Following the sweeping victory of his Bharatiya Janata Party (BJP) in nationwide elections last year, India’s Prime Minister Narendra Modi has pushed through a series of controversial social initiatives as part of a Hindu nationalist agenda. The citizenship amendment act coupled with a plan to implement a nationwide counting of citizenship were widely perceived as discriminatory against India’s Muslim minority and have triggered widespread protests. Despite its lock on the national legislature, the Prime Minister’s ruling party has suffered consistent losses in state and local elections where the pain of the country’s economic downturn is acutely felt and is driving political actions.

A recent downgrade of India’s growth forecast by the International Monetary Fund is adding to both domestic and international pressure on Modi to get his economic house in order. Demonstrations opposing Modi, Hindu nationalist policies and strikes caused by his ham-handed and ineffective economic policies have disrupted key cities across India and threatened supply chains. Government use of draconian security measures, including inciting violence at demonstrations and cutting off internet access, suggest that businesses should be prepared for more uncertainty. In this webinar our panel of experts will discuss the current economic environment, the status of protest and government response and what to watch for going forward.

RIDING A WAVE OF HIGH EXPECTATIONS

When Prime Minister Modi was first elected in May 2014, the term that would most characterize his sweep into power was “high expectations.” Modi had campaigned on a promise of economic reform, Desai says. He campaigned on a promise of creating jobs at home and of bringing foreign investment to the country. The message created profound optimism. Modi was seen as someone who had been a very effective though controversial Chief Minister for the state of Gujarat, and the message he was sending loud and clear was he would be offering the red carpet not red tape to foreign businesses and that India was, in fact, finally open for business.

Toward that end Modi pursued a number of meaningful steps, Desai says. “We saw the enactment of a simplified tax code. We saw him legislate a good bankruptcy law. And we saw a whole host of other initiatives like Make in India, Digital India — initiatives that were meant to showcase India’s potential for foreign investment across a wide and diverse range of industries.

“Ultimately what we’ve seen over the past five or six years is that those expectations were not met
“We’re now seeing a period where the story and the narrative and especially the perception from the outside in has dramatically changed,” Ronak Desai says and at some point along the way, despite his best efforts and despite the rhetoric coming out of the prime minister’s office, the country, at least from the business and economic side, has failed to live up to its challenges. We’re seeing a period of what we consider stalled growth, unemployment in the country is at a 45-year high. But despite a pretty uneven economic performance, the governing BJP still came back to power with an even larger majority last May (2019).”

Leading up to those elections, Desai says, was just a high degree of economic nationalism. A lot of the same foreign companies and industries that the Prime Minister was courting and that were courting him, given India’s tremendous potential, those same industries, are now squarely in the crosshairs of India’s notoriously byzantine regulatory landscape, which includes everything from data localization laws to tariffs.

“We saw a proposed privacy bill come out late last year that once again really puts into question a lot of the at least rhetorical commitments the prime minister and his cabinet have made with respect to trying to get foreign investment into the country,” Desai says.

“We’re now seeing a period where the story and the narrative and especially the perception from the outside in has dramatically changed. This growth story, the development story, the reform story seems like a distant memory. The focus now, unfortunately, has been on the fact that growth has stalled, unemployment is high, foreign companies and foreign businesses seem stuck and they’re confronting what appear to be a series of intractable challenges.”

Desai says that “perhaps even more tragically, a lot of India’s own secular credentials are also under siege,” adding that social unrest throughout the country has taken center stage. “The fears that surrounded Prime Minister Modi with respect to his past in this arena have, at least to his critics, come to bear,” he says. “The question that presents itself to all of us is: Given this evolution in the wrong direction, what does this mean for companies across a whole different constellation of industries that are currently in India and still want to see the country succeed and see their industry succeed?”

PRO-BUSINESS, NOT PRO-MARKET

When Modi was elected in 2014, there was tremendous excitement in the international and domestic business community that he would bring to Delhi the same pro-business outlook that he had championed in Gujarat and what has often been referred to as the Gujarat model of development, Irfan Nooruddin says.

“A lot of analysts, myself included, suggested back then that that enthusiasm should have been tempered,” he says. “Modi’s record in Gujarat was pro-business but not pro-market — and that’s an important distinction that is relevant six years later in 2020 and looking forward. Prime Minister Modi, even when he was Chief Minister of Gujarat, shows a tendency to want to pick champions, largely domestic champions, that are loyal and big supporters of him and his party. And, like a lot of Indian politicians on all sides of the aisle, across parties and definitely lots of Indian bureaucrats, he is inherently skeptical of the power of markets that are unpredictable, that create winners and losers and are not always to the political establishment’s liking.”

Nooruddin cites Reliance Group among those the New Delhi government has made efforts to ensure they are succeeding. “When it comes to creating a level playing field for foreign and domestic competition, there is much less energy, much less initiative, much less innovative thinking,” he adds.

“Modi’s real ability was to take bills and ideas that had been languishing and were actually initiatives off the previous government which, unlike both of Modi’s governments, never had a majority. They were hampered by being coalition governments. So, the bankruptcy bill and the goods and services tax (GST) were both bills that the BJP in fact opposed when they were the opposition but, once they came to power, passed.”
What remains to be seen, Nooruddin says, are any big initiatives from the BJP leadership that they could honestly claim to have authored. The exception is demonetization, which by all accounts was a disaster and did not accomplish even its stated goals of eliminating black money from the economy.

In 2020, what’s on the horizon is this new personal data protection (PDP) bill, which Nooruddin says, is the latest in what has been a yearlong onslaught on foreign businesses, especially in the financial services data-intensive sectors of competition.

“At the core is a principle of what they call data localization. The foreign minister and others have referred to data as being the new oil, and the notion is that data is a tremendous resource for India, foreign companies stand to benefit a great deal from using Indian data for their businesses — think Amazon or Walmart or any e-services, credit card companies, financial services companies. India does not feel it has been able to monetize that data to the benefit of the Indian citizen. The argument therefore is that what is going to be required is for all foreign companies to have all data collected from Indian consumers located on servers that are physically located within India, so you can’t just use your services, gather Indian data and send it back to your existing servers in the United States or wherever. You would have to have new servers in India or contract providers in India for this.

“This raises a lot of questions, both about the cost of doing business but also on the right and access to those data.” Nooruddin adds that there is an expectation toward the anonymization of personal data but also non-personal data, too — “a tremendous change in standard operating procedures from most firms in this space.” He also notes that the proposed legislation hasn’t been passed yet and is expected to be the subject of discussions in the current parliamentary budget session.

Nooruddin emphasizes that the government characteristically pushes far-reaching bills through with minimal consultation and then amends and adapts, even reverses, what they’ve passed. This creates a lot of policy volatility, a lot of uncertainty about what exactly is the regulatory situation. This is the single biggest burden facing foreign companies trying to conduct business in India, he says.

**KEY DEFENSE DEALS**

A couple of key takeaways from President Trump’s recent political visit to India are both that a couple of key memoranda of understanding (MOU) were signed as well as the likelihood of a deal for 24 Seahawk helicopters worth roughly $2.6 billion that would come from Lockheed Martin, Varun Kareparambil says. It is his understanding that the U.S. State Department has approved an Indian request for an integrated air defense weapon system worth $1.87 billion as well. Deals worth upward of $3 billion would be something Trump could point to as a very successful visit, he says.

The camaraderie between Trump and Modi was apparent, Kareparambil says, and both showcased it as an historic and important visit. Amongst all of the chaos happening in India at the moment, the fact that the US president conducted this visit remains a feather in Modi’s cap, though what India stands to gain from this at this time remains unclear. What Kareparambil expects to see in coming months is a Trump “Howdy Modi” mega-event or series of events in the US to reciprocate Modi’s hospitality.

“I hear the discussion President Trump had with the Indian industry leaders was pretty interesting,” Kareparambil says. “I don’t know how many of the CEOs have committed to an investment at this point. But I hear that there was a push for Indian CEOs to make investments in the United States and there will be clarity on that in the coming months. All in all, both leaders
“What’s new here,” Ronak Desai says, “is the fear that everyone’s concerns about Chief Minister Modi have been realized under a Prime Minister Modi — someone who does not share the same fidelity to India’s principles, to India’s secular identity, to India’s pluralism.

The Paradox That Is India

At the same time Trump and Modi were engaging in their successful meeting, violence erupted just miles away — a circumstance that Desai finds a perfect metaphor for where India is right now. At the same time Indians are tearing up each other’s communities and killing each other, the country is knee deep in strategic partnerships with the U.S. being touted as based on congruent values and interests. Though some critics have said the success of the “big show” Modi put on was all about optics, it was a high-profile round table with a host of Indian CEOs and an event both Trump and Modi apparently viewed as an important confirmation of partnership between the two countries.

Delhi was burning just as the leaders were enjoying a state dinner a few miles away, a paradox that perfectly encapsulates what India has become, Desai says. The history of India has been characterized by convulsions and spasms of communal violence, a nation comprising 500-plus different states and principalities that was put together 73 years ago with violence and communalism — identity according to religious or ethnic identity — an inevitable part of the story.

“What’s new here,” he says, “is the fear that everyone’s concerns about Chief Minister Modi have been realized under a Prime Minister Modi — someone who does not share the same fidelity to India’s principles, to India’s secular identity, to India’s pluralism. The question that again presents itself is whether the prime minister’s ruling Hindu nationalist party has begun to stir the communal pot and has allowed that pot to spill over because the economic story has gotten away from them.

“You saw less emphasis on the communal, on the nationalist, the social unrest during Modi’s first term,” Desai says. “Suddenly the economic story is not going well and, the theory goes, to maintain and preserve his base, all politics are domestic, he’s now pursuing a number of these very dangerous policies which seem to underlie and belie India’s story and history and the India that United States entered into a strategic partnership with 20 years ago.”

This creates an awareness that there is a law-and-order problem in India, he says, with the police being negligent at best or, worse, complicit in the violence that is occurring. The ruling party has compounded that environment through some of the more controversial initiatives that it has pursued in its second term, including an extremely controversial citizenship bill and a controversial judgment that was passed over a disputed site over a temple versus a mosque. A number of laws, both proposed and enacted, once again appear to be aimed at dividing the country along the communal, religious and ethnic lines rather than bringing it together.

For critics of Modi, including in the business community and the foreign corporate community, this unrest is further evidence that India continues to be a difficult country.

“The question that companies are going to have to answer if they continue to do business there or seek to do more business there,” Desai says, “is, will they able to continue doing so while India’s secular credentials continue to be tarnished this way? What does it mean for companies that have vast operations in the country, in an environment where you have a great deal of social unrest and little prospect of it being resolved any time soon?”

Questions Loom Over India’s Economy

According to Nooruddin, the biggest problem with India’s economy is the credit markets or lack thereof. A lot of banks are over-leveraged and shy about lending to people they’ve already given money to, despite a large pool of assets.
Consumer demand for Indian products has slowed and the combination of a slow demand and complete lack of credit makes it very difficult for businesses to grow and to expand.

On the other hand, the government has continued its investments in infrastructure developments for roads and railroads and new airport construction, and, as anyone has done work in India knows, basic infrastructure for business has always been a constraint. In the long term such investments will have positive consequences, but in the short run, they won’t do much to boost the economy.

“What the economy probably needs is a stimulus,” Nooruddin says, “but credit rates are so low already that it’s not clear where the government can find the money for a stimulus, either through the Reserve Bank of India or through tax cuts or government spending. So, we might just have to ride this out and hope that 2021 finds a better situation.

“The social instability in India of course is a dampener in its own right and one has to only speculate as to what will happen when COVID-19 begins to affect India more directly and how its public health system arises. That’s a black swan that we really can’t monitor right now. India appears to have not quite felt the brunt of COVID-19, but it’s a matter of time presumably before it does as well.”

“I would say 2020, it looks pretty bearish, though there will be bright spots in particular sectors, but overall I would expect that we have to tighten our belt buckles and ride out this year.”

**SUPPLY CHAIN IMPACT**

An observer might get the impression from seeing all the headlines and video footage coming out of India recently that the entire country or at least all of Delhi was on fire with running battles in the streets. Kareparambil points out that the conflict happened in northeast Delhi and that through it all, business continued and the supply chain was not interrupted.

“What the economy probably needs is a stimulus,” Nooruddin says, “but credit rates are so low already that it’s not clear where the government can find the money for a stimulus, either through the Reserve Bank of India or through tax cuts or government spending.

“Business is truly impacted when, for instance, demonetization happened. But the protests have yet to disrupt the supply chain.”

**KNOWING WHERE THE REAL SEATS OF POWER ARE**

Conducting business effectively in India is complex, Desai says, and even though companies may be incredibly sophisticated and experienced in high-risk jurisdictions, they may find that they are not prepared for how business actually happens there.

“What I have found to be most illuminating and also most frustrating,” he says, “is that decisions and decision-makers are usually limited to just a handful of people. It can be surprising that, for example, a decision on telecom policy or a decision with respect to financial services or data localization, which one would expect to take place in the relevant ministries, actually happen somewhere else entirely. These companies have spent countless months and large amounts of money engaging with the wrong interlocutors.

“Being able to garner sufficient intelligence of where the decisions are actually being made, where the power actually lies and which levers to pull and push really has to be the first order of doing business in India.”
In Indian commerce and government culture, individuals are extremely sensitive to public criticism, Desai says. Engaging behind the scenes rather than confronting directly or criticizing out in public is much more likely to be effective.

“A lot of the frustration that’s mounting with India,” he says, “is that for all its talk, the rhetoric has not lived up to the reality. You have to play the long game there and know that you’re going to be there for a long time. Work behind the scenes to make sure you have the right counsel in every sense of the word. In my experience, that’s one of the things companies trying to operate there overlook, but for the ones who do seek the right counsel, they tend to get it right.”

LOCAL MATTERS

A tendency of American businesses is to come in and think that Delhi and the central government are what really matter and that the state governments and bureaucracies are beside the point. Nooruddin says this is a pitfall that can really trip businesses up because Indian states have a great deal of power over all kinds of day-to-day activities that can affect business, from land acquisition, setting up permits, securing electricity and other practical concerns.

“More of the state governments in India are not ruled by the ruling BJP party,” Nooruddin says. So you have governments that are of a completely different political party from the national. Now, obviously they collaborate and cooperate, especially at the bureaucratic level, but it does mean an entirely different set of champions at the state and local level if you find you’re finding Delhi difficult and frustrating to navigate. Firms can find chief ministers or even mayors who have a great interest in attracting business to their state and working with them is something more companies should be trying to do.”

Nooruddin says that there are a lot of excellent US advisory services providers specializing in India offering serious expertise on India, but it is critical to find the right locals to avoid making some serious mistakes.

CULTURAL KALEIDOSCOPE

The cultural picture of India changes about every 500 kilometers, Kareparambil says. What the smartest companies do is thoroughly understand what they’re up against in the particular place where they will be. What are the potential risks in that particular place? What issues will you face in the employee population you’ll be recruiting? Who are the deciders on the ground there? Invest in extensive intelligence down to the micro bits, he says, and your success will be much more likely.

“We sometimes see companies that want to go with a copy-based model, saying, ‘Well, it worked really well over there, so we think it will be great over here.’ That is where they go absolutely wrong,” Kareparambil says. “You have to invest in intelligence if you’re going to do business in India.”

A PREDICTABLE CYCLE

As Indian society and its economy ebb and flow, our experts say it’s easy to get caught up in a fairly predictable cycle of “irrational exuberance followed by irrational despair.” The pendulum does swing but it also swings back, they say, but ultimately the promise of India is just too big to ignore. Right now, things are in a bit of an ebb, and Nooruddin in particular is not optimistic that the central government is going to get its act together anytime soon, either on economic policy or the social front. But just the state of Maharashtra alone, which is the financial engine of the country, is a state of 120 million people — the size of a large European country. Individual states have a great deal to offer and Indians do understand the necessity of having companies and industries from abroad operating there, so even though the road may not always be straightforward or even very straight, the rewards are potentially great for those who are willing to seek the appropriate counsel and stay in the game for the long haul.

“Right from the start of this year, there have been protests across the country and as far as the supply chain is concerned, it’s unaffected. This is important to take into account.”
ABOUT THE EXPERTS

**Ronak Desai, Attorney, Paul Hastings**

Ronak Desai, leads the India practice at prominent international law firm Paul Hastings. A recognized scholar and practitioner in the fields of law and foreign policy, his work focuses on anti-corruption, governance and a host of regulatory and corporate affairs. In his law practice, Desai advises clients on a broad range of complex investigative, regulatory, litigation, compliance and public policy matters. He has extensive legal and policy experience in the public and private sectors. From 2014 to 2016, he served as the Democratic counsel to a high profile select committee in the US Congress. He routinely advises members of Congress on legal and foreign policy issues, particularly pertaining to South Asia as well as major corporations and industry leaders on how to best conduct business in India and navigate its often challenging regulatory landscape.

**Varun Kareparambil, CEO and Founder, Grid 91**

Varun Kareparambil, which supports clients with business interests in Southeast Asia and the Middle East. With more than 15 years of experience within the private security risk-management industry, Kareparambil started his career in the United Kingdom, where he operated in various sectors over a period of four years, which included experiences within hospitality, events, security and executive protection, before relocating to India in 2007. Since his return to India, he has worked with leading hotel chains, such as Hyatt and Four Seasons, held the position as a country security manager with a prominent British bank, headed the India business for a leading Israeli security consulting company called Max Security, before being funded by an India-based venture capitalist to start Grid 91 in 2016. A firm believer and practitioner of proactive risk management through his career, Kareparambil has helped numerous clients to counter losses mainly through protective threat intelligence, risk consulting, training, crisis support and executive protection. He holds a bachelors’ degree in Economics from the University of Mumbai.

**Irfan Nooruddin, Director of South Asia Center, Atlantic Council**

Dr. Irfan Nooruddin is a professor in the school of foreign service at Georgetown University and conducts research in the political economy of development, trade and investment, and the challenges of democratization in the 21st century. He is the author of the Elections in the Hard Times, Cambridge University Press 2016; and Coalition Politics and Economic Development, Cambridge University Press 2011; and more than 25 scholarly articles and book chapters. In 2012, he was a fellow at the Woodrow Wilson International Center for Scholars in Washington, DC, and was a team member of the Lokniti Program in Comparative Democracy in New Delhi, India. Dr. Nooruddin holds a doctorate in political science from the University of Michigan, and a bachelors’ degree in economics from Ohio Wesleyan University. He was born and raised in Bombay, India.

**Fred Burton, Chief Security Officer, Stratfor**

Fred Burton, one of the world’s foremost authorities on security and terrorism, oversees Stratfor's analysis of global security developments, consults clients on security-related issues affecting their business assets or personal safety and guides the firm’s coverage of situations involving terrorism, hostages, hijackings and plane crashes. Before joining Stratfor, he served as a counter-terrorism agent with the U.S. State Department from 1985 to 1999.
During his 14-year career, Burton was involved in many high profile investigations, including the search for and arrest of Ramzi Yousef, mastermind of the first World Trade Center bombing, the assassination of Israeli Prime Minister Yitzhak Rabin, the killing of Rabbi Meir Kahane, Al Qaeda’s New York City bombing plots before 9/11, and the deaths of the U.S. ambassador to Pakistan, Arnold Raphel, and Pakistani President Muhammad Zia-ul-Haq.

ABOUT RANE

*RANE* (Risk Assistance Network + Exchange) is networked-based risk intelligence company that connects business leaders to critical risk insights and expertise, enabling risk and security professionals to more efficiently address their most pressing challenges and drive better risk management outcomes. RANE clients receive access to a global network of credentialed risk experts, curated network intelligence, risk news monitoring, in-house analysts and subject matter experts, and collaborative knowledge-sharing events.