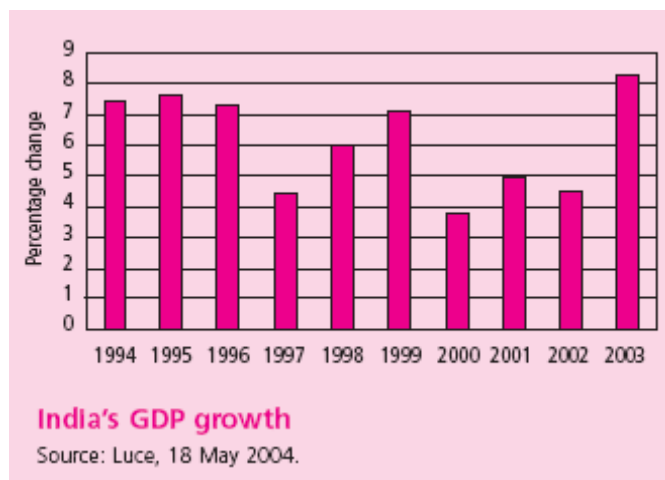


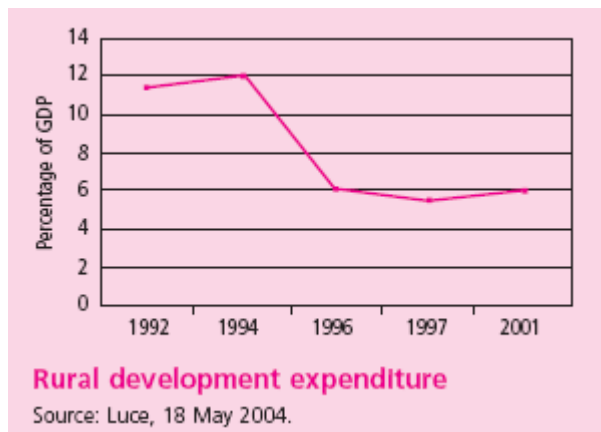
## The voices of Indian Democracy

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

India's political landscape changed dramatically following elections in May 2004, when the country's voters emphatically swept the ruling Bharatiya Janata (BJP) coalition government out of power and voted in the Congress Party, led by the unlikely figure of the Italian widow of former Prime Minister Rajiv Gandhi. This was a political upset unpredicted by the polling experts, which highlighted the vibrancy of India's democracy. India is the world's largest democracy, with a population of over one billion, and 900 political parties, many regional, religious and caste-based. The BJP Hindu nationalist coalition under Prime Minister Vajpayee had guided the country to impressive levels of economic growth and prosperity (see figure below). Its economic reforms had brought privatization of the country's large and bureaucratic public sector, attracted foreign investment, particularly in the new high-tech industries. Why, then, had the voters turned on it?



The answer lies in the vast countryside where a rural population of some 600 million people live in 650,000 villages. For the vast majority of Indians, reality is not the IT industry or modern call centres, but a subsistence livelihood in areas where water and electricity are scarce and only one in 10 villages is connected to a road. Spending on rural development fell during the rule of the BJP coalition government (see figure below). The Congress Party addressed the vast rural population, promising investment in rural infrastructure, including roads, wells and irrigation. In marked contrast, the BJP spoke mainly to the prosperous urban dwellers who have been the chief beneficiaries of the country's economic growth. Realizing the need to attract a wide audience, it used the campaign slogan, 'India shining' as a unifying message. The BJP coalition rests on 19 Hindu nationalist parties, some elements of which have a history of intolerance and even violence against other religious groups, mainly Muslims and Christians. In retrospect, it seemed that the campaign failed to convince the public of the new tolerant image of the BJP. Muslim Indians, in particular, who comprise 14 per cent of the electorate, were solidly against the Hindu nationalists. This failure to convince voters of its legitimacy in a multicultural India, coupled with the weakness of its record in dealing with impoverished villages and urban slum dwellers, proved its downfall. India's long tradition as a multifaith society with a secular government seemed to be reasserted.



The new Prime Minister Manmohan Singh himself governs with a coalition of 12 parties, some of which are Communist. He promised that economic reform is still on the agenda, but it is 'economic reform with a human face' (Luce, 28 May 2004). Progress on promised reforms has been slow during his first year in office. Privatization plans have met with resistance from Communist coalition members. His social programme aims to double spending on education and health, but progress has been slow. Increasing inflows of FDI is a priority: FDI inflows are one-tenth of the level China receives and would be valuable in building much-needed infrastructure. In order to attract FDI for manufacturing industries, the government is planning to introduce special economic zones, modelled on those in China, offering benefits such as tax and labour incentives to match those enjoyed in the country's IT sector. Perhaps ironically, the former BJP Finance Minister Jaswant Singh, in an interview four months before the 2004 election, said that while India's growth model seems to be built on IT and outsourcing, agriculture is in fact the key to its economic success. Agriculture still represents 25 per cent of its GDP, while business process outsourcing represents 2 per cent. He went on to muse on the 'natural checks and balances of a democratic culture' (Luce et al., 5 December 2003). India's voters, especially the rural and urban poor, held high expectations after the unexpected Congress Party victory in the elections of 2004, but the new coalition government has had to please both 'markets and Marxists' in shaping its reform policies.

Sources: Luce, E., Ridding, J. and Mallet, V., 'India's farms seen as its seedcorn', *Financial Times*, 5 December 2003; Luce, E., 'Vajpayee trampled by bullock cart economy', *Financial Times*, 14 May 2004; Luce, E., 'India's new leaders vow reform with "human face"', *Financial Times*, 28 May 2004; Tully, M., 'Indians have little relish for hardline Hinduism', *Financial Times*, 20 April, 2004; 'India is shining: through its voters', editorial *Financial Times*, 14 May 2004; Luce, E., 'From India's forgotten fields, a call for economic reform to lift the poor', *Financial Times*, 18 May 2004; Johnson, J., 'Coalition politics damps zeal of 'Holy Trinity' reformers', *Financial Times*, 6 May 2005.

### Case questions

Assess how India's political culture is likely to impact on current and future foreign investors.

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