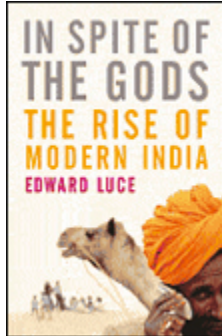




In Spite of the Gods: The Strange Rise of Modern India

Edward Luce

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Introduction

JOANNE MYERS: Good morning. I'm Joanne Myers, Director of Public Affairs Programs, and on behalf of the Carnegie Council I'd like to thank you all for joining us today as we welcome Ed Luce, who will be discussing his book, [*In Spite of the Gods: The Strange Rise of Modern India*](#).

I have always thought that there is no place like India. Having personally traveled there six times since the mid-1980s, it is impossible not to be surprised by India, by the extraordinary mixture of its cultures and religions, races, and languages, and by its ability to overload the senses with the richness of its colors, smells, tastes, and sounds. Every aspect of the country presents itself on a massive, exaggerated, contradictory, paradoxical scale of the sacred and profane, defying all expectations. Simply said, there are very few nations in the world with the enormous variety and promise that India has to offer.

In recent years, the world has focused its intense gaze on China, fearing its military might and economic growth as it races to become the world's next global power. Yet India, like China, is also teetering on the precipice of becoming a superpower and is beginning to attract attention, especially as the United States promotes India as a countervailing force to China. Even so, few have attempted to chronicle the phenomenal growth of contemporary India in quite the same way as that of China—that is, until our speaker today wrote what *The Economist* has called "the definitive generalist account of the country's recent political, economic, and social development of its future prospects."

Using his unique vantage point as a *Financial Times* South Asian Bureau Chief, Mr. Luce spent five years traveling around India observing events and interviewing people, the first four years as Bureau Chief of the *Financial Times* and the last one working on this book. This experience has resulted in a wonderful description which illuminates a country that possesses nuclear weapons, a world-renowned information technology industry that is also home to offshore call centers, and a booming economy whose future will increasingly affect the rest of the world.

But India is also a country that faces many challenges. Mr. Luce writes that: "If India, the second largest country in the world and the largest representative democracy, can establish peace with neighboring and nuclear-armed Pakistan, overcome the rising threat of Hindu nationalism, and bring its 700 million villagers into the modern economy, then its future will be extremely bright."

In the final analysis, his aim, he says, is "to provide an unsentimental evaluation of contemporary India against the backdrop of its widely expected ascent to great-power status in the twenty-first century," and

he does so by examining the forces shaping India as it tries to balance the traditions of the past with an unevenly modernizing present.

Our guest is currently the Washington Bureau Chief for the *Financial Times*. Just before moving to India to become the FT South Asian Bureau Chief in 2001, Mr. Luce worked in the Clinton Administration as a speechwriter for Treasury Secretary [Larry Summers](#). He has also served as the Philippines correspondent and capital markets editor for the FT and the Geneva-based correspondent for *The Guardian*.

Now to take us on this tour of India where, in spite of the gods, this country populated by over 1 billion people has weathered many storms. I invite you to join me in welcoming a very special journalist who, with penetrating insights and lucidity of thought, has written a remarkable book, our speaker, Ed Luce.

Remarks

EDWARD LUCE: Thank you very much for that very generous and comprehensive introduction, Joanne. It is very kind of you to host me here today. It's a wonderful showing. Thank you all for coming.

It sounds odd to say for a British writer, but I associate India and this book in many ways with this country, the United States, or more particularly with Washington, because before I moved to India in mid-2001 for the *Financial Times*, I was based in Washington and when I left India last year it was to move back to Washington. So, unusually for a British writer, I to some extent see India—certainly geopolitical India—through the prism of Washingtonian eyes.

The contrast really between how India was seen before I left, how India was seen in the late 1990s and the early year or two of this century, in Washington by American policymakers, by think-tanks and strategists, and how it is seen now is really quite instructive. In the late 1990s, if you mentioned "India," it was followed immediately by the word "Pakistan," and that India-Pakistan hyphenation was the cause of great resentment amongst Indian diplomats—meant with no disrespect to Pakistan.

Nowadays, if you mention the word "China" in Washington, it is followed, as you know, instantly by the word "India." It's a completely different hyphenation and a completely different context and perspective through which Washington and political and diplomatic America is viewing India in today's world.

I think it is worth emphasizing, although it has become a cliché, just how extraordinary that mind shift is. India has really gone in the eyes of American policymakers from being a potential fire that has to be put out, having along the line of control with Pakistan, as [Bill Clinton](#) famously said, the most dangerous nuclear flashpoint in the world, to being a tremendous economic opportunity, and also to being, in the words of a recent national intelligence estimate and a CIA report, "the global swing state of the twenty-first century." It is seen as the swing state between what is perceived to be a China that increasingly challenges America's preeminence as the twenty-first century unfolds and a United States that wishes to retain its preeminence. India is perceived in a number of documents and labeled as the "swing state." I deal with this in my book under the chapter titled "The Triangular Dance." I think that the relations between these three powers are going to increasingly come to dominate global diplomacy over the next few decades.

I just thought I'd preface my remarks by saying I have a slight Washington prism, and this book contains some of that, certainly the geopolitical aspects of the book.

If I may, what I'd like to do is summarize the main thesis of this book about the rise of India to global—certainly to regional, but possibly to global—prominence by highlighting three aspects of this rise.

The first being its economic transformation. Up until the mid-1980s, India suffered from what was very derisively known as the Hindu rate of growth, named by a Hindu Indian economist, whereby its economy would grow between 3.0 and 3.2 percent a year—since independence that was the rough average—while

at the same time its population was growing at about 2.2 percent a year. This meant that from a very low base it would take sixty or seventy years at that rate of growth with that rate of population growth for the average Indian family to double its income from a pitifully low level.

If you fast-forward to post-1991, with the dismantling of the ["License Raj"](#) and the [IMF](#) emergency program that sparked all these reforms, Indian growth has picked up to 6.0-6.5 percent a year.

And of course, in the last four years it has accelerated further, to about 8.5 percent a year. We are ending our fourth consecutive year of growth of 8.5 percent. At that level, with population growth having fallen to about 1.5 percent, and continuing to fall, it takes about thirteen to fourteen years for the average Indian household to double its income. That is a remarkable difference. From sixty-to-seventy years down to thirteen-to-fourteen years is a huge difference. And it takes the Indian economy nine years to double in size, which is again a huge difference.

A lot of people perceive the Indian economic growth transformation that is occurring to be purely about call centers and about information technology and software maintenance, offshoring operations and so forth, which to a large extent in the early years was true, and it remains a key locomotive of Indian growth. But it has been made less prominent, it has become less of a truism, over time, and especially over the last three or four years, by the rise of India's manufacturing sector. I think this is something that is under-appreciated.

One of the reasons I qualified the subtitle to my book with the word "strange" is not to imply anything pejorative about India's rise, that it's strange that it is happening, but to explain that the sequence of India's development is very unusual. It being a service sector-led development model at this stage of development is not only unusual, it's unique.

However, that uniqueness is beginning to dilute in the Indian growth as the demonstration effect of the IT sector's extraordinary performance spreads to manufacturing and spreads to other sectors of the economy. The financial sector is another example of really booming growth.

Talking of India's manufacturing prowess, just two days ago, when [Tata Steel](#), India's largest steel company, took over [Corus Steel](#) for \$11.3 billion, I was reminded of a comment made about a century ago by the colonial head of British Railways, Frederick Upcott, when [Jamshedji Tata](#) was setting up Tata Steel in eastern India. So contemptuous was he of India's industrial potential and ability to produce steel, he said that he vowed to eat every ounce of Indian steel that Tata could produce. Well, I was reminded of that two days ago when Tata Steel took over Corus, because Corus is renamed British Steel and accounts for every single ton or ounce of steel production in Britain. A really amazing and transformative moment in terms of, not just India's manufacturing capacity, but in terms of the signal it is sending to the world.

This is by no means unique, given the strength of India's leading manufacturing houses. And they're not all old families; they're not all Tatas and [Birlas](#). There are newish families such as the [Ambanis](#); new families such as [Sunil Mittal](#), not to be confused with [Lakshmi Mittal](#), the other steel magnate—that are coming up quite quickly. I believe that something like two-thirds of India's dollar billionaires—and there are now thirty or forty dollar billionaires in India—are new, first generation.

It would be no surprise, I think, given the strength, given the credit rating, given the balance sheet, of India's leading manufacturing companies, if some time in the next three or four years we saw a Tata Motors taking over GM or an [ICICI Bank](#) taking over Citicorp. This might sound a little bit outlandish, but the growth that is taking place I think justifies this. Or, indeed, an [Infosys](#) or a WitPro [a software systems and engineering company, headquartered in Bangalore] taking over IBM. These are very impressive companies, that are homegrown, that are not in joint venture with foreign direct investors, and that are not borrowing huge amounts of capital on the international markets. They have very, very strong balance sheets.

When I moved to India in mid-2001, one of the first things I read was an article in The Times of India

agonizing over India's anemic performance in cellular telephony. The statistic they were agonizing over was the fact that India only had 3 million mobile phones, a total stock of 3 million, whereas China was adding 3 million every month. This was as stark a statistical illustration of India's economic anemia as *The Times of India* could think of.

India now has 150 million mobile phone subscribers, five and a half short years later, and is adding 6 million a month on average over the last six months. China is up to 400 million and something, so it is still way ahead. But I can't think of a better or starker illustration than that of just how quickly and tangibly the economic feeling is changing on India's streets.

Nor is that confined, as I said before, to services. Nokia is now producing the handsets of manufacturing plants. I think Motorola is moving in and one or two of the other handset manufacturers are moving in. They are now manufacturing these handsets in India and exporting them to Southeast Asia.

I wouldn't want to give you the impression that utopia is around the corner. The extent and the magnitude of poverty in India remains, I think, quite staggering. And the prospects and life chances of large swathes of India, most particularly the 250-300 million people who live below the absolute poverty threshold of a dollar a day—the [World Bank's definition](#)—their life chances are changing far too slowly, if at all. The rate at which that absolute poverty rate is falling, those living in absolute poverty, is far too slow. It nevertheless is falling.

The other day there was a very good article in *The New York Times* by [Somini Sengupta](#), looking at the growth of affluenza in India's booming metropolitan centers. She cited a very interesting statistic: one in five of school children in Delhi are suffering from obesity. And other symptoms of affluenza are also emerging, such as bulimia and things like that. At the same time, 42 percent of India's children are chronically underweight at birth and chronically malnourished in the zero-to-five age group, according to the [UNDP](#), which is a far higher proportion of children who are chronically underweight than you find in sub-Saharan Africa, a significantly poorer and much slower-growing region of the world.

This gap—this, on the one hand, very visible, very conspicuous affluenza, and all the sorts of affluence and all the affluenza problems that come with it; and the persistence of stark poverty, on the other—is growing. Even though poverty is falling, the growth rate for middle classes is faster, so that the inequality gap is growing. I think that difference—poverty falls 1 percent a year but the economy grows 8 percent a year—that 7 percent gap I really attribute to the inefficiencies and in many respects the inequities of the Indian state, which ought to be providing the kinds of things that those at the bottom level of the socioeconomic ladder are receiving for the most part in China. This is a very serious consideration when we look at the stellar, and in many ways fantastic, rise of the Indian economy. This caveat really ought to be very prominently borne in mind.

The second area I wanted to highlight is India's geopolitical emergence. As you are all aware, in 1998 India tested nuclear weapons in the Rajasthan Desert, followed shortly thereafter by Pakistan, which tested six. India tested five. This was met with instant American ratcheting-up of the already preexisting American nuclear-related sanctions and a response from other parts of the world, including Japan.

A few short years later, we have a Bush Administration that not only lifted those sanctions several years back, shortly after 9/11, but which has driven a coach and horses through the [Nuclear Nonproliferation Treaty](#) in order to accommodate India's unofficial entry as the sixth nuclear power on the world state.

And not only that. It is pretty extraordinary, that given the nonproliferation hawks in the State Department, in the think-tanks in Washington, and in the Democratic and Republican parties, as well as the fact that this measure is so controversial amongst many of America's allies in the nuclear suppliers group, the Bush Administration in last November's lame-duck Congress was able to push through the measure with a Senate vote of 85-12. It is not often that controversial Bush initiatives get that kind of margin of support. I think it illustrates the massive consensus there is now, in spite of flaws in the relationship between the United States and India, in spite of evident flaws in this civil nuclear deal, which,

by explicitly assisting India's civilian nuclear industry, implicitly assists its nuclear weapons development—that, in spite of all these problems, there is an 85-12 vote in favor of pushing ahead with what India wants and with a deal that was, I think by any objective analysis, one in which India did best.

So what has happened? Why has America switched so decisively, symbolically and substantively, in its view of India and its dealings with India?

I think China is the unspoken word. It is never mentioned in any diplomatic communications between India and the United States. Indeed, when the Indians met the Chinese recently, when [Manmohan Singh](#) met [Hu Jintao](#), they used the same language of wanting a multipolar world. So the language would actually not provide a clue.

But I think it is very clear from America's point of view that India is the only possible country of the size, the geography, and like mindedness to play a counterbalancing role to China in the years ahead and in the decades ahead.

Watching the level of interaction between the Indian and the U.S. military, the number of joint exercises involving aircraft carriers, involving tank formations, involving jet fighters, and so forth, and the frequency with which these exercises are occurring—there was one recently that was conducted on India's Kashmir border with China; the fact that they are conducting joint patrols through the Malacca Straits and in the Indian Ocean, anti-piracy patrols; and other areas of very regular and very explicit military cooperation—I think is very interesting to watch.

At the same time, you have China developing closer relations with many of India's neighbors. The Chinese are building a port in Myanmar [Burma], and they are building a port in Pakistan, both of which will be able to host Chinese naval visits. They are also developing very close relations with Bangladesh.

And of course, as I'm sure you have picked up, following the U.S.-India nuclear deal, Chinese-Pakistan nuclear cooperation talks have been intensified. I don't think Pakistan got all that it wanted. Pakistan wanted effectively the same status as India and, given [A.Q. Khan](#), given its proliferation record, it was never going to get that. But since China is the supplier of Pakistan's nuclear technology, the principal supplier, it turned to China, and China didn't turn it down.

So there are interesting things going on here. India sees this as encirclement and is responding in kind. It is developing very close relations with some of China's more neuralgic neighbors, for example Vietnam and Japan. Manmohan Singh recently met [Shinzo Abe](#), the Japanese Prime Minister, who said, again with pardonable hyperbole I think, that ten years from now Japan's relations with India will be more important than Japan's relations with the United States. For a Japanese Prime Minister—they weigh their words, as you know, very carefully—to say that, with pardonable exaggeration, is interesting I think.

None of which is to suggest, and I'm not predicting, conflict between India and China. And indeed, relations between the two are better—or less bad at any rate—than they have ever been. But I think it is worth focusing in on this triangular relationship, this triangular dance as I call it in my book, because it is going to become increasingly important. I think it is under-appreciated, not just here but in Europe and elsewhere. It is under-appreciated outside of Asia.

I have no doubt—and this might be an optimistic prediction—that when the history of the early decades of the twenty-first century comes to be written, the emergence of this geopolitical dance and the rise of India and China will be seen as more important than the war on Islamist terrorism. That is quite an optimistic prediction, but I am pretty sure that the significance of this is under-appreciated by Americans, British, and others.

The third area that I wanted to touch upon is India's social and political change. Probably in the 1970s, [E.P. Thompson](#), a British historian, wrote about India that: "All the influences of the world can be found in India—Hindu, Muslim, Sikh, Christian; socialist, liberal, Stalinist, Maoist, Gandhian, et cetera. There is not

a thought that is being thought in the East or the West that is not active in some Indian mind. India is the most important country to the future of the world." Again, that last sentence might have an element of pardonable exaggeration, although maybe not.

The misnamed "experiment" of Indian democracy—misnamed because this is very much an experiment that is over; it is working, it is durable, it is there for keeps—has often been seen, I think, as just a sort of dignified name for a complete mess. And, indeed, when E.P. Thompson wrote those lines in the 1970s, Indian democracy wasn't necessarily taken for granted. There was the nineteen-month suspension during the emergency by [Indira Gandhi](#) of Indian democracy.

In the early years after India's independence, it was very fashionable for Western scholars and diplomats, particularly British ones, to give Indian democracy five-to-ten years before it collapsed and was replaced by autocracy. It was also fashionable to predict that India's integrity as a nation-state, India's boundaries, wouldn't remain the same; so diverse, so heterogeneous, was this country, so impossibly contradictory, that it would break up. Both of those assumptions have been, I think, conclusively belied by events, and I have no doubt will continue to be conclusively belied.

The step change, if you like, in Indian democracy over the last ten-to-fifteen years, with its absorption of what the writer [V.S. Naipaul](#) called "the million mutinies," the manifold and varied caste rebellions, the social backlashes, the boiling over of this social pressure cooker in a system of "one person, one vote," is something that I think in other parts of the world might well have led to a derailing of the political system, of the democratic system, but in India has occurred through the move from one-party rule, one-party democratically elected rule of the [Congress Party](#), to twenty-to-twenty-four multiparty coalition governments. No country in the world has coalition governments this large that survive.

But they survived five years. They survived five years at a great cost in some respects, in terms of corruption and the patronage that the smaller parties, and indeed the Congress Party, demanded as a price for propping up the government. But nevertheless they provide stable, relatively coherent government.

These social rebellions, this politicization of the caste system, this backlash of the lower orders, is occurring peacefully, through the ballot box, through a process of civic negotiation, through a process of coalition government, through by and large the rule of law.

I think the fact that this is happening in this way and that caste is losing its more offensive aspects—it's not disappearing; I don't think it is ever going to really disappear; I think they are turning into kind of ethnic groups—I think the fact that this is happening in this way is quite extraordinary. And again, I think is under-appreciated, partly because we have this Pavlovian way of thinking of Indian democracy: complete mess, very colorful, but really can't be bothered to find out about it. If you take a 30,000-foot view of what is going on and stand back a little bit, I think you see it in a much, much more majestic light.

Now, again, I wouldn't want to leave you without huge caveats, and this book is full of them.

The rise of Hindu nationalism is one. Its retreat since the [BJP](#) [Bharatiya Janata Party] was defeated in 2004 may or may not be temporary, but the more broad rise of the Hindu nationalist movement I think provides a serious threat, if not to Indian democracy, certainly to Indian liberalism, and therefore to Indian stability.

So there are many caveats. Corruption is another, of course. The kleptocracies that are ruling some of the states, particularly in northern India and the poorest regions of India, where caste parties rule, sometimes a single-party government, are no joke and do provide a great check on development in those parts of India.

So it is important to bear in mind this is a very variegated process. It is nonetheless, I think, an equally

extraordinary transformation, the political and social transformation that is going on in India, as the first two I mentioned, the economic growth point and the geopolitical rise of India.

What I'll probably do is stop there for questions. But just to end by saying that I am sure none of you expected this to be like that, but there is a tradition of foreign correspondents writing sort of Orientalist books about India. So any of you who might have been expecting a book or a talk about eunuchs and lepers and so forth, or snake charmers, I hope will have been disabused. As Joanne said, this is really an attempt to provide an unsentimental account of a political economy, of India's changes and its rising geopolitical significance. Anyway, I'll stop there.

Questions and Answers

QUESTION: Thank you for a very interesting talk. My wife is Indian and she has a small factory, low-tech, in Delhi with about 300 employees. She has had it for ten years and lived here for over twenty. We both go frequently.

You touched on the behavior of the government a couple of times today, referring to the lower strata of society and corruption. It is so bad for her. She has to deal with every conceivable obstacle the government can place in the way of her entirely export-oriented, entirely positive business, which employs the poorest people imaginable, many Muslim men for instance.

It got to the point where at another institution we heard a talk by the Indian Minister of Science and Technology. With great difficulty from here, she set up an appointment with him. He happened to be from the same region of India as the guy who manages her factory in Delhi.

So the two of them went to see the minister. I can't tell you what she said about him and his office and all the people hanging around doing nothing. But the point was that he was asked to try to get off of the back of this factory and its manager the corrupt people who were constantly hitting him up for bribes and so on and so forth. She says it has not improved one iota in the last ten years. What would you comment?

EDWARD LUCE: My wife is also Indian, and she works for the World Bank and has done a study on this which would bear out everything that you say. Fifteen percent of management time in Indian small businesses is taken up dealing with regulatory hassle, which is a euphemism often for corruption, whether you are talking about the health inspectors, whether you are talking about the fire inspectors, the labor inspectors, or whatever. There is still a great deal of red tape in India.

It doesn't surprise me to hear that your wife is experiencing just as bad a problem with corruption as she was ten years ago. It is receding in many areas of Indian economic life though, and that is partly because the substantial dismantlement of the "License Raj" has reduced the number of times you need to go to the government to get permission to do things.

But I think one of the worst aspects of that is the labor law, which says that if you employ more than a hundred people, you need the permission of the state government to reduce your labor force, to sack people or have voluntary retirement programs. That, of course, is a massive corruption opportunity. It is also a massive disincentive to hiring people in the first place. It is one of those laws of unintended consequences. Until that changes, and until the government is really monitored a lot more effectively by audit groups, by the media, and by nongovernmental organizations, I fear your wife will continue to suffer this kind of harassment.

QUESTION: I read a statistic the other day which claimed that outside of Iraq there are more terrorist attacks in India than any other country in the world—obviously not on the scale of mass deaths, and yet at the same time a notable potential problem for the Indian government going forward. Could you talk a little bit about how you expect India will respond to terrorism in terms of both internally and with

neighboring powers, such as Pakistan and so forth?

EDWARD LUCE: Yes. There are two types of terrorism that India suffers from.

One is in the northeast, [the collection of seven states](#)—the "chicken's neck" as it is called—that are sort of out on a limb there geographically, bordering China up in the Himalayas, of Assam and Mizoram and places like that, Nagaland, all of which have their own separatist movements and terrorist arms, mostly funded and sustained by neighboring countries—in the past by China, but China has pulled back; now more by Bangladesh. They are very, very low level. They don't pose a threat to the Indian state.

India, as you see in Kashmir, over-responds militaristically, which exacerbates the problem. I suspect 40 percent of your terrorist incidents, to get that number in India, would come from the northeast. Not causing huge chaos. These are sort of fairly low-level groups.

The second, by far the most serious, is in Kashmir or Kashmir-related in the rest of India, some of which is indigenous and sustained by Kashmiri groups themselves. More and more of it, though, over the last ten-to-fifteen years has really been provided logistically, in terms of training, by Pakistan.

I think we will continue to see Islamist terrorism and Kashmiri separatist terrorism in some form or other whilst India and Pakistan as nation-states have failed to tackle the core issues that divide them. There are some who believe that they are un-tacklable because Pakistan is supposed to be a home for South Asia's Muslims and India has 150 million Muslims. So there is an existential problem to that that cannot be solved while Pakistan exists. Hopefully, people will be able to get round these existential problems.

At the moment, the peace process in Kashmir is alive and continuing, but it is vulnerable to the kinds of terrorism that you have seen in India over the last few years in Bombay and in Delhi, and particularly [the attack on India's Parliament in 2001](#). That was the most frightening, because if it had succeeded, and it came very close to succeeding—it was right next to the Parliament building whilst it was in session—it would have wiped out two-thirds of the Cabinet, including the Prime Minister. If that had happened, there would have been war. I was there at the time.

India responded by sending a million soldiers to the border with Pakistan for nine months, and eventually this led to the peace process. So I would say all's well that ends well, but with India and Pakistan you can never be quite sure. But at the moment we are in the fourth year of a peace process. I am relatively optimistic.

QUESTION: *The Economist* ran a profile on India in the last few months. They said among the growing problems seems to be a concentration of industry—i.e., in Bangalore—where the infrastructure problems are becoming so great; that is, the transportation problems are beginning to clog the growth system.

They also have a tangential effect, in that the railroad system apparently isn't very good, and so you have this huge trucking industry. The result of the trucking industry is an enormous spread of HIV throughout the country.

I'm wondering if you could capture both of these and address it in some way.

EDWARD LUCE: HIV as well?

QUESTIONER: If you wish.

EDWARD LUCE: All right, I'll try. You're right, that's the main system of transmission around the country, is through the trucking stops where the sex workers hang out.

India has 5.7 million people with HIV, which now makes it the largest sufferer in the world. It has

overtaken South Africa recently. Of course, it has a population many times the size of South Africa. But the fear is—the fact is— that it is under-measured and that the poorer states in India in the north don't monitor it or test for it in the same way that the states in the south do. The southern states are better managed, have less corrupt, more efficient bureaucracies, and so have this paradox of being ahead on all the positive human development indicators but also being ahead of the north in HIV/AIDS numbers. I think the reason for that is simply because they are measuring it.

A lot of men in states like Bihar and Uttar Pradesh, which don't measure it properly, are migrant laborers who travel seasonally to the big cities like Delhi and Bombay and Chennai and other places, and then go home to their wives and families for portions of the year. They are undoubtedly high-risk vectors of HIV, and they are not being measured. So I suspect that the Indian HIV problem— and it is one of the four really serious challenges I identify that India has to tackle—could actually pose a threat to this relatively rosy scenario it finds itself in.

Infrastructure I'll very quickly answer. Like many things in India, it is improving too slowly. I mean India is going in the right direction but not quick enough. Indian Railways is being upgraded. It is the most extensive rail network in the world. It is being upgraded, ironically, under the leadership of possibly its most corrupt lower-caste leader, a guy called [Lalu Yadav](#), who is Railways Minister, and who has been so corrupt for so long, I think he just got bored of it and thought he'd try his hand at being an efficient Railways Minister, and is doing a remarkable job.

QUESTION: Fund managers have been much more bullish about the Indian economy than economists have been, for many of the reasons that you have cited: corruption, infrastructure, inequality, massive poverty. To what extent do the economic constraints that you have been talking about and that I just mentioned pose a threat to the success stories like Tata and Infosys, and are fund managers suffering from irrational exuberance by not focusing on that so much?

EDWARD LUCE: The inequality problem: I cite in this book one of, I think, the best American academic writers on India, [Myron Weiner](#), who unfortunately died a few years ago, but who uses analogy to illuminate why India's diversity—social and cultural, religious and ethnic, linguistic—why India's bewildering diversity was a factor contributing to India's stability. The metaphor he used was of the juggernaut with twelve wheels, the large lorry going down the road that has twelve wheels. If one wheel goes flat or punctures or falls off, it continues going. Whereas China goes much more rapidly but it has only four wheels. If one comes off, then you're not sure about the stability of the vehicle.

I think what he meant, what he was very aptly illustrating, was that Indian democracy takes place at the state level, not really at the national level. There are good elements to that and there are bad elements to that.

Electoral turnout is far higher at state elections than it is for national elections. I often think of it as equivalent to European elections in Europe. In Britain, we vote in far higher numbers for British general elections than we do for European elections. And that applies to all European countries.

I think a lot of Indians would see national elections in India a bit like we see European elections in Europe —"Delhi is far away." This, I think, acts as a brake on the kind of social backlash you might be expecting because of this growing economic inequality, which you might see spread much more quickly nationally in a place like China than you do in India.

India has practice every day at dealing with [Tiananmen Square-style protests](#) and not using bullets. And they don't spread to the next state because the next state is run by a different cast of people, who speak a different language and probably worship a different god.

So I don't fear for India's stability. I think, just as a final rejoinder to that—unless it gets so bad, which I don't think it will—these migrant laborers that I was talking about are participating in and getting the small change from the metropolitan booms in other parts of India and remitting it back to the poorest

states in India. This money is accumulating and the savings rate is rising, and it is starting to create small businesses and different grassroots electoral pressures on the kleptocratic governments that are ruling those states. So I think there is a sort of self-correcting element to the Indian inequality gap.

QUESTION: Since you are so knowledgeable in so many ways and you've been emphasizing geopolitics, would you help us to see what India thinks—let's say in Delhi—in looking around at its traditional empires and areas and other aspirations? You were talking about terrorism, but you didn't get to Sri Lanka and the Tamils. And certainly there is resentment of India as the big power in the area. So could you talk about geopolitics from Delhi, please?

EDWARD LUCE: The local, as in South Asia, geopolitics—aside from the India-Pakistan relationship, which of course bedevils everything. If you look at the [South Asian Association for Regional Cooperation](#), a seven-member group that India set up in the 1980s under Indira Gandhi—India, Pakistan, Nepal, Bangladesh, Maldives, Sri Lanka, and Bhutan—really there are only three countries there that have any sort of population weight: India, Pakistan, and Bangladesh. Sri Lanka, though, is critical as well.

I think the problem with the way India has managed this—India is 80 percent of the population of SAARC—is nothing is going to happen unless India makes it happen; and nothing is going to happen, given the resentment and fears of India's neighbors, unless India actually makes concessions first. The Indian market is now a really large honey pot that could be used to spread goodwill and create different economic vested interests across the border with Pakistan, for example. And yet, only 3 or 4 percent of the trade of SAARC is intra-SAARC. They don't trade with each other. Until they do, I think this inevitable suspicion and resentment that India's neighbors have towards India will persist, even if India is behaving well, which isn't always the case, by virtue simply of India's size.

Manmohan Singh, the Prime Minister now, is an economist, an enlightened man—not because he is an economist, but he happens also to be an enlightened man—and I think a very progressive statesman. Not the most powerful of Indian prime ministers, unfortunately, but he has the right ideas along these lines. But I fear the India-Pakistan roadblock is just too big to get around. They have to fix that first before India starts treating its neighbors as it should be treating its neighbors.

I didn't really answer your Sri Lanka question because I wasn't quite sure what it was.

QUESTIONER: How can the Sri Lankan situation be solved without India really wanting it to be solved?

EDWARD LUCE: I was talking to somebody here earlier a little bit about Sri Lanka and the assassination of [Rajiv Gandhi](#). Once bitten, twice shy. When India got involved in the Sri Lankan peace process—and of course, then from being a supposedly neutral peacekeeper gradually became a major player in attempting to fight the [Tamil Tigers](#)—it lost a prime minister, and not only a prime minister, the Nehru Gandhi scion. So I think India is wary of Sri Lanka.

It has been assisting the Sri Lankan peace process, but it has been moderated by the Norwegians. It is not going very well. India's diplomacy could be more involved, could be more instructive, but I understand why it isn't.

QUESTION: You had talked about development and inequality. I was curious if you could get into a bit more detail and provide examples of what is working in India for poverty alleviation and what India is doing that is not working so well from what you have seen.

EDWARD LUCE: That is a regional story again. A good example of what is working is the midday meal program. The midday meal program is an incentive for children to be sent to school because the government provides hot, cooked midday meals in the most impoverished rural areas. That works in the south. Suddenly you are getting 90-95 percent enrollment and attendance, including of girls, the same proportion of girls as boys.

But it doesn't work in the north, or in all parts of the north. I think one of the reasons for that is there is more caste consciousness still in the north. The south is ahead in many respects. It is more urbanized, there is more of a middle class, there is more civic mindedness that comes with development and that transcends caste. So in the north, children of upper-class parents who aren't sent to school, who are kept at home, especially the girls for the upper-class families, say, "We don't know who's cooking that. It could be an untouchable who's cooking it." So you've got these kinds of barriers.

It is very, very hard in India to disentangle the economic from the social when you are looking at what is best practice and what isn't. You often read antiseptic World Bank reports—except those written by my wife, which are really lively—that just take economics as a sort of discrete subject in its own right. It almost always fails to actually tell you why what is happening is happening.

QUESTION: The public services. The World Bank has a very interesting position paper, not a whole study—maybe your wife wrote it—about the missing doctors in health clinics, the missing teachers, the lack of compulsory education. What's your sense? If these things were properly implemented, could this cut across some of this caste problem?

EDWARD LUCE: Social service provision, or the lack thereof, is I think, intimately bounded up with another World Bank hobbyhorse, which is civil service reform. By "civil service reform" I think that's a euphemism for making civil servants sackable. The fact that it is impossible to sack a civil servant, whether they are a teacher or a doctor or a bureaucrat in a ministry, even when they are caught with their hand in the till, is a huge, huge problem to reforming the civil service.

Why is it that private schools at the grassroots level in the slums and in the villages that charge 50 rupees or 100 rupees a month have a 100 percent teacher attendance record and at government schools only one in three turn up? I commend the privatization of India. I would recommend the reform of the state. You are not going to lift people out of poverty through the market, or solely through the market. The state has to play a more positive role. So I think the Gordian Knot that Manmohan Singh and others have really got to untie, but have so far largely failed to untie, is that of tackling this vast, vested interest of the bureaucracy.

JOANNE MYERS: Thank you for an extraordinary presentation.

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