the Right to Information Act that it introduced. It is reported that the 'policy paralysis' was triggered due to pressures mounted by minor parties in the Coalition Government mostly on ideological grounds. From an economic perspective, the election of Mr. Modi is timely for India, Sri Lanka and the region. His pro-growth/pro-business agenda is what is needed at this point to revive the Indian economy. A return to higher growth rates is important not only to meet the aspirations for greater prosperity among the Indian population, particularly the rising middle-class, but also to protect important social legislation enacted by the Congress Government. The National Rural Employment Guarantee Act (NREGA) and the Food Security Act are only affordable, if growth rates are high enough to generate sufficient Government revenue to fund them. Hence, after a period when the Congress Government introduced social protection measures, the time is now ripe to focus on restoring growth to meet the twin objectives of wealth creation and social welfare.

From Hindu Nationalism to Pragmatism?

A caveat that needs to be mentioned in what is potentially an upside scenario is the possible role of the Hindu nationalist RSS. The RSS is an important part of the BJP and Mr. Modi has had strong links with it. If the resounding victory emboldens the RSS to shift the national agenda in a sectarian direction, the resulting social disharmony (with 150 mn Indian

Muslims) will undermine the considerable upside potential for India that exists from a strong leader with a proven administrative record and a strong government at the center, with the BJP gaining 283 seats (an absolute majority) on its own. Mr. Modi has demonstrated sufficient pragmatism and realpolitik to provide grounds for optimism regarding his ability to remain focused on his central agenda of pro-business growth. In this respect, it is encouraging that he has invited the Prime Ministers of Pakistan and Bangladesh to his inauguration. Over time, high-growth may again bring distributional issues to the fore. However, that is likely to be a debate that takes place in 10 years' time.

A New Look at Indo-Sri Lanka Relations

A new Government in India also provides an opportunity to reset Indo – Lanka relations (please see the statement issued jointly by the Pathfinder Foundation and the Vivekananda International Foundation at www.pathfinderfoundation.org). Revival of Indian growth will also generate considerable potential benefits for Sri Lanka through several transmission channels, including trade, investment, tourism, shipping, technology, training and managerial skills.

South Asia is the least integrated region in the world. Rapid growth in by far the largest economy in this part of the world increases the incentives for greater regional integration. More benefits can then be gained by plugging into the dynamism of the Indian economy. However, progress on this front would depend on Mr. Modi's policy towards the large Muslim countries in the region (Pakistan and Bangladesh) and their attitude to him. Increased volatility in India's relations with its neighbors is another potential threat that could undermine Mr. Modi's pro-growth / pro-business agenda. The upside scenario would see a resurgent India generating spillover economic benefits across the South Asian region. History militates against such an outcome. However, some encouragement can be drawn from the priority both Mr. Modi and Prime Minister Nawaz Sherif attach to pro-business growth.

Coalition Partner Tail Wagged Congress Dog: Lessons for Sri Lanka.

There are some important lessons to be drawn from Mr. Modi's remarkable success and the Congress Party's ignominious defeat. The latter based its campaign on its record of ambitious social programs. A key lesson to emerge from the Indian election results is that populist welfare measures on their own will not guarantee electoral success. Congress strategists failed to grasp the importance of the emergence of frustrated lower-middle-class masses across India. This new urban-rural-lower-middle class is highly aspirational and the slow-down in the Indian economy caused much frustration among this social group. This was taken out on the Congress Party through the ballot-post. Mr Modi has very cleverly tapped into the aspirations of this class.

For Sri Lanka too, the message of populist policies and slogans alone not being able to guarantee electoral success is not without some resonance (it was also demonstrated in this

country in 1977). If such policies are accompanied by growth rates that do not serve to meet the aspirations of the people, an anti-incumbency feeling could well emerge as it did in India. As in India, the aspirational lower-middle-class is a crucial feature of the Sri Lankan electoral landscape. They are impatient and seek rapid material advancement. Non-fulfilment of their material aspirations can quickly lead to frustration and resentment that can be directed at the political leadership.

It is worth exploring why the last Congress Government lost momentum in terms of much needed policy actions and programs. A major reason for this was coalition compulsions which prevented the Government from marching forward in a focused and consistent manner. On important issues often the tail ended wagging the dog. The result was a weak and vacillating Central Government which achieved little and paid a heavy price at the ballot box.

Material Wellbeing, Policy Reforms and Leading from the Front

A major lesson to be drawn from the outcome of the Indian elections is that meeting the materialistic aspirations of the rising lower-middle-class is likely to be an important determinant of the political outcomes in Sri Lanka as well. While “rights” and the “rule of law” are not unimportant, it is growth and rising prosperity that will have the ultimate political appeal, particularly for the rising middle-class. A failure to deliver on this front could bring about dramatic political shifts. This is evidenced by the frustration resulting from policy paralysis, which led to a slowing growth, being a key cause of the unprecedented down-fall of the Congress Party.

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