Quantum Advisors
BUILDING YOUR INDIA PORTFOLIO

Government Actioned Politics

COALITIONS CAN PERFORM

Since the Congress party first lost national elections in 1977 to the Janata Party (a motley crew of political parties whose only unifying factor was their hatred for Mrs. Indira Gandhi and her draconian Emergency declared in 1975), India has seen the emergence of small state-level or regional parties commanding a larger play in the national politics. This has changed the landscape of India's political system to such an extent that some recent coalition governments have been created with 17 parties with some of these parties providing 2 seats in a 278-seat "majority" government.

Hanging – not always by a thread.

India, a country which gained independence in 1947, has had 13 Lok Sabha (the Lower House of Parliament) elections of which the past 4 elections have all resulted in "hung" parliaments (see Table 1). A coalition government has governed India since 1996. The tenure of these governments has varied from 13 days (May 15 to May 30, 1996 a BJP-led government that failed to prove its majority and, hence, statistically does not show up as a "government") to governments that were able to complete their full 5-year term (the National Democratic Alliance led by the BJP governed India from June 1999 to May 2004).

Table 1

Party	Period	Months in power
Congress	January 1980 - October 1984	58
Congress	October 1984 - December 1989	63
Janata Dal*	December 1989 - June 1991	19
Congress	June 1991 - May 1996	60
Democratic Front*	June 1996 - March 1998	22
BJP*	March 1998 - April 1999	14
National Democratic Alliance*	June 1999 - May 2004	60
United Progressive Alliance*	May 2004 -	

* Coalition government

By definition, coalition governments cannot be stable and the constant bickering amongst partners can cause a collapse at any time. The Democratic Front (June 1996 to March 1998) was brought down by lack of support from its partners and saw two Prime Ministers during its brief 22-month tenure.

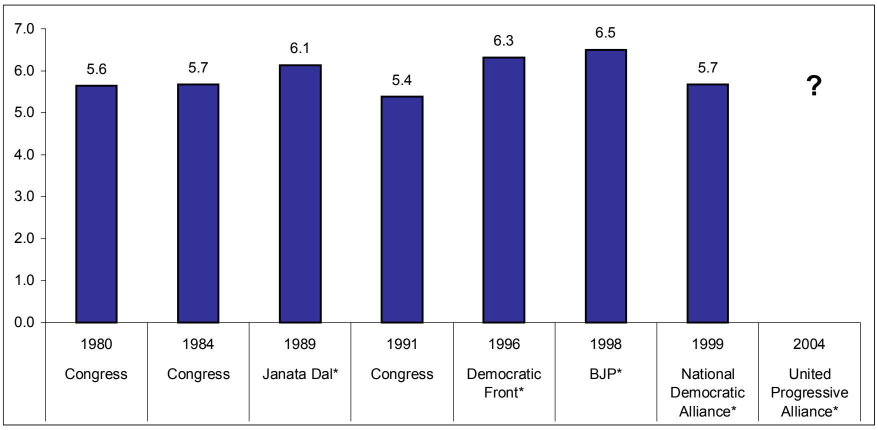
Mind that Quantum GAP.

While the stability (or, rather, the lack of it) of coalition governments seems to concern most investors (domestic and foreign) due to a perceived linkage that:

coalition government => bad policies => lower GDP growth rate

Quantum's Growth-Actioned-Politics (GAP) analysis suggests that there is no negative link between the GDP growth rate and the existence of coalition governments (see Figure 1). In fact, one could infer from the data collated that coalition governments have been great for GDP growth rates!
An analysis of the average annual rate of growth of GDP achieved in the periods between elections and the creation of new governments suggests that, since 1980, there have been 3 periods of one-party government rule. Coincidentally, all happened to be Congress-governed administrations. The average annual rate of GDP growth was 5.6% (between January 1980 and October 1984), 5.7% (between October 1984 and December 1989), and 5.4% (between June 1991 to May 1996).

Meanwhile, the average annual rate of growth of GDP under the 4 coalition governments was far better at: 6.1% (December 1989 to June 1991), 6.3% (June 1996 to March 1998), 6.5% (from March 1998 to April 1999), and 5.7% (from June 1999 to May 2004). None of these, however, were Congress-led coalition governments.



* Coalition government

Trending to 6%?

So, are we afraid of coalition governments and should investors be unduly perturbed about the existence of this new coalition government elected in May, 2004? Well, history suggests that coalition governments can generate an annual average GPD growth rate of 6.2%.

However, this is a Congress-led coalition and the past track record of Congress governments (although not as coalitions) has been to generate an annual average GDP growth rate of 5.6%.

Depending on one's belief or level of skepticism in the concept of a Congress-led coalition, the range of forecasts for annual average GDP growth rate is between 5.6% and 6.2%. This is 2x the annual average growth of GDP between 1950 and 1980 and also higher than the long-term average rate of growth of global GDP of about 3.5%.

And how realistic is Quantum's GAP analysis? Well, the Center for Monitoring the Indian Economy, a well-respected economic think-tank has projected India's GDP to increase by 6.2% for the year-ended March 31, 2005 while the Reserve Bank of India has recently downgraded its GDP numbers for this year from a range of 6.5%–7.0% to a lower range of 6.0%-6.5%.

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Table 2

Reforms in the last 8 years (1996-2004) under 3 coalition governments	Focus	Importance to India's GDP
Reduction in the numer of commodities that can be freely produced, distributed and priced to 13	Market Dynamics	High
Fiscal Responsibility Act	Government Accountability	High
Freeing imports of Oil & Gold	Market Dynamics	Low
Dismantling Administered Price Mechanism (APM) on Oil	Market Dynamics	High
Private & Foreign investment in Insurance	Financial sector reforms	High
Private participation in Generation/Transmission/Distribution of Power	Infrastructure	High
Private participaton in Development of Roads/Ports/Special Economic Zones	Infrastructure	High
Private and foreign investment in Telecom - Basic/Mobility/CDMA	Infrastructure	High
Private participation in Media - T.V/Radio/DTH	Information Dissemination	Medium
Reduction in import tariffs and quotas	Market Dynamics	High
Rationalization of production and sales tax.	Market Dynamics	High
Sale of Government assets	Market Dynamics	High
Foreign exchange liberalization	Convertibility	High
Securitization Act	Financial sector reforms	Medium
Prevention of Terrorism Act	Security	Low
Coporate Governance Code	Accountability	High