



Sigur Center for Asian Studies

THE GEORGE WASHINGTON UNIVERSITY

Remaking India: Modi's Blueprint to Align Foreign Policy with Domestic Agenda

Now that Narendra Modi's rule has passed the one year mark, there has been no shortage of performance assessments. Most are focused on either the domestic front or the international front. But how are domestic priorities and international ambitions intersecting in Modi's government? And what does it mean for India's global standing? These questions were addressed by Ambassador Neelam Deo, Director of Gateway House in Mumbai, at a Sigur Center lecture on "Remaking India: Modi's Blueprint to Align Foreign Policy with Domestic Agenda."

On the domestic front, Deo finds that Modi has made strides in improving governance and social security reform. Modi's anti-corruption campaigns- one of the central pieces of Modi's reform agenda- have been largely successful. Since coming into office one year ago, there have been no major corruption scandals. In tackling anti-corruption, social security reform has streamlined the existing payment system that is currently plagued with rampant leakage by setting up a more simplified universal social security scheme that directly deposits money into recipients' bank accounts. The introduction of public auction into energy markets (e.g., the scandal filled coal sector) has generated close to \$100 billion revenue for the government, whose total budget is about \$300 billion. As a result of these actions, there are high foreign

expectations for Modi's economic reforms and India's growth in coming years. The OECD has predicted 7.7% growth this year, India's official prediction is 8.8% growth, while the Asian Development Bank predicts 7.8% growth. India is expected to surpass China's growth rate next year.

Modi's 2015-16 budget backs the "Make in India" initiative on three fronts. First, to expand and improve India's railways, Modi's plan draws on funding the rail system by monetizing existing assets of railway companies, rather than spending more taxpayer money. Second, while India's current defense budget is quite small at \$40 billion (just under 2% of India's GDP), Modi has given the green light for more than \$60 billion worth of defense projects. Eighty percent of these projects are slated to go to Indian domestic defense industries, making this the first time the Indian government has actively sought partnership with domestic corporations in defense production on a large scale. Lastly, \$16 billion in infrastructure investment was announced under Modi, with plans to build 100,000 kilometers of roads over the next 5 years. This constitutes a 40 percent increase in infrastructure spending compared to the previous administration.

It is important to note that while Modi's government holds a majority in the Lok Sabha (Lower House) it only holds 20 percent of the seats in the Rajya Sabha (Upper House). In terms of constitutional reform to enact economic changes, the BJP government needs more than 50 percent support from the states vis-à-vis the Rajya Sabha, but it does not have a majority support at the state level. This means that there are often legislative hurdles for Modi's domestic economic reform agenda, which foreign observers often overlook. In determining India's foreign policy, Prime Minister Modi has greater control over decision making, since no cabinet member has the political foundation needed to seriously challenge his leadership. Foreign Minister Sushma Swaraj is the most likely challenger, but her influence has been largely marginalized by directing her foreign visits to non-major countries; as Deo put it, "Swaraj has been 'Hillary-

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Clintonized.” However, in implementing his foreign policy, Modi still faces challenges in the Rajya Sabha, where he does not have a majority.

On foreign policy, the Modi government has made it clear that India’s neighborhood is the top priority. Modi invited a number of heads of neighboring states – namely Bangladesh, Bhutan, Nepal, Pakistan, and Sri Lanka –to his inaugural ceremony. Following his inaugural, Modi’s first state visits were to Bhutan, Nepal, and Sri Lanka, and he has made efforts to build up regional trade. Deo noted that the Pakistan-India trade relationship is very underdeveloped. India’s trade in the region amounts to approximately \$20 billion per year, with Pakistan occupying only \$2 billion/year of this trade, compared to Bangladesh’s \$7 billion/year and Sri Lanka’s \$5 billion/year. There is much room for trade expansion, and the trade negotiation underway (in fits and starts) between Pakistan and India, if implemented, is expected to increase the trade volume to \$10 billion.

In addition to India’s perimeter, Modi has engaged with all P5 countries. With the successful summit with President Barack Obama, U.S.-Indian relations have moved beyond the bilateral tensions which resulted from the cancellation of Modi’s visa to the U.S. over his handling of the 2002 Gujarat riots. Moreover, U.S.-India relations have improved since Modi came into power, culminating in joint strategic statements during the U.S.-India summit which cover security cooperation in the Indian Ocean and bilateral cooperation on nuclear energy and trade. Indeed, the Modi administration has been open in stating that the U.S. relationship is the most important relationship for India.

Of note besides Obama’s visit to India is Russian President Vladimir Putin’s December 2014 visit. Russian-Indian relations are paramount, as Russia is the largest weapon exporter to India and also the biggest partner with India on space and nuclear energy programs. During his visit, Putin promised to provide India with 12 additional nuclear plants – though there is still local opposition to creation of nuclear facilities due to safety concerns, so it remains unclear where these 12 plants will be built.

India’s China relationship is also significant, since it is both an opportunity and challenge for India. With the unprecedented economic rise of China, India sees the relationship economically promising, and yet, as with the Chinese incursion on their disputed border during Xi Jinping’s visit to India in fall 2014, there are serious security concerns between the two

countries. It is also unclear whether India is ready to settle the border disputes, because there are domestic voices pressuring the government to take a firmer stance given the series of Chinese incursions, and also because it remains unclear what compromise India is willing to make to China at this point (consider India's reluctance to compromise just a few kilometers in the border dispute negotiation with Bangladesh). Even on the economic front, Indians have complained about the longstanding trade deficit with China -more than \$35 billion per year, which is the amount of money Xi promised to invest in India for next 5 years when he made his official visit- and about the fact that China remains one of the smallest investors in India, with only \$500 million invested so far.

Overall, the main elements of Modi's initial policies and his first budget place emphasis on social security reform, more transparency in the delivery of government service, and continued progress on "Make in India." As Deo remarked, the current administration is acting in a way that suggests it "expects to be here for at least ten years; all of its plans [both domestic and foreign] extend beyond a single term in office." In general, Modi's first year in office has witnessed greater coherence in the domestic programs and an effort to dovetail that in India's external relationships. Whether or not this trend will lead to significant progress for India remains to be seen.

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