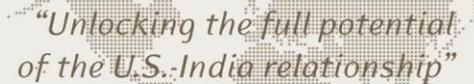


U.S.-INDIA INSIGHT

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 “Unlocking the full potential
of the U.S.-India relationship”

India’s States: Agents of Change

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India is in the midst of a series of monumental changes. There is the rise of a hitherto miniscule middle class, infrastructure development, the rapid spread and new uses of technology, a massive rural-to-urban migration, and increased trade relations within the region and beyond, just to name a few. It is also hopefully on the cusp of passing some second-generation economic reforms. Any one of these issues requires a substantial amount of manpower and constructive policymaking, but managing them simultaneously is a different story altogether.

Intrinsic in these enormous changes is a shift from a centralized power structure in New Delhi to an increasingly vocal group of states, union territories, and megacities that seek to influence decisionmaking and take an active role in policymaking that affects their citizens. Indeed, one observer of India has gone so far as to say: “India’s most exciting stories are now in the states, not at the federal level.”

Shifts in Power

India’s 28 states and 7 union territories are as different as California, Iowa, and Florida. Add to that 45 cities with over 1 million people apiece (by comparison, Europe has 35), each one growing in influence because of the demands of its citizens and business communities. States such as Maharashtra, Tamil Nadu, and Gujarat have large industrial bases; others are urgently updating their infrastructure and human capital to compete with these influential states.

According to *India Today*’s 2011 “State of the States” coverage, which ranks states based on several criteria, it is a common perception that India is governed from New Delhi (the “Center”). However, the reality of policymaking is that, as in the United States, though the Center controls the budget for needed reforms and oversight, implementation strategies are largely up to states—especially on key reform issues like infrastructure, energy, education, health, and agriculture.

The past year’s political paralysis in New Delhi has also served to shift the attention of foreign investors (and their governments) from the Center to the states. Many find it more useful to approach state capitals and business associations about political and economic developments in the near term. This shift in power, whether real or perceived, has become significant to the future of politics in India.

After a recent visit to India, former U.S. secretary of state Madeleine Albright noted that she was especially struck by the fact that “Indian states are playing a greater role in policy development throughout the country, often creating their own set of policies and regulations that in turn impact the national discussion. Of

Powering Gujarat

It was tough to find any good news in India’s recent blackout, but there was a sliver in the fact that half the country was without power, demonstrating that India has developed an interconnected grid. The interconnected grid is supposed to make power supply more efficient for all, as power-deficit states can take power from power-surplus states. The Center was responsible for this over the last decade. It’s one of the better initiatives that the Center has taken and shows that as much as India’s states are a source of innovation and good governance, the Center has a real role to play.

The state of Gujarat has led India in developing power. From having a power deficit, Gujarat has developed a power surplus. According to the *Times of India*, the Narendra Modi government has been able to ensure almost 24-hour electricity supply—not just to cities but to the state’s 18,000 villages—by implementing the Jyoti Gram Project. Said the *Times*: “Even the government of India has accepted this as a flagship scheme for supplying round-the-clock, high-quality, power to all villages.”

Gujarat’s success has been built on prudent policy. The policy isn’t rocket science: increase fuel supplies to current and future power plants so they can run at full capacity, speed clearances for power plant construction, reduce subsidies that promote inefficient use of electricity, and build out the power transmission and distribution capabilities of the state.

Gujarat is building infrastructure to pick up where the Center is failing. Coal India, India’s government-owned coal company, is not able to mine and transport coal to meet India’s need—this despite India being naturally rich in coal, albeit poor-quality coal. Gujarat has built one of

(Continued on next page.)

comparable importance is the political power individual states have to encourage or block certain politics.”

A leading example of this is the ongoing effort to try to open India’s \$450 billion multi-brand retail sector to foreign investment. A number of regional parties, led by the Trinamool Congress Party, vehemently objected to the idea of a blanket increase in foreign direct investment (FDI) in this sector to 51 percent and caused a major political embarrassment for the ruling coalition government, demanding the rollback of the already announced initiative. Minister of Commerce and Industry Anand Sharma has been trying to mend relations with foreign investors, promising that FDI in the sector will move forward “soon”—but now it will be up to the states to implement as they see fit.

Driving Change

Economic growth and development is as pressing for India’s states as it is for India as a whole. A number of reformist chief ministers have driven growth that would make any country (many Indian states are the size of countries) envious.

Chief Minister Narendra Modi of Gujarat has demonstrated effective economic administration, with his state averaging 10 percent growth over the past decade. His focus on energy and power has also attracted great attention (see accompanying article “Powering Gujarat”). The focus of Chief Minister Nitish Kumar of Bihar on economic development is turning around what was considered an Indian backwater. Today that state’s economy is growing at 13 percent. Chief Minister Prem Kumar Dhumal of Himachal Pradesh is rapidly expanding its road network, enabling connectivity, and bringing down barriers to business, education, and employment opportunities.

The United States Is “Getting It”

In recognition of the changing political and economic landscape, high-ranking U.S. officials, from Secretary of State Hillary Clinton to Commerce Secretary John Bryson, have chosen to visit India’s states and megacities to deliver important policy speeches as part of trade missions and to meet the chief ministers driving these changes. State leaders from Maryland, Virginia, and Delaware are making direct trade and investment deals with Indian states. Senator Mark Warner, cochair of the Senate India Caucus with Senator John Cornyn, led a delegation to Jaipur, Hyderabad, and Kolkata, in addition to New Delhi.

In addition to U.S. officials, more and more American businessmen and investors are getting outside the Delhi “beltway” and connecting directly with India’s states. Former U.S. ambassador Timothy Roemer explained why: “If you are a business woman or man planning to engage in a new opportunity and innovation in America, you are not going to go to Washington, D.C., and meet with the secretary of commerce to find out about land acquisition and environmental issues and tax policy. You meet governors at the state level, and you try to find a partner in that state. Similarly in India you go and meet the chief minister. U.S. businesses need to understand doing business at the local level.”

It is no less true in India today as it is in the United States that “all politics is local.” In twenty-first-century U.S.-India relations, unlocking the full potential of the relationship will require a deeper understanding of the policy dynamics in the states—and the role they are playing as agents of change in India today.

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the largest coal handling ports, Mundra, to handle the import of coal from Southeast Asia and Africa to overcome the limitations of Coal India.

So it’s good news that India is interconnected. It’s good news that some states are powering their way to 24/7 power. But it’s bad news that the Center is moving so slowly. The same reforms enacted by Gujarat could have been pushed by the Center and powered the nation. Instead, half of India gets a blackout. India needs power and it needs it now. The states can and should push ahead with reform, but the Center needs to step up. Much needs to be done; the situation was dire before the blackout for many Indians and remains dire even after the restoration. The satirical newspaper the *Onion* said it best, “300 Million Without Electricity In India After Restoration Of Power Grid.”

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Link of Interest

Karl Inderfurth, “[U.S.-India Relations: Untangling Myths](#),” *India Abroad*, August 3, 2012.