



Political Risk Advisory Briefing: India

Country:	India
Population:	1,339,330,514 (July 2021 est.)
Source:	CIA World Factbook

India has a **Very Possible/High** risk rating of **4.5**

- 6 Very High** The assorted threats described in the report are almost certain to have a derogatory effect.
- 5 High** The threats are extremely likely to negatively affect the business.
- 4 Very Possible** There is a strong likelihood of problems arising in this country.
- 3 Possible** There is a fair chance of problems arising in this country.
- 2 Low** There is a low likelihood of any threats impacting business.
- 1 Very Low** There are virtually no impediments to successful business in this country.



Overview

India, under the leadership of Prime Minister Narendra Modi, has finally come of age. Always considered a serious regional player, it is now stretching its muscles on the international stage. This presents, however, new challenges and friction with neighbours and is already becoming a reality as each look to impose their might on spheres of influence. India has risen at a pivotal moment, with growing stress fractures beginning to appear between each major power with interests in the region – Russia, the US and China. India now joins that club. Its decisions and direction will be pivotal in reshaping the power balance of Asia.

To this end Modi's strong-man campaign speeches garnered a large following among the Hindu Indian public by promising a clear direction in the lead up to the 2014 elections. This was considered an extremely popular manifesto pledge, given that it represented a stark break from the coalition governments of old. Each before him had suffered from in-fighting that produced long periods of policy paralysis since independence in 1947.

Voted into power with an absolute majority in that election, Modi's victory represents the first absolute majority in thirty years. The Bhartiya Janata Party (BJP) was able to build on that majority in the 2019 elections as a direct result of that manifesto and subsequent reforms. They have arguably changed the Indian nation state forever by setting it on a new trajectory to international superpower.

Examples of such changes include a much stronger policy on terrorist groups operating out of (and with support of) Pakistan¹, ending the Islamic Triple Talaq (instant divorce) in India, thereby protecting women's rights and the abrogation of Article 370 of the Indian constitution, which ended the semi-autonomous status for Jammu and Kashmir. They had reinterpreted the Indian constitution and effectively blocked minority groups in Indian society from access to legal redress in terms of citizenship, property ownership and fundamental rights. In doing so, the BJP has forged a stronger, more cohesive national unit at the expense of a few.

¹ Following India's surgical strikes in Kashmir in 2016 as reprisals for the Uri terrorist attacks responsible for the deaths of 19 Indian soldiers, the Indian Air Force - in 2019 - conducted a mission hitting the terrorist camps in Balakot town of Khyber Pakhunwa province.

India's Rise

Even before provocations with the Chinese military in Eastern Ladakh's Galwan River Valley in May 2020, Modi was already viewed as a strongman politician. Having taken the civil service by the scuff-of-the-neck and given it direction and focus his popularity was unrivalled. Nevertheless, he had yet to be tested in a show of strength against a powerful nation like China.

Had the military actions occurred under a Congress Party government, Modi's main domestic opposition, it is now widely believed within India that they would have hastily adopted a policy of appeasement. In fact, it is probable that the CCP were expecting a similar response under Modi. Had it worked, China would have been seen to flex its military muscle with little effort or cost, knocked Modi's confidence down a peg or two, provided the Chinese public with a touch of national pride and provided a distraction from CV19. This, however, is not what happened.

If the Congress Party thought they would gain any political capital from the events, they were seriously mistaken. The Congress Party itself had already been tainted with corruption charges, allegedly taking money from the Chinese Communist Party (CCP) in order to push through a memorandum officially supporting the existing balance of trade between the two countries. However, the policy actually ramped up trade in favour of China. Of course, once this became public, it is fair to say India's love affair with the party of Gandhi began to fade dramatically. This has been compounded by the recent clashes with China over the past year. Moreover, it has not helped that the details of the policy continue to remain deliberately obscured from public view.

The clashes also proved to be a disastrous misstep for China and, of course, a catastrophe for the official opposition of India as it desperately sought to deflect attention from its CCP connections. As a result, Modi was able to use the events to great effect in bolstering Indian pride and build on his political capital with a stirring speech designed to promote his national security agenda and build public trust in his government. Do not forget that, after a full-blown war between the two countries in 1962 in the same area, India was forced to cede territory to China in a humiliating defeat. This has continued to live long in the memory.

In contrast, the CCP could not shut down discussion on the topic soon enough. Chinese netizens were quick to post their deep disappointment on social media. The Indian government named the soldiers who died in the clash and honoured them for their bravery and service to the country. In contrast, the CCP made no mention of military casualties and essentially denied that any casualties had occurred.

The CCP has now put a blanket ban on any form of critical analysis or mention of Chinese casualties. Eight months after the first clash its state-run media made the claim that four Chinese soldiers had died trying to rescue fellow soldiers. The problem with the claim, as raised by one Chinese netizen, was that if these soldiers died trying to rescue their colleagues then there must have been some soldiers who were not rescued and, therefore, died as well. He has now been jailed in China.

While both governments claim the skirmishes started as a result of the other's military personnel illegally crossing into their territory, it should be noted that relations between the Chinese and Indian soldiers on the border were, for many years, very good. Several years ago, in a subtle attempt at 'soft power', Indian patrol officers noticed that while they were very well provisioned, the same could not be said of the Chinese soldiers. They unofficially invited their counterparts to sit, chat and share hot food.

Over the years, as a result of the Indian troop's generosity, both sides got to know each other well. It would seem, however, that news of this 'warming relationship' eventually got back to Beijing. Accounts from the Indian soldiers present at the start of the new clashes stated very clearly that the new Chinese patrol groups were completely unknown to them and that, *"the atmosphere had changed."*

Today we know that the official death toll from the Indian side numbered twenty. The CCP has not released any further information, other than to say that *"the Chinese border patrol had suffered four casualties."* Nevertheless, several intelligence sources (the US among them) have publicly claimed the Chinese death toll was somewhere around forty, possibly higher. This publicly-released intelligence was, of course, seen as a further PR win for Modi on the international stage, regardless of whether the intelligence was accurate or not.

In any case, Modi ramped up India's military troops, equipment and aircraft in the region but so too did China. Any talks of de-escalation in the region have not proved particularly fruitful thus far. Indeed, there was a further clash in January this year, this time in Northern Sikkim, and although both countries have publicly brushed off the event as nothing more than a minor scuffle, China's response was even more muted than normal, suggesting the Indian soldiers got the better of the Chinese soldiers once again.

India's Strategic Position

Were clashes to escalate into a full-blown war, and it should be understood that this is considered a very real possibility within the Indian military, India does have obvious advantages. Firstly, India's soldiers along the border require no acclimatisation training. Many were born and raised in the region or one similar, making fighting in such conditions far easier.

Conversely, recognising that its soldiers require acclimatisation training having been drafted into the region from all over China, the CCP has attempted to use its leverage with Canadian Prime Minister, Justin Trudeau, to allow Chinese soldiers to conduct their cold weather high altitude training there. Although Trudeau did give the go-ahead and a small contingent of Chinese soldiers did undergo some training in Canada, the plan was scrapped once it became public knowledge. The arrest of Meng Wanzhou, the daughter of the founder of Huawei, on US charges of fraud and the circumvention of Iranian sanctions has well and truly killed that relationship. While China is no doubt looking for another country to help with specialised training for its military, it is not yet clear who would be willing to host them.

Secondly, the majority of Indian troops are battle-hardened, having fought against Pakistani soldiers and terrorists in the Kashmiri region for many years. The Chinese have no battle-hardened soldiers. In addition, India's troops are supported by very short supply lines, which are in turn supported by the Indian Air Force. Military airstrips are both well maintained and much closer to the disputed border than China's. Furthermore, France has finally begun to fulfil its Rafale fighter jets contract to India. Political scandals and manoeuvring within the Indian government delayed delivery for nearly 10 years. Once the contract is completed, India will have an additional thirty eight modern fighter jets on stand-by.

While it is well-known that relations between Russia and China are warming as a result of the continual threats from the US for decades leaving Putin little in the way of options, Russia did stop supplying weapons to China during the clashes yet continued to fulfil its weapons contracts with India. Russia and India have had excellent economic, strategic, military and diplomatic ties dating back to the Cold War era. Sources in the region believe that Putin sees India as a powerful ally that could help temper some of the US' and, perhaps more importantly, China's dominance of the former Soviet states in Central Asia.

The Balancing Act

Russia finds itself stuck in the middle of several potential flash points and has, as a result, been forced to take on the role of peacemaker in the region. In fact, it is the only country that could have possibly succeeded in this aim. Sergey Lavrov, Russia's extremely experienced Minister of Foreign Affairs, has just completed a two-day visit to see India's External Affairs Minister, S. Jaishankar. The meeting highlighted the strengthening of ties between two friendly countries along typical economic/trade partnership lines. However, it also mentioned strengthening military ties and has been perceived as a move to counter China's recent aggressions against India.

Putin knows that an over-confident India could unsettle the CCP and trigger further aggression, so Lavrov has extended his talks to include Pakistan, thereby cultivating a careful if precarious balance. Lavrov's visit to Pakistan, the first such visit in nine years, is essentially as a mediator. Pakistan is calling for a conditional peace treaty with India and Modi cannot be seen to back down from his decision to no longer tolerate any form of attacks from Pakistan, or those harboured by it. Interestingly, Lavrov has stated that Russia is also ready to provide military equipment to Pakistan. Indian media is naturally perturbed at the time of writing. Yet there is again little choice for Russia, who must walk a fine line to maintain peace among the big players of the region.

In terms of the Pakistani-Chinese relationship, Indians generally see Pakistan as nothing more than a puppet caught within the Chinese debt trap. China sees Pakistan as part of its own strategic orbit. To counteract this, Modi has tried to show that he is not afraid to get his hands dirty. Where the CCP's economic policies are concerned, this includes the intimation of possible economic sanctions being used as part of its 'unrestricted warfare' plans. Unlike several western countries that claimed they would ban China's social media apps; Modi actually did ban Tick Tok. In addition, he has publicly stated India's support for Taiwan, thereby putting China on notice if they were to pursue more aggressive policies towards the island. Better relationships with Japan, the US and Australia have also strengthened the Quadrilateral Security Dialogue between the four countries, or 'Quad', to counter China's growing aggression in the region.

Yet it is still India, and Modi in particular, who is seen as front and centre of this alliance among the international community. This is highly likely to remain the status quo for the foreseeable future, given the mixed messages emanating from the White House and the Quad's need to keep Russia onside, at least in Asia. Indeed, India has also threatened restrictions on US tech giants Facebook and Twitter, following in the same vein as Russia.

While mooted due to concerns over possible attacks on Modi's government, much like those directed at the previous Trump administration, it could also be perceived as a show of strength in that they have not favoured one side or the other; a difficult balancing trick Modi will have to maintain moving forward.

Future Threats

The Indian government believes that the threat of war with China is more likely now than at any time since 1962. Whilst its main focus is the building up of military strength in the northern regions, the border issue is not the only area of threat from China. The fact that Pakistan, another stakeholder in the area, is viewed in India as an ally of the CCP makes for difficult manoeuvring.

In the last six months foreign investors have poured \$20bn USD into Indian companies. The main reason for this exponential growth is as a direct result of India's phased opening of its market. It has been a success, with India's FDI currently breaking all records – \$39.6bn USD to date this year. Giving the private sector free rein should catapult India forward. The real question, however, is how much of that growth can be attributed to China and what could the results be to the Indian economy if Chinese investors were to decide to pull out 'under orders' from the CCP — a pulling out of the metaphorical financial rug?

On the home front, many of Modi's social policies have been largely biased toward the Hindu community, leaving large swathes of Indian Muslims (over two hundred million people) feeling ignored or, where the banning of the Islamic Triple Talaq is concerned, outright persecuted. As a result, the Congress Party is now actively using the disgruntled community for political ends – a very dangerous proposition that will only serve to stoke greater fear and resentment on both sides. In order to help rebuild a base they have deemed it palatable to drive a wedge of division among the Indian population.

Finally, India still suffers from high levels of corruption at all levels. Modi is now taking a serious interest in this endemic problem and perhaps, even taking a leaf from President Xi's book. Getting control of the situation will be a monumental task. Tackling something that is so woven into the cultural fabric of a country often takes decades to stamp out. If he truly does try to tackle high level corruption, he and his government may well face fierce resistance from organisations within the country that would then happily work for and fund the opposition. This issue is more than likely the least of his major concerns, with his approval ratings over the past year remaining both high and stable and no election until 2024.

APPENDIX

GREY AREA DYNAMICS

Over the years, KCS has made it their business to find workable solutions to impossible problems. To do this, KCS has sought to clearly establish the intelligence gap between perception and reality. In today's market where terrorism, organised crime, cybercrime and government sponsored cyber espionage and war appear to confront us daily, we need reliable tools to identify the risks well in advance. It was for these reasons that KCS created and developed the analysis of risk by Grey Area Dynamics or GAD's, as they are often referred.

GAD's are all the risks, weakness and threats that will, at one time or another, interfere, disrupt or at worst close down businesses. In the projects and work in which KCS have been involved in all over the world, it has been evident that the GAD's identified, can and do kill. This method of risk assessment and measurement goes well beyond standard due diligence and is a collective description of factors, which can be passive and non-passive, legal and illegal. Because GAD's are difficult to quantify or assess from a purely economic viewpoint, these considerations do not normally feature in most credit ratings, investment and banking reports, which focus only on sovereign risk. The main categories of Grey Area Dynamics usually encountered are:

Passive/Legal

- Language & Dialects
- Local Customs & Traditions
- Local Staff – motivation and training
- Tribalism and Integration
- Cultural & Local sentiment
- Regulations, Taxes and Duties
- Currency & Capital exposure – payment methods and banking practice
- Environmental Hazards
- Pressure Groups
- Media Relations

Non-Passive/Legal

- Industrial & Labour Relations
- Absence or effectiveness of Legal Safeguards
- Government Policy and Nationalisation
- Overt and disguised/beneficial ownership

- Bureaucracy and Local Government
- Public or Media hostility

Passive/Illegal

- Bribery & Corruption
- Vested Interests and Cronyism
- Patronage
- Product diversion
- Parallel Trading
- Hidden Barriers to entry

Non-Passive/Illegal

- Counterfeit & Fraud
- Pilferage
- Unfair Market Competition
- Product Piracy
- Ethics and Corporate Espionage
- Organised Crime
- Threats to physical assets
- Kidnap & Extortion
- Religious Extremism
- Terrorism
- Civil Unrest
- Product Contamination

For a risk assessment to be thorough, it must encompass the potential for a broad array of economic, political and business situations that might affect a business venture. Evaluations limited just to political issues or financial factors may be completely misleading. The degree of severity of a risk portfolio will also depend on the origin of the investing entity; for example, European companies often face different risk profiles to American corporations considering the same investment opportunity. Grey Area Dynamics pose a challenge of diagnosis². The key to avoiding problems before they occur or solving them after they have begun to take a toll on performance, lies in their early identification and evaluation. Ignoring the impact of GAD's can be a costly business.

² KCS Group Europe won the European Service Provider of the Year, 1999-2000 at the European Risk Management Awards magazine International Risk Management for their work on GAD's. In 2004, the company won an award for Product of the Year from StrategicRisk.