India’s Future Shaped by the Past: The Politics of Foreign Investment

By Sriparna Basu

In his first year as prime minister, Narendra Modi traveled far and wide to cast a strong narrative of a reforming India eager to embrace foreign direct investment to propel development.

But that courtship of FDI has triggered a visceral reaction across India’s political landscape, rooted in its colonial past and deep suspicions of foreign businesses. Sriparna Basu explores whether India can overcome its narrative of victimization and embrace globalization.

In April this year, Indian Prime Minister Narendra Modi undertook an eight-day trip to France, Germany and Canada before coming home to a bruising confrontation with opposition parties, in parliament and outside, over proposed amendments to India’s land acquisition act of 2013. The overriding theme of Modi’s many trips abroad — he also toured the US, Australia and Japan and played host to Chinese President Xi Jinping, all within the first year of assuming office — has been to court foreign investment. On returning to India, however, he was subjected to strong criticism by opposition leaders who suggested he was leading a corporate revolution against Indian farmers and the poor.

While select politicians and administrators are open to the idea of foreign investment — who they happen to be may even change depending on who is in power at any particular point in time — the national imagination is deeply conditioned by images of marauding foreign traders acting in concert with local moneybags and businessmen. Congress Party chief Rahul Gandhi described Modi’s government as one of “suits and boots.” Prominent opposition politician and former Indian Finance Minister P. Chidambaram suggested that Modi’s government had “a feeling of corporate America in its heart, soul, and bones,” Aam Aadmi Party (AAP) leader Arvind Kejriwal even derided Modi’s international trips as “selfies in foreign countries.”

Turning point: A late 18th-century painting by Benjamin West shows the Treaty of Allahabad in 1765. Mughal emperor Shah Alam II hands a deed to British military officer Robert Clive, then governor of Bengal, transferring tax-collecting rights in Bengal, Bihar and Orissa to the British East India Company. The event was a climax to Clive’s efforts over decades to secure British rule over India — a history that infects political thought in India to this day. Image courtesy of the British Library.
mer Union minister Sharad Yadav’s sharp reaction to ModI’s travels is a case in point: “Mahatma Gandhi fought against the British rule which was preceded by the arrival of the East India Company. But now, after 68 years of independence, the same foreign investment is being welcomed.” The assumption that welcoming foreign investment is the cardinal sin a virtuous government must guard against is shared by Indian political parties across the board, even if individual politicians may dissent from time to time, driven usually by the exigencies of pragmatic governance.

The East India Company — which received a charter from Queen Elizabeth I granting it a monopoly over trade with the East on Dec. 31, 1600 — looms large in the origins of Indian nationalism. The company began as a trading enterprise, but one and a half centuries later, Robert Clive, one of its military officials, entered into a conspiracy with Bengal army commander Mir Jafar and finance tycoon Jagat Seth to unseat and execute Nawab Siraj-ud-Daulah, the military officer; the private army under his command became almost interchangeable with Mir Jafar, who sold his country down the river. As a result, domestic businessmen are frequently seen to be in league with foreign looters. In Marxist language, the former are “comprador” capitalists. The power of this morality tale is so compelling in Indian politics that it’s often futile to argue that the analogy breaks down in modern times. The East India Company may have been one of the earliest instances of a multinational corporation, but it was granted a trade monopoly guaranteed by the might of Britain’s navy. This is inconceivable today, when multinationals (as well as domestic corporations) ought to be operating in competitive conditions where a level playing field and humane conditions are guaranteed by a strong and independent state. In contrast, the East India Company became the state. Clive, after all, was a military officer; the private army under his company grew to strength of 260,000 men — double the size of the British army — by the time it captured Delhi in 1803.

The East India Company, therefore, is one of the worst examples of a free market competitor one can think of. Yet the trauma of conquest and subjugation are so deep that these distinctions are often lost on the Indian nationalist psyche. Dadabhai Naoroji, an early Indian nationalist, first advanced the hypothesis of India’s deindustrialization and “drain of wealth” to Britain through colonial trade and taxation policies. As other nationalists shaped this into a supple and sophisticated economic theory, Bholanath Chandra first suggested as a solution the “non-consumption” of British goods.

**ENTER GANDHI**

The message of self-reliance and self-help was amplified by Mahatma Gandhi, who elaborated his own construct of swadeshi:

> Swadeshi is that spirit in us which restricts us to the use and service of our immediate surroundings in the exclusion of the more remote... in the domain of economics I should only use things that are produced by my immediate neighbors... such swadeshi, if reduced to practice, will lead to the millennium.

(“The Gospel of Swadeshi”)

With Gandhi, the trauma of British looting translates into an animus against trade itself. The path to swaraj, or self-rule, passed through swadeshi: trade created dependence and enslavement. Governing the nation was akin to governing one’s own desires; the body was the body politic. Gandhi made famous the symbol of the charkha — or hand-operated spinning wheel — and tirelessly advocated that every Indian should spin and weave his own clothes as a mark of true independence. Today the charkha, symbol of swadeshi, is at the center of the Indian flag. If Gandhi’s favorite book was Unto His Last, John Ruskin’s romantic critique of industrial civilization, his favored disciple, Jawaharlal Nehru, was intellectually influenced by the Fabian socialists. Gandhi proposed a utopian community of self-sufficient villages having minimal trade and political relations with each other; Nehru scaled this model up to the level of the nation. Thus, the command economy that took shape under Nehru was characterized by self-reliance, autarky, inward orientation and import substitution, even if this meant reinvigorating the wheel. It also meant the state would occupy the commanding heights of the economy, limiting the role of markets and the private sector, harking back to the quasi-Marxist denunciation of private greed adopted by Indian nationalist thinking.

**BHOPAL’S LEGACY**

Memories of the East India Company’s depredations were reawakened by the Bhopal gas disaster of 1984, considered the greatest industrial disaster in world history. A pesticide plant set up by US multinational Union Carbide Corporation and owned by its Indian subsidiary, leaked 40 metric tons of toxic methyl isocyanate gas into densely populated Bhopal. An estimated 3,800 people died immediately, with 15,000-20,000 premature deaths reportedly occurring over the next two decades among those who were exposed to the gas. To date, Union Carbide has paid compensation and cases involving deaths caused by the poisonous gas that enveloped Bhopal that night or antidotes for it, when this information would have helped treat victims. It paid, as full and final settlement, a meager US$470 million to the Indian government for distribution to claimants. The average amount to families of the dead was US$2,200. By contrast, had compensation been paid at the same rate awarded to asbestos victims in the US, where Union Carbide also was culpable, it would have had to pay out upwards of US$10 billion.

While Bhopal can be seen — and was seen in India — as typical of the predatory operations of multinational capital, what happened was also a failure of Indian regulatory agencies. The local
government permitted the establishment of a hazardous chemicals factory in a densely populated part of the city zoned for light industrial and commercial use. It was aware of safety problems in the factory, but did not impose tougher pollution control standards that could have prevented the disaster, perhaps fearing repercussions on a large industrial employer. After the cataclysm, the Indian government enacted the Bhopal Gas Leak Disaster Act, which made the government the sole representative of victims in legal proceedings both within and outside India. This led to the case being taken out of the US legal system and placed under Indian jurisdiction, where the government and the Supreme Court were both liable for any disaster (rather than the nuclear plant operator as is international practice). This straitjacketed nuclear commerce and led to fury over the case being taken out of the US legal system.

When President Obama came to India for an unprecedented Republic Day visit, the two sides announced a workaround on nuclear liability. A nuclear insurance pool of Rs 1,500 crore ($245 million), to be set up jointly by the Indian government and public sector insurance companies, has been proposed to cover nuclear liability issues for a nominal premium. In effect, it transfers responsibility for cleaning up after a Fukushima-like nuclear catastrophe onto the Indian taxpayer. Despite this concession, there may not be much appetite for nuclear commerce between India and the US. Nuclear power is becoming unpalatable all over the world due to cost — about US$4 million to set up each megawatt of nuclear power generating capacity — and the looming prospect of another Fukushima-type catastrophe.

While the Modi government wishes to elevate India in the World Bank’s ease of doing business rankings to No. 50, it’s telling that India’s current rank is 142nd among 189 nations. India suffered a challenge within his own party that doesn’t seem so far to be really evident in our overall attitude.” And a 2013 AT Kearney study of business confidence in India noted that even when a project has been approved at the center, local opposition and red tape can still throw up roadblocks. Many clearances come from states, which may have a different perception of the desirability of foreign investment than the center does. Politicians still dither and squabble over the introduction of a Goods and Services Tax (GST) that would unify the nation into a common market and get rid of costs and time delays due to taxes on transporting goods from state to state.

VICTIM NARRATIVE

Apart from opaque processes and difficulty in getting clearances, foreign investment in India faces other hurdles: poor infrastructure and weak regulatory agencies. Limited access to skilled labor is another challenge. A 2010 survey jointly conducted by the World Bank and the Federation of Indian Chambers of Commerce and Industry found that 64 percent of Indian employers are “somewhat” or “not at all” satisfied with the
quality of engineering graduate skills. It’s here that the lack of educational reform hurts Indian competitiveness.

Ricardo Hausmann has written about the “narrative roots” of public policy. In this view, policy is not just an abstract calculus or a series of logical syllogisms; rather it is anchored by a narrative of self. In the Indian case, this narrative often harks back to victimization by the East India Company, which is seen as the prototype of multinational companies today. And domestic businessmen are Jagat Seths who remain in hock to the global circulation of capital, ready to stab their nation in the back if required.

There are signs, however, that this narrative is changing. Modi likes to say that he is the first prime minister to be born in post-independence India. The median age in India is just 26 years (compared to 38 years in the US and 35 in China). The demographics of a young nation combined with greater access to information is pushing India toward change and modernity. This bodes well for overcoming colonial traumas and phobias in the near future.

The pace of change, however, will depend on the pace of reform. The current ruling party, the BJP, was one of the principal obstacles to reform when it was out of power, opposing everything from the India-US nuclear deal and GST, to stepped-up foreign investments in insurance and retail to the biometric identity cards that could make welfare more efficient. It did this for sheer opportunistic reasons, hoping to fracture the unity of the fragile UPA coalition headed by the Congress Party. Now, with the BJP at the center, the opposition is retaliating in kind. Thus, the government had to issue ordinances — or executive orders — twice to amend existing laws to enable land acquisition for industry, because ordinances are temporary measures meant to fill gaps when parliament is not in session. They must eventually be approved by parliament or else they lapse. And little investment will come in under temporary laws that could be gone in a few months.

Moreover, apart from India’s long tradition of political sectarianism, there’s religious sectarianism setting up a battle for the BJP’s own soul. The BJP’s rise has been accompanied by increased stridency from the Hindu right wing, characterized by a backlash against modernity and liberal values. In purely economic terms, its program is indistinguishable from the Luddite Left, even if in social terms they differ.

The BJP feels beholden to the Hindu right for its election victories, and it’s a moot question as to what extent the former will be able to wrestle free of the latter’s ideological influence. What Karl Marx wrote in his 18th Brumaire of Louis Napoleon seems particularly apt in this context: “The tradition of all dead generations weighs like a nightmare on the brains of the living. And just as they seem to be occupied with revolutionizing themselves and things, creating something that did not exist before, precisely in such epochs of revolutionary crisis they anxiously conjure up the spirits of the past to their service, borrowing from them names, battle slogans, and costumes in order to present this new scene in world history in time-honored disguise and borrowed language.”

The ghosts of the past still loom large, and politics, ruled by gerontocracy, could yet trump economics and India’s favorably youthful demographics.

Sriparna Basu is associate professor at the International Management Institute, New Delhi.