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The Crisis of India's Oligarchy

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NEW DELHI – Over the past two decades, Indian multi-billionaire Gautam Adani's close ties to Prime Minister Narendra Modi have helped the Gujarati businessman become Asia's wealthiest person. Adani's meteoric rise, which in some ways eclipsed that of his political mentor, also made him the poster boy for India's growth story – until allegations of fraud and stock manipulation brought his eponymous business empire to its knees. With his conglomerate losing \$110 billion in market value within days, Adani has become a cautionary tale about the perils of cronyism in Modi's India.

The partnership between Adani and Modi goes back to 2002, when Modi – then Chief Minister of Gujarat – faced heavy criticism for failing to contain anti-Muslim mobs that killed more than a thousand people in the state. Following the massacre, Modi was barred from entering the United States and largely abandoned by India's business leaders. Adani, who continued to support Modi and his Bharatiya Janata Party (BJP), was handsomely rewarded for his loyalty. Over the next decade, the Adani group grew at breakneck speed, winning multiple state government contracts and expanding into food imports and exports, coal trading and mining, power, oil and gas exploration, and infrastructure.

Over the years, the relationship became increasingly symbiotic. When Modi was elected prime minister in 2014, he flew to Delhi on Adani's private jet. Adani's proximity to Modi helped his companies win lucrative government contracts and public- and private-sector loans for domestic and foreign ventures, some of them highly controversial. Again and again, the government relaxed regulations or amended rules in ways that benefited Adani's businesses. In 2017, for example, the government designated Adani's power plant in Godda a special economic zone, allegedly tweaking the rules to give the group a ₹5 billion (\$60 million) bonanza. In 2019, Modi's government handed Adani the rights to operate six newly privatized airports, despite the company's utter lack of experience in the sector.

The Adani Group's rapid growth, along with a truly ambitious debt-driven investment program enabled by spectacular stock-price appreciation, made the company the standard-bearer of the government's capital-investment push, data-industry expansion, and net-zero transition plans. In less than a decade, Adani's fortune grew from \$7 billion to \$120 billion, making him the world's third-richest person (until the group's stock began to tumble in late January, shrinking his net worth by half).

As his economic power grew, Adani became more aggressive in his efforts to suppress criticism of his businesses and of Modi, filing multiple lawsuits against journalists and media outlets that reported on the authorities' preferential treatment of the Adani Group. Late last year, Adani launched a hostile takeover of the Indian broadcaster NDTV, one of the very few remaining platforms for critics of Modi.

For a while, it seemed that Adani could do no wrong. Despite concerns about his empire's debt-fueled growth and unrealistic stock valuation, his economic, political, and media power – and the widespread perception that the Adani Group's success underlay India's economic growth – made him seem unstoppable.

The illusion was shattered on January 24, when the short-selling firm Hindenburg Research published a devastating report accusing the group of “pulling the largest con in corporate history.” Following a two-year investigation, Hindenburg accused the conglomerate of engaging in a “brazen stock manipulation and accounting fraud scheme over the course of decades,” pointing to 38 Mauritius-based shell companies that were allegedly used to manipulate share prices and siphon money from publicly listed Adani Group companies.

While the Adani Group appealed to Indian nationalism, framing the Hindenburg report as a “calculated attack” on India's independence, institutions, and growth story, the market response has been swift and lethal. In early February, Moody's downgraded the ratings outlook for several Adani Group companies and MSCI cut the weightings of four, compounding the conglomerate's troubles. And the rout continued even after the group announced several confidence-building measures, paying back loans worth \$1.1 billion ahead of schedule, halving its revenue growth targets, and holding off on planned capital expenditures.

Modi himself has remained silent, even as the country's opposition parties accuse him of cronyism. The government has claimed that India's “strong” regulatory agencies would deal with this scandal, though their performance so far has been dismal. The Securities and Exchange Board of India, accused of acting as a “silent operator” by several legislators, has issued a tepid press release promising to investigate the allegations and giving the Adani Group six months to respond. The agency did, however, look into the fall in Adani Group stocks and corporate bonds, finding evidence that some short-selling activity originated from outside the country.

Whether or not the Adani Group rebounds, its current troubles must be regarded as an indictment of India's overreliance on a few national champions to drive economic development. This strategy has failed to deliver broad-based and inclusive development, leaving India with disappointing job growth, declining consumption, falling investment rates, and environmental devastation. Instead of relying on industrial conglomerates like Reliance, Tata, and Aditya Birla, the government should use this moment as an opportunity to change course. Encouraging small and medium-size companies and expanding social services would boost job creation and improve economic sustainability.

While Modi's popularity appears to be unaffected by the scandal, it is too soon to assess the political fallout. Modi and the BJP have faced numerous corruption scandals over the years and managed to overcome them all, thanks to their remarkable control of the media. But Adani's downfall could be different, because it discredits a key tenet of Modi's economic philosophy. Lavishing endless financial benefits and regulatory dispensations on a single oligarch, it turns out, is not a reliable development strategy.

JAYATI GHOSH

Jayati Ghosh, Professor of Economics at the University of Massachusetts Amherst, is a member of the UN Secretary-General's High-Level Advisory Board on Effective Multilateralism.

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