

# ISAS Insights

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Institute of South Asian Studies  
National University of Singapore  
29 Heng Mui Keng Terrace  
#08-06 (Block B)  
Singapore 119620  
Tel: (65) 6516 4239 Fax: (65) 6776 7505  
[www.isas.nus.edu.sg](http://www.isas.nus.edu.sg)  
<http://southasiandiaspora.org>



## Will India Walk the Talk?

### Parsing Prime Minister Narendra Modi's Davos Speech

Duvvuri Subbarao, Taisha Grace Antony and Faiza Saleem<sup>1</sup>

*Indian Prime Minister Narendra Modi delivered the keynote address at the 48<sup>th</sup> annual World Economic Forum in Davos on 23 January 2018. He pitched the country as an investment destination to foreign companies and investors, called for a liberal and multipolar world order while acknowledging the challenges facing the world today. Reviving investment is critical for India to raise the growth rate and address the country's growing challenge of unemployment. Whether Modi's Davos speech will result in higher investment will depend on whether and how credibly India will walk the talk. How India will perform on the economic and political fronts in the years ahead will also determine to what extent India can provide leadership for the liberal international order threatened by United States President Donald Trump's 'deglobalisation' policy stance.*

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<sup>1</sup> Dr Duvvuri Subbarao is Distinguished Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He is a former Governor of the Reserve Bank of India. He can be contacted at [subbarao@gmail.com](mailto:subbarao@gmail.com). Ms Taisha Grace Antony and Ms Faiza Saleem are Research Assistants at ISAS. They can be contacted at [taisha@nus.edu.sg](mailto:taisha@nus.edu.sg) and [faizasaleem@nus.edu.sg](mailto:faizasaleem@nus.edu.sg) respectively. The authors bear full responsibility for the facts cited and opinions expressed in this paper.

## **Modi at Davos – Two Objectives**

India's Prime Minister Narendra Modi was extended the privilege of delivering the keynote speech at the World Economic Forum (WEF) in Davos in January 2018 centred on the theme of "Creating a Shared Future in a Fractured World". That Modi was offered this much coveted opening slot even as Davos featured a host of world leaders this year – Donald Trump, Emmanuel Macron, Justin Trudeau, Theresa May, Benjamin Netanyahu and Angela Merkel – is a testimonial to India's growing importance in the world economic and geopolitical order.

Modi used the opportunity, quite expectedly, to sell India to the global audience as a promising investment destination based on the comparative advantages of India, the track record of his government and the agenda for the way forward.

The setting for the Davos conference this year was somewhat paradoxical. On the one hand, the world is experiencing the strongest synchronised growth lift in seven years, and across the rich world, growth is synchronised, inflation is showing signs of picking up, unemployment has declined and markets, notwithstanding recent hiccups, are vibrant. Importantly, concerns about a hard landing in China which clouded global optimism earlier have now receded. Yet the Davos mood was sombre, perhaps weighed down by concerns about American withdrawal from its leadership of the liberal international order and the rich world turning increasingly inwards.

Like Chinese President Xi Jinping before him, who gave the inaugural speech last year (2017), Modi too set his speech in this global context of a diminishing appeal for globalisation. He affirmed his commitment to globalisation, decried growing protectionism and called for global cooperation on global issues. Like they did last year with Xi's speech, analysts were parsing Modi's speech to see whether he was defining a new international order led by emerging markets.

It has now become standard practice for political leaders offered the Davos platform to use it to drive two objectives. The first is to make a sales pitch for foreign investment into their countries and the second is to burnish their individual and their country's image by laying out

a vision for a global future. Modi conformed to this time tested practice. An evaluation of his Davos speech has, therefore, to be centred on two questions. Did Modi make a credible case for India as an investment destination? Did he make a credible case for globalisation? This paper attempts such an evaluation.

## **India as a Promising Investment Destination**

India's development agenda, Modi said, is based on five pillars – structural reform, e-governance, physical infrastructure upgradation, global best practices and inclusive economic development. According to him, “democracy, demography and dynamism” are shaping the country's development and inclusive growth and together they will propel it to become a US\$5 trillion (S\$6.6 trillion) economy by 2025. Investment in India, he stressed, is “an investment in the future”.<sup>2</sup> Invoking Nobel Laureate Rabindranath Tagore, he described India is “a heaven of freedom where the world is not divided by narrow walls” and asserted that the country will always be a unifying and harmonising force.

Attracting global investment is the standard item on any government leader's job chart. However, in Modi's case, success on this front is critical if he wants to make any headway on solving India's huge and complex unemployment challenge.

In his campaign before the last election in 2014, Modi promised millions of youth that he would fulfil their aspirations by creating jobs. Nearly four years into office, that promise remains just that – a promise. Even as 12 million youth join the labour force every year, the number of jobs being created is only half that. In other words, there is a growing gap between the number of job seekers and the number of jobs being created. Modi is aware that his political fortunes as well as his legacy will depend on his record on tackling the unemployment challenge. What is required, most of all to create employment, is to revive investment. His Davos speech, an attempt to inspire the trust and confidence of potential investors, should be seen in this light.

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<sup>2</sup> IndiaWest (23 January 2018). “India is an Investment in the Future, Says Modi at Davos”. [http://www.indiawest.com/news/india/india-is-an-investment-in-the-future-says-modi-at/article\\_90c614d8-0072-11e8-943e-87070cd730dc.html](http://www.indiawest.com/news/india/india-is-an-investment-in-the-future-says-modi-at/article_90c614d8-0072-11e8-943e-87070cd730dc.html). Accessed 5 February 2018.

When Modi swept into office in mid-2014, there were high hopes that he would pull the country out of ‘the policy paralysis’ of the predecessor United Progressive Alliance regime and revive the moribund investment climate. Even as there has been policy activism under Modi, investment is yet to pick up, in large part because of what has come to be called the ‘twin balance sheet’ problem – corporates are too weighed down by stressed balance sheets to borrow anew and banks are too weighed by bad debt to make fresh lending. In the months leading to the latest budget announced on 1 February 2018, the government announced a sizeable plan for recapitalising public sector banks to enable them to absorb the massive losses they will incur as the bankruptcy process gets on stream and bad assets are sold off. It is expected that investment sentiment shall be revived as balance sheets get repaired.

The prime minister described India as an unrivalled foreign investment destination, where improving the ease of doing business is a primary focus of all public policy. “Everything has become much easier than before”, he said. “By removing the red tape, we are laying the red carpet.”

It is certainly true that, on Modi’s watch, India moved up 30 places last year in the World Bank’s ‘ease of doing business’ rankings, breaking into the top 100 for the first time. This huge improvement is a big boost for a country that has the reputation of frustrating even the most dogged entrepreneurs. Nevertheless, the rank is still too low for a country that aspires to replicate, if not rival, China’s spectacular success as a manufacturing power house.

Modi also made a subtle attempt to showcase India’s comparative advantage vis-à-vis China. He portrayed India as a stabilising force in an uncertain era, as a model of democracy and multicultural integration, and as a safe haven for investment to woo global investors looking for an alternative to China’s hegemonic regime.

By far the biggest attraction for foreign investors is India’s large and growing market. However, the market size depends not just on the pace of growth, but also on the distribution of growth. The consumer market which foreign investors eye will grow only if a larger share of the benefits of growth flow to the lower income groups. It is, after all, they who have a higher propensity to consume. The outcomes are actually in the reverse direction. According to the latest report by Oxfam, released alongside the Davos summit, 73 per cent of the wealth generated in the country went to the richest one per cent, while the poorest 670 million

Indians saw a meagre one per cent increase in their wealth. The inequality in distribution of incomes is even more perverse. This again is a policy pointer to Modi. To attract foreign investment, growth is necessary, but not sufficient. The government will have to ensure that growth narrows rather than widen inequality.

Development experience evidences that global investors attach significant weights to transparency and rule of law in making their investment decisions. And Modi was right to highlight India's positives in this regard. However, here again, there is a gap between rhetoric and reality. Ironically, even as he was delivering his speech in Davos, back home in India, fringe groups like the Karni Sena were vandalising public property across the country in protest against the release of a film that was suspected to have shown Hinduism in an unfavourable light, evidently with silent support from the ruling dispensation. Modi is also criticised for not showing the spirit of pluralism required to govern a large, diverse and poor country like India. These jarring notes do affect international perceptions of India. The World Justice Project 'Rule of Law' Index, for instance, ranks at a lowly 98 out of 113 countries in terms of order and security, at 62 in terms of overall rule of law performance in the 2017-18 edition.

Modi projected democracy as one of India's major selling points. He was right to do so. Experience shows that the quality of democracy is an important variable in global investor calculations. Here again, India has cause for anxiety. As per Democracy Index 2017, India's position has fallen 10 places to the 42<sup>nd</sup> rank out of 165 countries. India's decline has occurred amid a "rise of conservative religious ideologies" and "increase in vigilantism and violence against minorities". The report rated Indian media to be "partially free", with increasing restrictions on freedom of press, the closing down of several newspapers and stringent monitoring of mobile internet services in States such as Chhattisgarh and Jammu and Kashmir.

### **Three Global Threats**

As a sub-theme of his speech, Modi outlined the three key challenges to globalisation – rising protectionism, terrorism and climate change.

## **i) Protectionism**

Modi's speech emphasised pro-globalisation themes similar to those raised by Xi's last year. His call for a "multilateral, multi-polar world order" and his warning that the "forces of protectionism are raising their heads against globalization" were evidently a rebuke of President Trump and his "America First" agenda which are threatening the liberal economic order that is at the heart of WEF. It was a gallant attempt to showcase India's credentials as a champion globalisation and as a good global citizen.

Here again, Modi's speech suffers from a credibility gap. Even as he made pitch for open economies and liberal policies, back home, in the budget presented at the beginning of February 2018, his finance minister Arun Jaitley slapped customs duties on a host of items ostensibly to 'protect' domestic industry and promote 'Make in India'.

## **ii) Terrorism**

Modi has been an active crusader against terrorism and uses international platforms to articulate India's anguish and pain at the spread of terrorism and the country's war to combat terrorism. It was no surprise, therefore, that he chose the Davos platform to reiterate India's position. He emphasised, as he did several times before, that terrorism should be denounced always and everywhere without differentiating between "good" and "bad" terrorism. He drew attention to the causes and consequences underlying the vast number of well-to-do and educated youth who are becoming vulnerable to radicalisation. And he made a strong appeal for denying "money, arms and ammunition" to terrorist groups.

In the last three years he has been prime minister, Modi has initiated bilateral counterterrorism cooperation with other countries. For instance, as ties strengthen with Israel, the two have set up a joint working group on terrorism, and are cooperating in intelligence-sharing and border management to prevent cross-border infiltration. Modi's track record on securing similar cooperation at the regional level has been less flattering. Organisations such as the South Asian Association for Regional Cooperation hold potential, but as relations with Pakistan remain at an impasse, such cooperation seems unlikely. India-Association of Southeast Asian Nations relations are at an upswing, and even though countries in the

grouping fear the Islamic State gaining a foothold in the region, tangible initiatives on intelligence sharing and terrorist financing networks remain elusive.

### iii) Climate Change

The third global theme that Modi chose to address was the threat of climate change. He spoke of India's commitment to taking the lead in mitigating its effects. To this effect, he detailed India's achievements in renewable energy, as the sixth largest producer in the world, with plans to draw 175GW of energy from renewables by 2022. Although a reluctant signatory initially, India has maintained its commitments to the Paris Accord.

To Modi's credit, the country is on track to achieve the national goals set to address climate change; it has exceeded its targets for wind power and has also deferred the construction of new coal-fired power generating plants. In terms of concrete steps, the government's latest budget presented to parliament last week has proposed to reduce import duty on solar-tempered glass (used in the manufacture of solar cells, modules and panels) from five per cent to zero,<sup>3</sup> a positive development for domestic solar equipment manufacturers.

However, progress has been far too slow. Modi's speech at Davos came on the heels of New Delhi acquiring the dubious status of becoming the "most polluted city in the world". In addition, the Environmental Performance Index 2018 released on the side-lines of the Davos summit showed India plummeting 36 points to 177 out of 180 countries. The country's target of 175GW renewable energy in the next four years is lofty, but the goal does not look credible in the absence of an action plan.

India is a huge country and India's performance on climate change matters significantly to achieving global targets. For its own sake and for the sake of the world, India cannot let this become a victim of not walking the talk.

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<sup>3</sup> Ahmar, Muqbil. (2 February 2018). "Budget 2018: What's in Store for Renewable Energy Sector?". <http://www.cxotoday.com/story/budget-2018-whats-in-store-for-renewable-energy-sector/>. Accessed 5 February 2018.

## **Champions and Challengers of Globalisation**

It is significant that as the Trump era, with its anti-globalisation stance, unfolds, the WEF chose the leaders of two large Asian countries – China last year and India this year – for the opening keynote slot. Both Xi and Modi expectedly spoke up for globalisation and an open and liberal world order. This is a stunning turnaround in global geopolitics and global economics. In the early decades of the post-colonial period, and indeed almost up until the global financial crisis in 2008, it was developing and emerging economies that used to agitate about how they were being short-changed in the process of globalisation. The narrative has since turned 180 degrees. Now, it is rich countries that complain about being hurt by globalisation while emerging economies are emerging also as the champions of the new global order.

Amidst all this flux and anxiety, two questions are certain to have dominated the Davos meetings: to what extent will America under Trump withdraw from global leadership and to what extent can either China or India, or both together, fill the vacuum? Both are difficult questions with a complex set of answers. The ‘Davos Man’ will anxiously watch how China and India steer their domestic policies and international conduct to understand where the world might be headed.

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