
Interested in India's Geopolitical future? Look to its States

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For years, India-watchers have by equal measure championed the nation's future role as the next regional if not global power and bemoaned its failure to live up to its strategic potential. At the heart of this optimism has been India's fundamental capacities and characteristics—the size of its population, its democratic system of government, its geographic location in the heart of a dynamic Asia, and its deep and talented human capital pool. And yet, the pessimism has derived from the seeming inability of the federal government to make the whole equal more than the sum of its parts. While there are many reasons for this dichotomy, one of the most important is the outsized role played by India's states in policymaking. To predict India's future course, one must have a better understanding of its composite states.

In 2016, four Indian states and one territory with a combined population of nearly 230 million will hold elections.¹ The list includes Assam, Kerala, Tamil Nadu, West Bengal, and the union territory of Puducherry. These elections are important for India's economic development for three reasons. First, state governments collectively have a larger impact on India's growth than the central government. Second, the strength of key regional parties has allowed them to manipulate federal legislative reforms. And third, the BJP is not expected to be a major player in

¹ Election Commission of India, "Terms of the Houses," <http://bit.ly/1g10FNx>.



most of these elections, providing a cushion against the pain that some of India's more important reforms may cause in the short term, such as reducing subsidies. For political junkies, there is another intriguing reason to follow these elections: to see if the Congress Party can begin to reverse its electoral losing streak, as two of the states holding elections are held by Congress.

The Seventh Schedule to India's Constitution establishes the distribution of power within India's federal system: it provides three different lists of subjects and articulates which agencies have the power to govern on these issues. Some subjects fall under the purview of states, others the central government, and a third list falls under the "concurrent list" that can be either the center or states. State leaders have nearly complete authority over critical elements of their economies such as power distribution, water distribution, law and order, land acquisition, and a wide range of business permits.

There is now heightened interest in state-level developments in India considering the Modi government's goal of increasing competition among states for business. In September 2015, the Department of Industrial Policy and Promotion (DIPP) released its initial findings² of a broad study measuring the ease of doing business in Indian states, providing India's first "apples to apples" overview of the states. India's ability to reach double-digit, sustained growth will ultimately be a reflection of the larger states enacting pro-growth policies, and will ultimately be a critical factor in whether India embraces broader trade liberalization in the future. One helpful, if imperfect, indicator of the differences between states is to review India's per capita income levels.³ For fiscal year 2014, per capita income levels range from Rs. 15,506 (a bit under \$500) in Bihar, up to Rs. 224,138 (around \$3,500) in Goa.

The strength and influence of India's regional parties on the central government's ability to take leg-

² World Bank, "Assessment of State Implementation of Business Rules," September 2015, <http://bit.ly/1NrvBUl>

³ Niti Aayog (National Institution for Transforming India), "Per Capita NSDP at Current Prices (2004-05 to 2014-15), <http://bit.ly/1inGL0L>.

islative decisions cannot be overstated. Looking at the states holding elections in 2016, the parties that currently run West Bengal and Tamil Nadu, the Trinamool Congress and AIADMK respectively, hold the third and fourth most seats in the lower house of India's national Parliament. Both also rank among the six largest parties in the upper house of Parliament. As we have seen from past Parliament sessions, opponents to specific bills do not need huge numbers to block legislative reforms. The connection between these state elections and federal reforms is most apparent when you consider that the upper house of Parliament is indirectly elected by India's state legislatures. The BJP currently controls less than 20 percent of seats in the upper house. Regional parties hold around half of the upper house seats, and this block is unlikely to change dramatically for several years, even if the BJP continues winning state elections.

India's 2016 state elections also provide a bit of respite for the BJP in balancing federal reforms and local political concerns. Of the five elections, Assam is the only state in which the BJP has a reasonable chance of coming to power. So short-term political considerations should not weigh so heavily on the party's desire to enact reforms that may create immediate discomfort to voters. Some of the Modi government's priority legislative reforms, including land acquisition and labor reforms, are already generating real political heat. But relaxing burdensome rules governing these crucial business factors is frequently listed as among the most important eco-

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economic reforms to stimulate growth.

Finally, the state elections in 2016 will provide another opportunity to measure if the Congress Party remains in free-fall, or if they can begin holding ground. Two states holding elections next year, Assam and Kerala, are among the most populous states where

Congress remains in power. Winning reelection in Kerala is already a difficult challenge based on electoral precedence; the state has not re-elected a sitting government in more than thirty years.

There is a growing appreciation of the importance of the political economies of Indian states when trying to develop a deeper picture of India's national trajectory. Much like the United States, it seems there is always another election around the corner. State leaders play a crucial role in determining the success of India's hopes for economic growth. Regional parties can either play a supportive role, or a spoiler role in the Modi government's legislative reform plans. But perhaps the most important way to look at next year's state elections is the contrast between what these elections mean for India's two main national parties. The BJP has relatively little chance of coming to power in all but one of these states, potentially allowing the Modi government to take some politically difficult decisions. On the other hand, the Congress Party will be fighting to remain a genuine political force in India.

This political battle at the state level will do much to determine what type of India emerges geopolitically in Asia and on the global stage. □