



 KCS Group Europe

**Country Risk & Threat Advisory Briefing
India**

February 2022

Political Risk Advisory Briefing: India

Grey Area Dynamics Risk Rating of **59.44% (Very Possible)**

Score	Colour	Rating	Description
< 100%		Very High	The assorted threats described are certain to have a derogatory effect.
< 83%		High	The threats are extremely likely to negatively affect the business.
< 66%		Very Possible	There is a strong likelihood of problems arising in this country.
< 49%		Possible	There is a fair chance of problems arising in this country.
< 33%		Low	There is a low likelihood of any threats impacting business.
< 16%		Very Low	There are virtually no impediments to successful business in this country.

Grey Area Dynamics (GADs) are all the risks, weaknesses and threats that have direct and measurable impact on businesses. They are a collective description of behaviours and factors that can at best, disrupt a firm, and at worst, close it down. Relevant to this market, the key division of Grey Area Dynamics is as follows:

	Legal	Illegal
Active	<ul style="list-style-type: none"> Government policy and nationalism Overt and disguised ownership Bureaucracy and local government 	<ul style="list-style-type: none"> Religious extremism Terrorism Civil unrest
Passive	<ul style="list-style-type: none"> Language & dialects Media relations Pressure groups 	<ul style="list-style-type: none"> Bribery & corruption Vested interests and cronyism Patronage and nepotism

The GADs methodology makes the invisible risks, visible, and serves to differentiate between alternative variables in each climate.

For each Grey Area Dynamic, we calculate separate IMPACT, FREQUENCY and LIKELIHOOD grades from 1 – 100%. These scores are based on a combination of over forty years of expert analysis and opinion on the severity of a GAD and its direct/indirect effect on personnel and business operating in a given country. These impacts are reviewed and updated quarterly so as to maintain their relevance.

The formula of $RISK = IMPACT + FREQUENCY \times LIKELIHOOD$ is then applied, and Standard Deviation employed across all 35 variants, to calculate the mean average GAD risk score (expressed as a percentage).

Not only does this allow decision-makers to get an immediate idea of the threat level, but also a deeper breakdown of which specific Grey Area Dynamics are in play, their severity and frequency, and how the divisions of legal/illegal, passive/active are weighted. This kind of information offers a substantial degree of clarity over how the GADs can independently affect a client, and how they may intersect with each other to create the threat profile in a given business environment – thereby allowing a client to better refine or prepare their business plan to take account of where the threats are understood to lie.

Introduction: India syndrome

There is a curious cultural phenomenon ascribed to India: where travellers who visit with a planned itinerary, or who intend to stay only a few weeks, find themselves still in-country months later, disoriented and psychologically changed and often in a region, or occupation, that they never would have done under normal circumstances. This 'India syndrome' represents, as far as is understood, the behavioural confusion and 'break from reality' some experience in this country more than any other. Whether it is the hallucinogenic drugs, the quest for 'enlightenment' or the overpowering culture shock that sits in the gap between expectation and reality, the way we think about India is often emotional and practical.

The challenge for businesses is to not fall into this trap. 'India' as a market, being permanently on the list of growing economies, full of young, technically adept workers, and heralded as an ideal regional trading partner when compared to the more 'politically exposed' regimes of China and Russia. But corporate travellers can still get lost in the wilderness, and disorientation in India's market – much less unexpected or unwanted activity – should be avoided at all costs.

Politics: A one-state man or a one-man state?

Indian politics is inextricable from its President: the charming, charismatic, figurehead, Narendra Modi. Presiding over the biggest electorate in the world, winning the largest numerical mandate in history, he is as iconic in the present day as Gandhi was in his, and his Bharata Janiya Party (BJP) caused a genuine earthquake with their first electoral victory in 2014. But trust, accountability and arguably even democracy itself, have been slowly eroding away over the past decade. What started off as a class-based revolution at the ballot box and an indication that India's old elite no longer held absolute sway, has now become the very thing it was supposed to prevent. India, under the BJP, has slowly become more autocratic and authoritarian, even as Modi continues to be feted nationwide. The most obvious expression is in the unabashed Hindu nationalism that marginalises and demonises Muslims, whether in frequent hate crimes or state-sanctioned annexation of Kashmir; but is also seen in the suppression of previously free Indian journalism, the quiescence of the nominally independent judiciary, and the implicit endorsement of civic violence in support of BJP ends. This is the creation of populism not through the imposition of rules, but the erosion of the mechanisms in place that would ultimately have prevented them.

The environment that this political populism has created is one that should give corporates cause for concern. Businesses can, of course, flourish in somewhat repressive states, but rarely do those states make such a pretence of being democratic. Moreover, the distrust that has crept through Indian society since the election victory in 2014 – that those of a different class, religion or attitude are inescapably against you and must be stopped – could easily extend to businesses that do not follow the party line at all times, or indeed receive opprobrium for following it too closely. An ‘us or them’ environment ultimately works out badly for all concerned. Neither does it appear likely that the BJP will be deposed in the future – through the intricacies of India’s voting mechanisms, the party has an iron grip on a majority, and its continuing approaches to the growing lower/middle-class communities who see their aspirations matched by the BJP’s rhetoric, coupled with the deliberate othering of whole communities as a distraction to the political & economic failures of the government; Modi and his new elite are going nowhere fast.

In practical terms, although Modi’s popularity is currently at its lowest point, there are two years to go until the next election and if anyone can bounce back on a program of populism, then it is him. Questions must be asked though about the consequences of operating in a ‘Modi’ environment, not only economically (of which more below) but in a social context of oppression, nationalism, and populism.

Economy: Money (briefly) no object

Jobs, infrastructure, development: these were three key (and familiar) promises made by Modi during his rise to power. Certainly, each is a big ask in a state of the size, and with the structural problems of India. It is by this metric that Modi will be judged. India’s 1991 ‘liberalisation’, prompted by a desperately needed loan from the IMF, sparked an economic boom unlike anything seen before but one that still, perhaps, has not reached its full potential. The question is whether Modi is passive, or active, in this.

The most infamous economic event was the decision, in 2016, to arbitrarily and immediately remove 86% of India’s paper currency (the 500 and 1000 denominations) from legal circulation, a demonetisation that was supposedly intended to limit the power of the country’s black markets, limit terrorist financing and criminal laundering, and restore confidence in India’s economy.

It arguably achieved none of these things, instead creating unemployment and historically low stock market prices, to say nothing of crime and deaths caused as a result of the mass panic to exchange now-worthless notes. The net result was a 1% drop in India's GDP and condemnation from both domestic and international sources.

However, the intent behind this was arguably good, to pull the economy back on a more formal/legal footing and to push the country further towards digital transformation. This is a key tenet of India's future, as stated in the 2015 'Digital India' policy to enhance infrastructure, literacy, and delivery. The more business can go digital, and remove potential barriers such as physical bureaucracy, counterfeit notes, and traditional means of operating, the greater the opportunities will be. Given that India is already considered a 'tech superpower', this is envisaged as a key development in boosting innovation and invention within the Indian economy – particularly in start-ups which raised more than \$32bn USD in 2021 alone.

Encouraging investment is another of the BJP's baselines. Modi's key policy in this area being the Production-Linked Incentive (PLI) Scheme that rewards businesses for how productive they are and how intensively they contribute to the economy. The attention given to this scheme has led the World Bank to predict India's GDP growth will be 8.3% this fiscal year and 8.7% the next, and the specific consideration that the PLI Scheme will encourage manufacturing and infrastructure development will serve as an extra incentive. It is plain that the government is trying to find a way back to the 'supercharged' economy of 30 years ago, but whether by accident or design, finds this still a pipe dream.

India's economy was badly hit by Covid-19, prompting the largest drop in GDP history and with 2021 seeing the worst contraction the nation's economy had ever undergone. Not only has this exacerbated poverty and wealth inequality, per capita spending and development opportunities naturally declined, and an already poor infrastructure (in all respects) was stretched further. Moreover, long-term economic consequences will be exacerbated by the grey areas of the economy. The youth cohort of the population finding employment opportunities diminished risk drifting back into the fringes, while the true scale of infections/deaths (and the consequences of these when set against economically-damaging measures such as lockdowns or the inability of infrastructure to mitigate the worst of the damage) means that the immediate and long-term future will be less rosy than expressed.

Modi's professed target of an economy worth \$5 trillion will not now happen, with Covid putting paid to even the most cautious predictions, which means that he is not entirely to blame. However, the regression caused by the pandemic is arguably worsened by his continuing inability, or refusal, to institute necessary structural changes and reforms without which the economy is still held back – such as upgrading infrastructure, liberalising markets, and pursuing a higher quality of public-private partnerships.

Operating Environment: There definitely was collusion

There are as many variables in the Indian operating environment as there are firms and opportunities. Given that the country is so vast, and with oversight from central bodies not always applied (whether by accident or deliberately), one's experience may vary depending on the nature of industry, locational infrastructure, and entities with whom you are dealing. The World Bank has posited an incremental improvement in its recent 'Ease of Doing Business' analysis with a general 3.5% improvement between 2019-2021¹, although it is noticeable that in areas such as the enforcement of contracts and the registration of property, India still scores very poorly.

Clearly, a large percentage of the problem is driven by inadequate or knowingly corrupt government (mis-)management and oversight, but neither can it be denied that the business environment and system are also somewhat biased and liable to exploitation. This had perhaps its most obvious expression in the corporate espionage scandal of 2015, where consultancies were bribing government departments in return for sensitive information/advance notice for bids and the like, which they would then sell to contracting corporate clients looking to gain an edge over their competitors. The worst part of this scandal is not perhaps the official involvement (including fake passes, carefully planned after-hours copying of sensitive documents and knowing facilitation of corruption), but the degree to which, allegedly, senior executives across a range of India's top firms were willing to collude in this for their own benefit and to damage each other. It does not inspire confidence in either the government or the corporate sphere – and while such elements were castigated as bad apples, we know from experience that such habits are hard to break.

¹ <https://www.doingbusiness.org/en/data/exploreeconomies/india>

Corruption: The rise of the 1%?

Photographs and images of Indian urban areas provide an interesting contrast: one half of the frame showing run-down, poverty-stricken slums and the other towering, ostentatious tower blocks. The divide cannot be clearer: over here, shattering poverty, and over there, unbelievable wealth. That India retains such inequality, as can literally be seen from crossing the street, is a testament to how the ultra-wealthy in politics and business have thrived while just under 70% of the population live on less than \$2 a day. Unfortunately, this speaks not only to corruption in India that allows such imbalances to exist, but to (as Oxfam put it) the 'rigging of the system' that actively encourages them to continue.

Currently scoring 85/180 on the Corruptions Perceptions Index, unchanged from the previous year, India's reputation for endemic corruption was well-known before Modi took over. As with post-Soviet Russia, perhaps, partially the consequence of newfound freedoms in a liberalised economy with little oversight and restriction, and partially because bad apples tend to float to the top. It is the Asian country where bribery is the most entrenched, where the black economy filters into the quality (and quantity) of the building materials you need or the energy supply you get, and where government bureaucracy and procurement schemes are considered the personal treasure chests of those with the power. This is particularly true where SMEs are concerned, having to deal with officials lower down the totem pole who suffer less scrutiny. As far as government & officialdom is concerned, the two main considerations are 'horse trading' (whereby the influence of a regional- or national-level politician is essentially 'bought' by a corporation in return for financial or other consideration) and 'hafta', essentially an extortion racket to local politicians and 'community leaders' (who might both better be described as gangsters). These are both inevitable consequences of a system where oversight is lax and perfidy well-established, and where there is little appetite from either the public or private spheres to change the rules that they themselves benefit from.

Modi was elected in part on a platform of zero-tolerance towards corruption, but this agenda has only seemed to stretch to how far he can tolerate corruption that does not benefit he or his party in some way. That India's very own 1% began to accumulate a greater proportion of the country's wealth than ever before after Modi's election is no coincidence. A particular problem when the system is biased against the lower social/economic levels, and where the true scale of problems and the degree to which they are interlinked, go unreported.

India has also become an epicentre for cybercrime, a consequence of lax regulation, a highly technically adept population and plunging employment opportunities. Phishing, identity theft and ransomware are common – and just as much so threatening business within India as they do worldwide. As the second-most ‘connected’ country after China, and with businesses of all kinds relying on the Internet to survive, cybercrime against individuals and businesses should be considered almost inevitable. Notably, a veritable explosion of cybercrime was witnessed as a consequence of the initial lockdown in 2020 due to the mass work-from-home mandate, and greater uncertainty over future business opportunities led to rash decisions being made to partner with entities that turned out to be fraudulent.

Personal data (bank account info, passwords) remains the Holy Grail particularly in a society as tech-rich and populated as India. It is concerning that both Russian and Chinese state actors are more than ever seeing India as fertile ground for their own strikes, but that the ‘hacker-for-hire’ culture is not one on which the government has necessarily frowned (indeed as was illustrated by Pegasus leaks, the Indian government is not averse to exploiting unethical tech use itself).

Trade and Foreign Relations: Increasing Russian influence

There are few international relationships that have developed as quickly, or as firmly, as that between India and Russia. Putin and Modi are natural allies, both being autocrats with a self-confessed need to restore the greatness of their countries and, crucially, be seen as the man to do so. A December 2021 meeting saw over two dozen deals done in the fields of trade, technology and energy, a ten-year plan for defence cooperation agreed, and targets set for \$30bn trade exchange and \$50bn mutual investment by 2025. Russia has historically been one of India’s biggest arms suppliers, but such recent developments clearly indicate that Moscow is attempting to broaden her influence in India in far more fundamental and long-lasting means.

This is partly a reaction to the growing tension in the Pacific region between America (which has India as its largest regional trading partner) and China (which has Russia). Should these two superpowers come to sanctions or military blows, it makes sense for the two adjutants to forge their own relationship and ensure a comparatively frictionless source of trade.

It is not perfect – India and China are hardly friends, which will not endear the former to elements of the Russian elite who think the Beijing relationship is the most important, and India retains close ties to the US, which undeniably riles the Russians and Chinese both. But one takes one's friends where you can, and the chance to hive off a little bit of influence from any other nation is not one Russia ever passes up. Moreover, weapons aside, Russia's interests in India are of growing practicality and substance: creating a rail Transport Corridor and a Vladivostok-Chennai Maritime Corridor to boost not only trade, but encourage and enhance joint ventures, and mutual investments in key industries (such as Rosneft's acquisition of 20% of the Essar Refinery), tie the two countries together economically and imply that broader and deeper ties will come. Of course, a greater Russian presence in Indian corporate life means that the Russian state will be exercising its influence through the companies and joint ventures it controls, creating more risk within the Indian market and putting competitors at greater risk in a dog-eat-dog world of politics, and business being one and the same.

The UK has also pinned its hopes of securing a trade deal with India as a benefit of Brexit, albeit one that is delayed due to the Covid-19 pandemic. Formal negotiations began earlier this month and the UK's main hope is to win enough concessions to double trade with India over the next ten years, while India will look to take advantage of the UK's departure from the EU to increase its visa demands. It is envisaged that concrete British investment will be encouraged to focus not only on key sectors such as energy, finance, and real estate, but also heavily focus on the start-up culture, which in India is immense and which can be paired with the UK's similar propensity for 'unicorns' to further elicit opportunities in this area.

There is, however, a debate over how much the UK is focusing on India because of the genuine opportunities that it offers, and how much is because other 'big nations' are either off limits politically-speaking or have declined to show interest. In such a case, companies should be wary of Indian firms presenting themselves almost as a fait accompli for investment or partnerships under the terms of any deal on the basis that it will not be any better elsewhere.

Conclusion

At the Davos World Economic Forum of January 2021, Modi declared that India had offered the world a 'bouquet of hope' with the continuation of its economic progress despite the Covid-19 pandemic, and the general trend of reforms and assistance over his tenure.

And indeed, there is material to genuinely admire in terms of the encouragement of investment, tax/regulatory reforms and the modernisation of practical and digital infrastructure, although his claim that the people of India have developed an ‘unbreakable trust’ in democracy is perhaps a stretch too far. But at every stage, reform is met by lingering bureaucracy and transformation by corruption, and where the encouragement to participate in a digitally driven and forward-thinking system is matched by the recurrence of the ‘old guard’, where governments and corporates alike collude for their own benefit to the expense of everyone else.

And then there is Modi himself – heralded as the saviour of India upon his election, but increasingly seen by everyone, except the BJP faithful, as a millstone ever since. Certainly, there are times Modi leans heavily into the mystical & historical roots of India as the answer for the future, to the degree of being charged with ‘anti-intellectualism’ – never a good look for a country’s leader, particularly one of India’s metrics. Despite clearly positioning himself economically as the man who guides India’s path forward, his political lines are far more focused on what India is not, rather than what she could be – and rare indeed is the politician who does not let his politics bleed over into everything else. For those who risk getting lost in India, they sadly cannot rely on their guide to lead the way.