BTI 2020 Country Report

India

Status Index

6.70 **# 34**

on 1-10 scale out of 137

Political Transformation

7.25 **# 29**

Economic Transformation

6.14 **# 48**

Status Index

Socioeconomic Level
Market Organization
Political and Social Integration
Monetary and Fiscal Stability
Stability of Democratic Institutions
Private Property
Rule of Law
Welfare Regime
Political Participation
Economic Performance
Stateness
Sustainability
International Cooperation
Steering Capability
Consensus-Building
Resource Efficiency

4.0 6.5
6.8 6.5
8.0 7.5
7.0 4.5
7.3 9.0
7.3 5.0
7.3 6.2 6.0 6.7

2
4
6
8
10

Governance Index

5.92 **# 32**

on 1-10 scale out of 137

Key Indicators

Population	M	1352.6	HDI		0.647	GDP p.c., PPP	$	7762
Pop. growth[1]	% p.a.	1.0	HDI rank of 189		129	Gini Index		35.7
Life expectancy	years	69.2	UN Education Index		0.558	Poverty[3]	%	60.4
Urban population	%	34.0	Gender inequality[2]		0.501	Aid per capita	$	2.3

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.20 a day at 2011 international prices.

Executive Summary

India has a very good record as a well-established democracy. Its elected representatives have the effective power to govern and there are no major veto players who undermine the democratic credentials of the state. The National Democratic Alliance (NDA) government led by Prime Minister Narendra Modi (henceforth: Modi government), which was formed in 2014 after the Hindu-nationalist Bharatiya Janata Party (BJP) won an absolute majority in the general election, remained stable during the review period and did not have to rely on coalition partners. As Modi's initial mandate neared its end, Modi remained extremely popular, but some degree of disenchantment could be observed among the Indian population. While the economy was generally in a good shape, with stable growth rates of above 7%, Modi was far from having achieved what he had promised during the election campaign in 2014. Particularly the creation of new jobs for the growing young Indian population proved a major challenge, and despite a reduction of poverty, inequalities within Indian society have grown.

The government has definitely displayed a clear willingness to introduce reforms. The main reform during the review period was the introduction of the Goods and Services Tax (GST) in July 2017, which transformed India into a single market. While critics point out that the new indirect taxation system is overly complex, and despite several difficulties at its start, the new GST has huge potential in the medium term. In particular, by reducing tax-related barriers to trade, it speeds up transportation of goods across the country. The BJP-led NDA government has also managed to improve conditions for investment in India, as reflected in the improved position of the country in the World Bank's Doing Business ranking. Other reforms, such as the hastily conceptualized and inefficiently implemented "demonetization" of 2016 (the overnight replacement of the existing stock of banknotes with the declared aim of fighting "black money" and corruption), have been entirely unsuccessful and have in some cases even harmed economic growth. In general, the introduction of new schemes and programs (often amounting to little more than renaming existing ones) has seemed rather overzealous. Programs like "Make in India" have not been particularly successful, as foreign direct investment in the manufacturing sector remains limited. In its social

programs, the government has displayed a belief in the usefulness of digitalization and the introduction of direct cash transfers. Measures like a new health insurance scheme for the poor ("Modicare") are announced ahead of elections to gain votes, with little clarity regarding the availability and sources of their funding.

Overall, therefore, the BJP-led government has a clear reformist agenda, but during the review period, as in previous periods, a range of factors such as still-pervasive corruption and an overburdened judiciary continued to hamper the performance of democratic institutions and the government's steering capability. However, the most problematic development is the growing influence of hardline Hindu-nationalist groups. A Hindu majoritarian discourse is getting increasingly pervasive as these groups aim to undermine the secular credentials of the Indian state and to redefine India as a Hindu nation. The government will have to withstand such pressures from hardliners if it wants to keep intact the fragile equilibrium that characterizes Indian society.

History and Characteristics of Transformation

The democratic political transformation of India dates back to colonial times and to the progressive introduction of self-governance and voting rights. This tradition was nurtured and expanded in independent India, interrupted only by a brief interlude of the emergency government regime, from 1975 to 1977. Electoral democracy has become the only game in town; even radical political forces abide by its rules and do not try to gain power outside parliamentary boundaries. Elections are free and fair; extra-constitutional veto powers are nonexistent; the military is under strict civilian control; the media enjoy considerable freedom of expression; and civil society is vibrant yet somewhat shallow. Civil rights are guaranteed, even though with major exceptions in conflict-prone regions. Substantive democracy has suffered since independence by limited electoral choice, by the predominance of the Indian National Congress Party at every political level and by the concomitant mobilization and recruitment of local notables into the party machine. This diminished the access of less-privileged sectors of society to positions of political power and obstructed structural social reforms. However, India has undergone a dramatic (second) democratic upsurge over the last decades, with the economic empowerment of lower castes following the green revolution and their later integration into the high command of traditional parties and governmental agencies and/or the launching of new (regional) parties. The necessary byproduct of this development was unstable coalition governments at the center and in some states, and a growing tendency to dispense patronage along caste lines. State governments became increasingly autonomous and other institutional veto players (the Supreme and the High Courts, the Election Commission and the president of India) grew to fill political voids. India's transformation to a full-fledged market economy is more recent. The country followed a path of import substitution and state-led industrialization for decades, leaving considerable space for private enterprises as junior partners of the state. A first, hesitant liberalization came into effect in 1985, and a market-friendly turnaround was propelled by a severe balance of payments crisis in 1990 to 1991. The reforms since the crisis have transformed India into a vibrant and dynamic

market economy, even though some sectors are still closed to private enterprise and international investment. India's new economy is driven by a considerable improvement in factor productivity, the rise of world-class enterprises and – recently – by a massive increase of the savings and investment rate. There remain, however, considerable reform deficits, most notably outdated labor regulations, a lack of sustained progress in privatization and the absorption of public resources by non-meritorious subsidies, wage and interest payments to the detriment of public investment in infrastructure and the improvement of health and education services. After 2004, when a minority government was backed from outside by leftist parties, hardly any progress could be made with regard to the more difficult second-generation reforms; however, a range of inclusive social policies were instituted (Education for All, National Rural Health Mission, National Rural Employment Guarantee Scheme, loan waiver for small- and medium-sized farmers) – some of a more populist character, but all intended to make growth more inclusive. After the 2009 elections, the United Progressive Alliance (UPA) government was nearly paralyzed in its reform efforts, due to its dependence on small coalition partners, and it was unable to convincingly address the increasingly pressing issue of corruption. Ultimately, the widespread dissatisfaction with the UPA government and the hope for change and economic reforms led to the electoral defeat of the Congress in the 2014 general election.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

If we conceive of stateness as the state's monopoly on the use of force on its territory, India has only minor problems of stateness. Some exceptions are areas controlled by Maoist-inspired rebel groups called Naxalites in central India; areas of insurgent activity in Kashmir; and some areas in the northeast of the country, where several smaller rebel groups are still operating.

The Naxalites are running parallel administrations in some of the areas under their control. During the review period, the Naxalites remained active. After a decline in violence in 2017, the number of casualties rose above 400 again in 2018. In the northeast, violence declined in 2017 to 2018 as compared to previous years. The Armed Forces (Special Powers) Act (AFSPA), an emergency law applied in so-called disturbed areas, was repealed in Meghalaya, but remained in force in Assam, Nagaland and in parts of Manipur and Arunachal Pradesh.

A different instance of limits to the state's monopoly on the use of force was the formation of Hindu-nationalist vigilante groups, mostly with the aim of protecting cows, which are sacred to Hindus. Such "cow vigilantism" led to several instances of violence and mob lynching and was condemned as "extra-judicial" by India's Supreme Court.

The vast majority of the Indian population accepts the Indian nation-state as legitimate. Only in remote areas where the state and its institutions are virtually absent is the legitimacy of the nation-state called into question. These areas include those inhabited by tribal people, as well as others characterized by the presence of rebel groups in central India and northeast India.

However, the dominant concept of the Indian state as a secular state has been increasingly called into question by Hindu nationalist groups. In January 2019, a bill was passed in the lower house of Parliament that aims to simplify naturalization procedures for Hindus, Sikhs, Buddhists, Jains, Parsis and Christians fleeing from

Question
Score

Monopoly on the use of force
8
'06   '20 10
8   8   8
  7   7
                    1

State identity
7
'06   '20 10
9
  8
              7
                    1

Afghanistan, Bangladesh and Pakistan due to religious persecution. By not including Muslims (e.g., migrants and refugees from Bangladesh or Myanmar), the bill reflects the BJP's electoral promise to make India a home for persecuted Hindus, as well as a more general trend toward a Hindu majoritarian discourse on national identity.

The Indian Constitution stipulates that the state is secular. Correspondingly, neither the legal order nor the political institutions are defined by or derived from religious dogmas. A notable exception is family law, which includes Hindu, Muslim and Christian law.

No interference of religious dogmas

7

'06   '20 10
9
              8
               7

1

However, the review period saw a further intensification of signals hinting at the establishment of a Hindu majoritarian culture on the part of the government under the leadership of Narendra Modi of the Hindu-nationalist Bharatiya Janata Party (BJP). In March 2017, the BJP appointed a Hindu priest and hardline Hindu nationalist, Yogi Adityanath, as chief minister of India's most populous state, Uttar Pradesh. During the review period, several killings of people suspected of consuming or transporting beef took place, as well as a tightening of "cow protection" laws, including a ban on cattle slaughter in several states.

Also, during the review period, the Supreme Court of India delivered two important judgements stopping religious practices that discriminated against women. By declaring unconstitutional the practice of triple talaq (instant divorce) among Muslims, as well as the practice of preventing women of menstruating age from entering the Ayyappa temple in Kerala, the court opened up religious practices to judicial scrutiny.

India's administrative and bureaucratic structure stems from the British colonial empire. The state has therefore a differentiated administrative structure, providing jurisdiction, tax authorities and law enforcement. Several difficulties are found in the provision of basic services, especially in rural and remote areas. Here, big deficiencies are apparent, especially in the field of transportation infrastructure and the provision of basic services such as water, education and health. While the BJP-led NDA government has sought to put problems of sanitation and the practice of open defecation on the agenda by launching campaigns like Swachh Bharat ("clean India"), improvements on the ground have not been substantial. The issue of corruption is on the agenda as well, and several initiatives of the government are aimed at reducing corruption and increasing bureaucratic efficiency. On these issues, the government has achieved some progress, at least as measured by the World Bank's Doing Business ranking (2019: 77 out of 190 countries; 2018: 100/190; 2017: 130/190). One particularly relevant reform was the introduction of the nationwide Goods and Services Tax (GST), which came into effect in July 2017. However, this has had mixed and uneven responses.

Basic administration

7

'06   '20 10
      8
7   7

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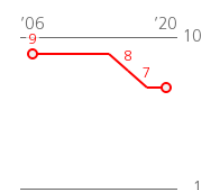
2 | Political Participation
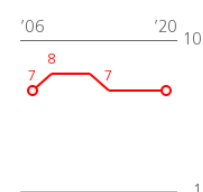
India has had free and fair elections since independence, with only a minor interruption in the 1970s. Universal suffrage by secret ballot is ensured, a large number of political parties are able to run and political posts are filled according to the outcomes of elections. Parliamentary elections in India are a huge exercise. The general election of 2014 was the largest democratic exercise in the world, with over 800 million people eligible to vote. The following general election, in April to May 2019, took place following the close of the review period.

Because of the sheer size of territory and the electorate, national elections are a logistical nightmare in India. Despite the challenging conditions, elections are well-organized, peaceful (given the circumstances) and orderly. Elections are managed by an independent and impartial Election Commission, whose members are appointed by the president and can be removed from office by Parliament. According to surveys carried out by Lokniti at the Center for the Study of Developing Societies, the Election Commission of India is among the country's most trusted public institutions. All governments and political parties have submitted to electoral outcomes. Since the late 1990s, the Election Commission has undertaken several efforts to improve the electoral process, including the introduction of electronic voting machines, the digitalization of electoral rolls, requiring candidates filing affidavits to show their incomes and assets, and requiring political parties to submit statements of election expenditure and annual income tax and audit reports.

While polling procedures are generally considered to be conducted in a transparent, impartial and correct manner, the practices of vote buying and voter bribery are still widespread among political parties in India. A recent change in electoral laws brought about by the BJP-led government allows anonymous donations to political parties through bonds issued by public banks. Critics point out this will reduce the transparency of political financing.

Democratically elected political representatives have the effective power to govern in India. There are practically no veto powers that undermine democratic procedures by retaining prerogatives that cannot be touched by democratically elected representatives. The Indian military has never exceeded its competencies and has always remained under strict civilian control – a circumstance that has not always been the case in other countries in the region. External actors are unable to manipulate domestic politics in India, given the state's strong performance and the high value it attaches to the principles of sovereignty and non-interference.

During the review period, however, Hindu nationalist organizations further consolidated their role as veto powers. For example, violent protests by Hindu nationalist groups induced five state governments to ban the release of a controversial Bollywood movie, Padmavaat, arguing that it would hurt "community sentiments."
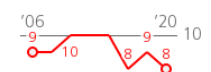
Free and fair elections

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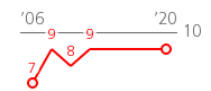
Effective power to govern

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The Indian constitution guarantees the freedom to assemble peacefully, even though the state can impose restrictions in the interest of public order or to preserve the sovereignty and integrity of India. In practice, the right to demonstrate is mostly guaranteed. Given the low degree of internal democracy in political parties, demonstrations are frequently used by civil society as a tool to forward demands to the government. The review period, however, saw a continuation of a worrying trend involving the suppression of protest and arbitrary detentions. For example, 20 people who had allegedly cheered Pakistan's cricket team victory over India were arrested on charges of sedition in the states of Madhya Pradesh and Rajasthan. Right-wing student organizations such as the Akhil Bharatiya Vidyarthi Parishad (ABVP) created a climate of intimidation at university campuses, for example at the Jawaharlal Nehru University (JNU) in New Delhi.

Forming an interest group is simple from a legal perspective. This has led to the emergence of a large number of NGOs operating in a range of fields, from the promotion of women's and minority rights to ecological and social issues. While most of these NGOs are fragmented, only weakly institutionalized and often dependent on political parties, they actively contribute to a thriving civil society. Over the past years, however, increasing numbers of NGOs have been denied permission to accept foreign funding under the Foreign Contribution Regulation Act (FCRA), and thousands of NGOs have been refused renewal of their foreign-funding licenses. In 2018, Amnesty International and Greenpeace were targets of a government crackdown, with their bank accounts frozen.

Freedom of expression in India is guaranteed by the constitution. A large number of national and local newspapers and television channels contribute to the dissemination of information and to the diffusion of a plurality of opinions on most issues.

However, the review period saw the intensification of a worrying trend with an increase in attacks on journalists, in several cases resulting in their deaths. In September 2017, Gauri Lankesh, a journalist openly critical of Hindu nationalism and the caste system, was shot dead. In 2018, the situation worsened further. Several journalists were killed in this year, including Shujaat Bukhari, the editor of Rising Kashmir, a renowned newspaper in Jammu and Kashmir.

In July 2017, the Central Bureau of Investigation raided the offices of the news channel NDTV, which had been critical of the Modi government. Moreover, the government continued using the sedition provisions of the penal code, laws on hate speech and the criminal defamation law to suppress dissent. For example, in 2017, the Karnataka state assembly sentenced two journalists to a prison sentence of one year for allegedly defaming some of its members. Reporters Without Borders also notes that journalists have in many cases been targeted by "armies of trolls that promote the Hindutva doctrine." As a result, in the Reporters Without Borders' Press Freedom Index, India was ranked 138th of 180 countries in 2018, two places lower than in 2017.
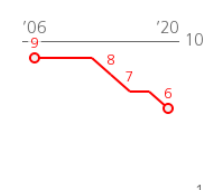
Association / assembly rights

6
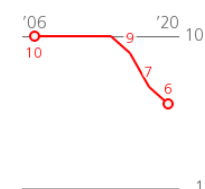
Freedom of expression

6

In December 2018, moreover, the Ministry of Electronics and Information Technology published a proposed amendment of the Information Technology Act that could result in massive internet censorship. Among the proposed changes are a requirement that for companies with more than 5 million Indian users be incorporated in India; this physical presence in India would make them much more vulnerable to government control. Moreover, the proposal envisages the proactive, automated removal of unlawful speech by companies, which could involve issues such as defamation, and thereby lead to massive pre-censorship. While this was still just a proposal as of the time of writing, it reflects the government's approach to the freedom of expression.

3 | Rule of Law

The horizontal separation of powers is guaranteed and implemented through a system of checks and balances. The legislative's control over the executive is hampered mainly by structural factors such as the limited competence of many members of parliament and short parliamentary session periods. Moreover, the workings of parliament are also hampered by the frequent interruptions of sessions and walkouts by opposition parties. The judiciary has historically played a major role in the consolidation of Indian democracy. As far as the vertical separation of powers is concerned, the autonomy of state governments in the federal system is guaranteed in the fields envisaged by the constitution. The system of fiscal federalism strengthens the autonomy of the union states by providing for transfers from the central government to state governments. Moreover, representative bodies at the local level have a certain degree of administrative autonomy and allow for political representation down to the village level.

Separation of powers

9

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The Indian judiciary is institutionally differentiated and largely independent from the legislative and executive branches. The Supreme Court enjoys a high degree of recognition. Over the past years, and despite several internal disagreements in 2018, it has played a major role in India's system of checks and balances. Among its landmark rulings during the review period were the judgment in 2017 that the right to privacy is a fundamental constitutional right for Indian citizens, and the judgement decriminalizing homosexual sex in 2018. Amid a wave of lynching incidents by "cow vigilantes," the Supreme Court also called for the states to prevent such incidents.

Independent judiciary

7

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8   7

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Nevertheless, since India's independence there has been continuous tension between legislative branches and the judiciary. While the Indian government in 2015 tried to introduce new rules giving the executive greater influence over the appointment of Supreme Court and high court judges, the Supreme Court itself declared such initiatives to be unconstitutional and in 2018 declined to review its previous judgement.

The main problem within the Indian judiciary is its limited functional operability, deriving mainly from understaffing, especially in the lower judiciary levels. This has led to a massive backlog of currently nearly 3.3 million cases (in the Supreme Court, almost 58,000 cases are pending) and to extremely long periods of detention when awaiting trial. Around two-thirds of India's prisoners are awaiting trial, and prisons are hopelessly overcrowded (according to a 2017 Amnesty International report, the average occupancy rate in Indian prisons is 114%, and is over 233% in states like Chhattisgarh).
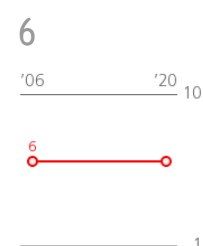
The rule of law in India is massively undermined by political corruption. Officeholders who engage in corruption often slip through political, legal or procedural loopholes and are not effectively persecuted. Corruption continues to be prevalent at all levels, and in sectors such as the police, the judiciary and the public services as well as in public procurement proceedings. A massive anti-corruption movement that started in 2011 has generated an entirely new awareness among the population, for the first time openly challenging the widespread culture of corruption and leading to increasingly adverse publicity for politicians involved in corruption cases. While Prime Minister Modi has made the fight against corruption and "black money" one of the key topics of his populist agenda, measures such as the so-called demonetization of November 2016 have not yielded any substantial results. Despite the rhetoric, his government has failed to appoint a Lokpal, an anti-corruption authority envisaged by the Lokpal and Lokayuktas Act, which came into force in 2014. Moreover, seven of India's states never established a Lokayukta, a state-level anti-corruption authority.

Prosecution of
office abuse
6
'06   '20 10

6

1

De jure, civil rights are guaranteed in India. A major exception is areas where emergency laws are in force. The Armed Forces (Special Powers) Act (AFSPA) allows for the arrest without a warrant of anybody suspected of having committed an offence and protects soldiers from prosecution, virtually allowing them to act with impunity. The controversial AFSPA has been repealed in some states, but remains in force in Jammu and Kashmir as well as in Assam, Nagaland and in parts of Manipur and Arunachal Pradesh.

Civil rights
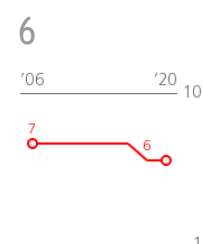6
'06   '20 10

7   6

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All over India, custodial killings and police abuses, including torture and rape during custody, are the order of the day. In general, underprivileged groups are particularly affected by the limited enforcement of protection laws and de facto do not enjoy equal access to justice.

Discrimination and violence against women remain major issues in India. In 2018, India was ranked 108th in the Global Gender Gap Index, and a much-discussed study by the Thomson Reuters Foundation classified India as the most dangerous country for women in the world. Moreover, renewed cases of rape gained huge media attention during the review period. Sexual violence, domestic violence and so-called dowry deaths remain endemic problems.

Ethnic discrimination also remains widespread in India, despite official protections for all minority groups. Religious discrimination is becoming an increasingly worrying trend as extremist Hindu groups close to the BJP consolidate their influence. Concerning discrimination based on sexual orientation, the Supreme Court issued a landmark judgement decriminalizing homosexual sex in 2018.
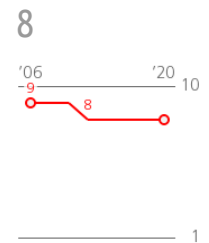
4 | Stability of Democratic Institutions

Overall, democratic institutions in India perform their functions in an effective manner. However, tensions between institutions at different levels often lead to counterproductive friction. The BJP-led government with its stable majority has a much greater room to maneuver to promote reforms as compared to the previous coalition governments, even though it lacks a majority in the Rajya Sabha, the upper house of Parliament.

Performance of democratic institutions

8

While vertical coordination between the national and the state level is often chaotic, the Modi government has tried to improve it under the label "cooperative federalism," in part by including the chief ministers of all states in the NITI Aayog (National Institution for Transforming India), the institution that has replaced the Planning Commission. At the same time, it has promoted "competitive federalism," for example by ranking states' business environments to induce them to work harder to attract foreign investors. However, the conflict over the role of the governor continues, since the central government may interfere in state affairs through the governor. Recently, central rule was imposed in Jammu and Kashmir, after the BJP withdrew its support to the PDP government in the state. The chief minister of the state of Delhi has approached the Supreme Court of India to clarify the constitutional position on the powers of the lieutenant governor, who the chief minister complained had been obstructing governmental functioning.

Among the problems most seriously hampering the efficient working of the public administration are corruption and a lack of incentives for officials.

Democracy is well-established in India. There are no actors able to effectively challenge the democratic nature of the state. The army has been effectively kept under civilian control since independence and only small armed groups, especially the Naxalites, aim to overturn the democratic credentials of the Indian state. An exception (though minor) are various insurgent groups in the state's periphery, including Maoist rebel groups and ethno-nationalist armed groups in the Northeast and Kashmir.

Commitment to democratic institutions

8
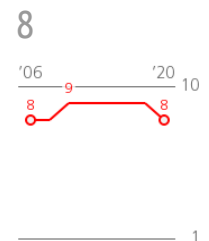
5 | Political and Social Integration

The Indian party system is fairly stable and socially rooted. A huge number of parties expressing particular interests exist at the national and state levels. Social groups have relatively stable ties to political parties. Polarization, particularly along religious lines, usually increases ahead of important (state and general) elections.

Party system

7

The 2014 general election, in which the BJP gained an absolute majority in the lower house of Parliament, has reduced the importance of coalition politics. Yet these might become relevant again after the general elections of 2019.

While the BJP has fairly strong internal structures, most parties are still rather weakly institutionalized. Informal procedures, factionalism and clientelism prevail. Political parties, and especially regional parties, are often focused on a strong leading personality. Many parties have their origin in regional, linguistic and caste identities, and do not display a clear ideology.

While a large number of interest groups exist in India, only a small share of the population belongs to or actively participates in the activities of associations. Labor unions and employers' federations are only partly autonomous due to the traditional role of the state in the Indian economy. However, social movements of different kinds have become more and more assertive, and the number of NGOs has steadily increased.

Interest groups

6

In 2015, there were more than three million NGOs in India, according to reports on a data-collection process conducted by the Central Bureau of Investigation. However, many of these NGOs, particularly those that receive foreign funding, are experiencing increasing pressure, Over the past years, the government has cancelled (or let expire) the licenses of 18,000 NGOs that allegedly were not complying with the provisions of the FCRA. In June 2018, however, the government relaxed the penalties for violations of the FCRA, introducing fines instead of a license suspension or revocation. Nevertheless, the perceived threat of a "foreign hand" is still used to delegitimize the activities of international NGOs.

During the review period, an increasing mobilization of nationalist interests took place with the growing popularity and influence of Hindu-nationalist groups. The Rashtriya Swayamsevak Sangh (RSS), a paramilitary Hindu-nationalist organization that has had huge influence on the BJP and its policies, has been growing further. Between 2017 and 2018, the number of "shakhas" (branches/daily meetings) rose from 57,165 to 58,967 in 37,190 locations across India. With an average of 70 to 100 members per shakha, RSS membership could amount to 5 million people, and the organization has the clear aim of further increasing its (already widespread) presence across the country.
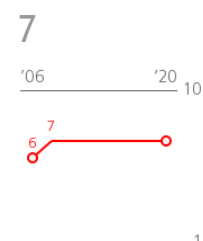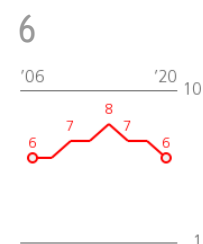
Both the Indian elite and the broader population, including its poorer elements, are proud of the country's achievements as the world's largest democracy and as one of the most stable democracies among post-colonial states. Democratic principles are firmly rooted in the Indian population. Even poorer societal classes believe in the weight of their vote and take part in elections. In fact, it is commonly acknowledged that Indian elections are substantially determined by the votes of the rural population. Interestingly, however, members of the growing middle class increasingly express their disaffection with politics and with the "political class" in general. In some cases, they even praise the Chinese model, which is seen as attractive due to its "efficiency." Survey results confirm these assessments. According to PEW survey data, 76% and 75% of respondents respectively support direct and representative democracy. Notably, however, 65% of respondents would approve of a technocratic government of unelected experts; 55% have a positive view of "a governing system in which a strong leader can make decisions without interference from parliament or the courts"; and 53% would even support military rule.

When it comes to democratic performance, 79% of the public is satisfied with the working of India's democracy. The approval of democratic institutions varies widely. According to PEW data, 86% of survey respondents in 2017 believed their national government had a very good or good influence. Approval of the legal system and the police is lower, with a respective 68% and 66% of respondents attributing a good or very good influence to these institutions. Interestingly, the military enjoys high approval rates, with 86% of respondents saying that it has a good or very good influence.

The still extremely hierarchical character of Indian society contributes in hampering the formation of a sense of solidarity across social groups. Tensions between religious communities in particular have negatively impacted trust among citizens. India scores "very high" on the Pew Social Hostilities Index involving religion. According to a Pew survey, 37% of Indians consider "communal relations" to be a "very big" problem in their country, and an additional 31% consider them to be a "moderately big" problem (a range of other domestic issues are seen as more problematic, including crime, terrorism, corruption, etc.). Moreover, discrimination against Dalits remains a major issue.

However, numerous associations have contributed to the creation of some degree of social protection for vulnerable social groups. The anti-corruption movement and protests against rape and violence against women are an expression of a growing solidarity on topics that cut across Indian society. A large number of initiatives also take place at the grassroots level, with local groups collectively organizing to carry out strikes and protests. Tribal groups have a long tradition of resistance and protests since the colonial period. Moreover, local communities have become increasingly vocal, for example in resisting mining projects and land acquisitions. These local organizations are sometimes manipulated for political purposes, but they often act in an autonomous manner to promote the interests of their communities.

Approval of
democracy
9
'06   '20
-9   10

1

Social capital
5
'06   '20
10

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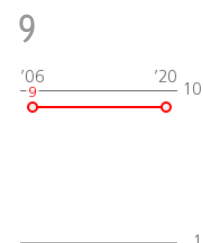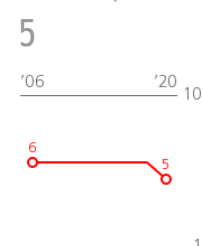
II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and inequality in India are pronounced and partially structurally ingrained. India is the country with the second-largest absolute number of poor worldwide, following only Nigeria. Poverty is still widespread among the rural population as well as among the urban population active in the informal sector.

Taking a $3.20-per-day (at 2011 international prices adjusted for purchasing-power parity) poverty line as a point of reference, 60.4% of the Indian population could be considered as poor in 2011. However, India has made considerable progress in poverty reduction. Taking a $1.90-per-day (at 2011 international prices adjusted for purchasing-power parity) poverty line as a point of reference (that is, what is usually defined as "extreme poverty"), 47 million people (or 3.5% of the population) in India were living in extreme poverty in March 2019, according to estimates by the World Poverty Clock.

India's Gini index score rose from 33.4 in 2005 to 33.9 in 2009, and again to 35.1 in 2011, reflecting a steady increase in inequality. According to the World Inequality Database, income inequality in India has risen steadily since the 1990s, with the top 1% of the population having an income share of 21.3% in 2015, and the bottom 50% an income share of 14.7%. Despite growing inequality, India's HDI score has been steadily improving over the past decade; however, with an HDI score of 0.640, India still ranked 130 out of 189 countries in 2017.

Inequalities are also evident across regions, across different social groups as well as between skilled and unskilled workers. Social exclusion continues to affect the traditionally marginalized lower castes (the so-called Scheduled Castes, SCs) as well as ethnic minorities (the so-called Scheduled Tribes, STs) and Muslims. Gender inequality is still a major problem in India. With a Gender Inequality Index score of 0.524 (2017), India rates extremely low in international comparison, and only with slight improvements over the past years (2013: 0.558; 2014: 0.544; 2015: 0.534; 2016: 0.524). While women's rights and gender equality are officially recognized, women still face considerable discrimination in practice. Discrimination ranges from the abortion of female fetuses (with corresponding numeric gender disparities) to the intra-familial discrimination of women in access to food and sanitation. However, some improvements have been observed with regard to women's access to education. Enrollment rates in primary education are now equal for boys and girls. In a puzzling development, however, the labor-force participation rate among women has declined since the early 2000s, amounting to only 26.97% in 2018.

Economic indicators		2015	2016	2017	2018
GDP	$ M	2103587.8	2290432.1	2652551.2	**2726322.6**
GDP growth	%	8.0	8.2	7.2	**7.0**
Inflation (CPI)	%	5.9	4.9	2.5	**4.9**
Unemployment	%	2.8	2.7	2.6	**2.6**
Foreign direct investment	% of GDP	2.1	1.9	1.5	**1.5**
Export growth	%	-5.6	5.1	4.7	**13.4**
Import growth	%	-5.9	4.4	17.6	**15.7**
Current account balance	$ M	-22456.8	-12113.8	-38167.7	**-65599.4**
Public debt	% of GDP	68.8	67.7	67.8	**68.1**
External debt	$ M	478834.1	455510.3	511484.0	**521390.6**
Total debt service	$ M	49662.8	76980.5	51226.5	**63648.8**
Net lending/borrowing	% of GDP	-2.8	-2.3	-1.9	**-**
Tax revenue	% of GDP	10.6	11.1	11.2	**-**
Government consumption	% of GDP	10.4	10.3	11.0	**11.2**
Public education spending	% of GDP	-	-	-	**-**
Public health spending	% of GDP	0.9	0.9	-	**-**
R&D expenditure	% of GDP	0.6	-	-	**-**
Military expenditure	% of GDP	2.4	2.5	2.5	**2.4**

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

In India, market competition has an institutional framework, but in several areas, state intervention is still in place. For example, there are forms of discrimination based on foreign versus local ownership, and some sectors of the economy are still protected. The BJP-led NDA government has been actively trying to attract foreign investors. In 2017, it implemented a number of reforms aimed at facilitating investments in sectors such as pharmaceuticals, single-brand retail and private security and relaxed regulations on FDI in the construction sector. Moreover, private firms, including foreign ones, were allowed to establish merchant coal operations. In some cases, however, unclear regulations serve as a significant deterrent for foreign investors, for example in the defense sector; here, while FDI with ownership shares of more than 49% have been allowed since 2016, such deals are still subject to government approval. As a result, despite liberalization, India reportedly attracted only $10,000 in FDI in the defense sector between March 2016 and March 2018. Starting from February 2019, new and more restrictive regulations for foreign e-commerce companies are expected to come into force, which might impact the activities of companies such as Amazon.

Market organization

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While FDI inflows to India have increased in recent years, FDI has been stagnating since 2015, according to the UNCTAD World Investment Reports, and even declined from $44 billion in 2016 to $40 billion in 2017. The services sector receives the largest share of investment flows, and the government has not been particularly successful in attracting manufacturing investments through its "Make in India" campaign. However, the government has in recent years eased some of the bureaucratic hurdles to doing business in India, reducing the number of procedures needed and speeding up processes. As a result, India has jumped from rank 130 (2017) to rank 100 (2018) and even to rank 77 (2019) in the World Bank Doing Business rankings.

According to the Doing Business 2019 report, starting a business is still burdensome, as it takes 17 days and 10 procedures, with a cost of 16.8% of per capita GNI, earning India rank 137 (out of 190) in that category of the report. The Indian rupee is not pegged to any foreign currency and is fully convertible on the current account. On the capital account, however, it is only partially convertible. Since the Reserve Bank of India (RBI) trades in the currency market to impact effective exchange rates, the currency regime amounts to a de facto controlled exchange rate.

The informal sector is still extremely large. According to an ILO report in 2018, the share of Indian workers in the unorganized sector is 80.9% (with just 6.5% working in the formal sector, and 0.8% in households).

India has a statutory autonomous authority, the Competition Commission of India (CCI), which is in charge of implementing the Competition Act, 2002, as amended by the Competition (Amendment) Act, 2007. The CCI, which was established in 2009, continued to be rather proactive during the review period. In 2018, for example, the CCI imposed a $21 million fine on Google for abuse of its dominant position. It also ordered a probe of Indian Railways upon suspicion of abusing its dominant position by charging higher prices on the sale of e-railway tickets. The Securities and Exchange Bureau of India (SEBI), a well-regarded institution, is in charge of enforcing corporate governance standards. In September 2018, the Indian government created a committee to review the Competition Act, tasked with improving, adapting and streamlining existing rules and regulations to respond to the changing business environment. The committee will also look into international best practices in the competition fields, especially in the areas of antitrust laws, merger guidelines and cross-border competition issues. With the help of this review, the Indian government wants to adjust the country's competition law and policies to reflect the modernization of its economy.

The CCI engages regularly with other competition authorities as well as with multilateral bodies such as the OECD or UNCTAD. It has signed MoUs with bodies such as the U.S. Federal Trade Commission and Department of Justice, and the EU Directorate-General for Competition. In 2018, the annual conference of the International Competition Network, which comprises national competition authorities and non-governmental advisors from 120 competition jurisdictions, was held in India.

At the same time, the Indian government has always subsidized entire sectors of the economy such as agriculture, with subsidies provided for seeds, fertilizers, energy and water for irrigation, while also imposing price supports and high tariffs to prevent the import of agricultural products.

India is one of the original members of the WTO, strongly advocating multilateral trade and providing at least most favored nation treatment to WTO members as well as to other partners. Since the opening of its economy in 1991, India has been increasingly liberalizing trade. Its foreign trade policy for the years 2015 to 2020 is aimed at increasing India's share of global trade from 2.1% to 3.5%, with a doubling of the value of its exports to $900 billion by 2020. The NDA government has promoted further liberalization, and at the 2018 World Economic Forum, Prime Minister Modi spoke out against protectionism. At the same time, however, the government introduced what has been labelled a "Buy Indian" policy designed to boost the domestic manufacturing sector. According to the Finance Ministry's new General Financial Rules, government departments are allowed to give first preference to locally manufactured goods or locally produced services. In 2017, moreover, the government approved a purchase preference for local companies in cases of procurement by state-owned enterprises in the oil sector, as well as a policy of

Competition policy

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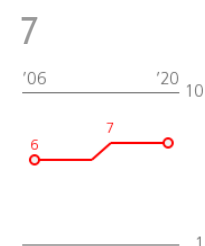
Liberalization of
foreign trade

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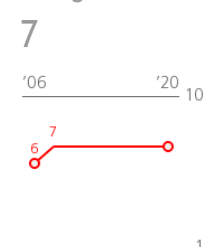
preference for domestically manufactured iron and steel products in government procurement. In a further protectionist turn, the government raised import duties in 2018 to a level not seen in decades for a range of products, ranging from electronics (air conditioners, refrigerators, etc.) to automotive parts.

Furthermore, India has always heavily protected some sectors of its economy, most notably its agricultural sector. In 2017, India's simple average applied MFN tariff amounted to 13.8%.

Several further exceptions to full trade liberalization remain. India's import regime, particularly its licensing and permit system, remains extremely complex. Besides the tariff rate, importers have to pay a range of additional duties. In many cases, imports are subject to non-tariff barriers such as prohibitions, licenses, restrictions or sanitary requirements, which hamper particularly trade with South Asian neighboring countries. Moreover, India has been actively using anti-dumping measures, especially in the chemical and textile sectors. According to Ministry of Commerce statistics, in the period between April and December of fiscal year 2018 to 2019, India's merchandise trade deficit amounted to over $140 billion (as compared to $76 billion in 2016–2017). With regard to services, India enjoys an estimated surplus of $58 billion.

In an important recent development, a unified goods and services tax (GST) was introduced in July 2017. This replaces the previous state-level indirect taxation system, thereby finally creating a countrywide common market. Four official tax rates (5%, 12%, 19%, and 28%) were announced by the GST Council, along with a list of tax-free goods and additional levies on luxury items. However, according to the India Development Update by the World Bank, tax rates under the new GST are among the highest in the world. Critics also note that the new tax system is overly complex, as it also includes different rates for goods such as gold and diamonds, while alcohol and petroleum are not part of the GST system. The administrative effort, especially for small businesses, has been criticized as excessive. Moreover, the implementation of the GST has led to some disruptions in the economy, as tax rates have had to be adjusted for most products, and several states demanded exemptions and changes. However, the World Bank notes that the introduction of the GST is starting to have a positive impact by reducing tax-related barriers to trade. Trucks have reportedly been able to increase their daily distance covered by 30%, thereby speeding up the transportation of goods across the country.

India's banking system has evolved substantially since the start of economic reforms in 1991. However, it is still heavily dominated by public sector banks, which account for three-quarters of total banking-sector assets. Government influence on the banking sector, moreover, manifests itself through mandatory holdings of government securities and directed lending (all banks with more than 20 branches are required to allocate 40% of their loans to so-called priority sectors such as agriculture or SMEs).

In recent years, the share of nonperforming bank loans has risen, from 4.0% in 2013 to 5.9% in 2015, and again to 10% in 2017. According to World Bank data, the capital adequacy ratio amounted to 7.4% in 2017. The Indian government has recognized the presence of problems in the banking sector, and in an effort to address asset-quality issues, announced a $32 billion recapitalization package for public sector banks in 2017. A new Insolvency and Bankruptcy Code (IBC) offers promise in addressing the issue of nonperforming loans, but implementation will depend on having sufficient judicial resources available. Further governance reforms would be needed to resolve existing problems in the financial sector. Indeed, Indian banks are still in a very bad shape. As pointed out by The Economist, India might even be "flirting with a Lehman moment," as a number of shadow banks have rapidly expanded. With interest rates having fallen since 2015 and as a consequence of the demonetization policy (the overnight replacement of the existing stock of banknotes in November 2016), these entities have been flush with money from conventional banks and mutual funds. After the collapse of the IL&FS financial firm in September 2018, and a drastic fall in these shadow banks' market value, confidence in the Indian banking system has further declined.

8 | Monetary and fiscal stability

Inflation rates (based on the consumer price index) declined further during the review period as compared to previous years. In 2017, the main rate declined to 3.3% from a level of 4.9% in 2015 and 2016 (and higher levels of 6.4% in 2014 and 10.9% in 2013). Declining inflation rates affected all commodity groups, but food items made the greatest contribution to the lower values in fiscal year 2017 to 2018. Beginning in July 2017, the inflation rate started rising again, mostly due to higher oil prices and weak agricultural output, but fell again in late 2018. The impact of the introduction of GST on inflation has been limited, since food items, which form half of the CPI basket, are taxed at 0% under GST, while diesel and petrol are excluded from it.

According to RBI data, the six-currency real effective exchange rate at the end of March 2018 (trade-based, base 2004–2005=100) was 124.4, reflecting a depreciation of 3.2% as compared to September 2017. Against the backdrop of the government's export promotion efforts, the RBI's exchange-rate policy has been a much-debated issue.

Banking system

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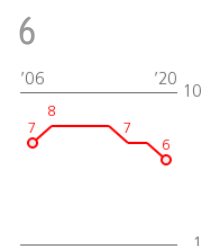
Monetary stability

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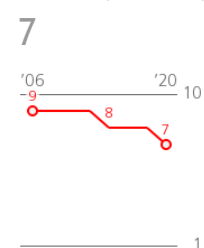
In general terms, the RBI has played an important role in dealing with the financial crisis and is one of the few institutions in India that has not been accused of corruption. However, the government's efforts to put pressure on the RBI are becoming increasingly evident. In August 2018, the appointment of Swaminathan Gurumurthy, a financial commentator associated with the Hindu-nationalist paramilitary organization Rashtriya Swayamsevak Sangh (RSS), to the board of the RBI generated much criticism. Gurumurthy is believed to be one of the architects of demonetization policy and is additionally a critic of liberal, "Western" economic policies and an advocate of "Swadeshi" or self-reliance. In December 2018, RBI governor Urjit Patel resigned and was replaced by Shaktikanta Das, a career civil servant close to Prime Minister Modi. Ahead of the 2019 general elections, the government wants the RBI to loosen its monetary policy and to increase lending to state banks.

In 2003, India introduced the Fiscal Responsibility and Budget Management (FRBM) Act, which mandated a phased reduction in the fiscal deficit to 2.5% of GDP as well as the elimination of revenue deficit. The law generally increased fiscal transparency and responsibility by mandating that the government regularly issue reports to be discussed in parliament. Indian governments have in principle been committed to fiscal consolidation. However, in fiscal year 2017 to 2018, India did not meet its gross fiscal deficit target of 3.2% of GDP, as the gross fiscal deficit amounted to 3.5%. The target of 3.0% has been deferred to 2020 to 2021.

Fiscal stability

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Indian states, which have a certain degree of fiscal autonomy but are dependent on transfers from the central government, have traditionally pursued irresponsible fiscal policies, essentially waiting for bailouts from the center. Since fiscal year 2010 to 2011, the states' share of the general government deficit has increased from 23% to 43%. The states' overall fiscal deficit amounted to 2.7% in 2018, a level similar to that of previous years.

Ahead of general elections in 2019, the government has envisaged increased spending, especially in the areas of rural healthcare and infrastructure. This will be only partially financed through disinvestments elsewhere; moreover, it remains to be seen whether the envisaged sale of Air India will ultimately be successful. Nevertheless, in fiscal year 2017 to 2018, the government met its disinvestment target, generating $15 billion.

In 2017, India's current account deficit amounted to $39 billion (2016: $12 billion; 2015: $22 billion). India's public debt is still massive, but it declined steadily between 2005 and 2010, and has now stagnated at around 69% of the GDP. Public debt is mostly held by domestic creditors. India's total reserves have risen steadily over the past two decades to $389 billion in 2017 ($334 billion in 2015).
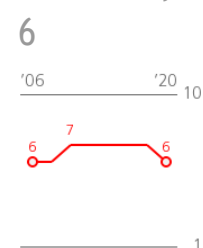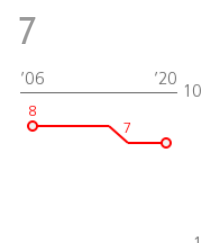
9 | Private Property

Property rights in India are, overall, adequately defined. The main political actors do not call into question the principles of private property, private initiative and the need to attract foreign investment. Nevertheless, the political will to implement adequate property rights protection policies is sometimes lacking or undermined by corruption and bureaucratic hurdles. As a result, while India rose to rank 77 out of 190 overall in the World Bank's Doing Business 2019 report (from 130 out of 190 in 2017), it still lags very much behind on property issues. When it comes to the ease of registering property, India ranks 166 out of 190 countries (its position even dropping as compared to 2017) since it takes nine procedures and 69 days to do so. In 2018, India ranked 59 out of 125 countries in the International Property Rights Index (2016: 59 out of 128), and its score has remained almost unchanged since 2010. With regard to intellectual property rights (IPR), India has released a National IPR Policy, and in 2016 established its first intellectual-property crime unit in the state of Telangana. The country has adequate copyright laws and it acceded to the WIPO Internet Treaties in 2018. However, piracy of copyrighted content is widespread, and enforcement remains weak.

Private companies in India are viewed institutionally as important engines of economic production and are given legal safeguards. While the role of the private sector has been strengthened since the beginning of economic liberalization in the 1990s, India has a long tradition of state-owned enterprises, which still play an important role in the economy. According to the Department of Public Enterprises, there were 180 scheduled central public sector enterprises in India as of November 2017

Since 1991, the government has pursued a policy of disinvestment, selling government equity in public sector enterprises, but still retaining majority control. This partial privatization has been used to raise funds to meet fiscal deficit targets. For fiscal year 2018 to 2019, the government has defined a disinvestment target of $12.3 billion.

Starting a business in India requires 16.5 days and 10 procedures, according to the Doing Business 2019 report (on this item, India ranks 137 out of 190 countries). This is a substantial improvement as compared to 28 days and 14 procedures in 2014 and is one of the most notable achievements of the BJP-led NDA government. The reforms introduced in the review period have included a simplification in construction permits as well as several positive implications associated with the introduction of GST.

Property rights

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Private enterprise

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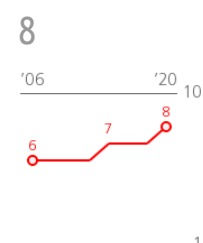
10 | Welfare Regime

Traditionally, social safety nets in India were mainly based on family structures – and they largely continue to be so. However, a range of reforms initiated in the mid-2000s has substantially improved the opportunities afforded to marginalized sections of Indian society to receive some compensation for social risks. Programs like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) provide for the temporary employment of people living below the poverty line. The Public Distribution System (PDS) provides for the distribution of food grain staples to the poor through "ration shops" or "fair price shops." The Integrated Child Development Services (ICDS) is India's flagship program aimed at addressing malnutrition and health problems among children and mothers. However, the effectiveness of many of these programs is dubious, mainly due to corruption and financial leakages.

In 2014, public expenditure on health amounted to 1.4% of GDP, a slight increase as compared to previous years. Life expectancy at birth has steadily risen over the past decade, from 65 years in 2006 to 68.6 years in 2016. However, health conditions are still poor, with a neonatal mortality rate of 26.1 per 1,000 live births and a maternal mortality ratio of 174 per 100,000 live births in 2015 (WHO data).

As far as health insurance is concerned, several central government programs are targeted at employees in the formal sector or at civil servants. One of the main reforms made by the NDA government during the review period was the introduction of the Ayushman Bharat – Pradhan Mantri Jan Arogya Yojana (PMJAY), a new health insurance program for the poor dubbed "Modicare." The scheme envisages annual coverage of up to INR 500,000 ($6,900) to over 500 million poor and vulnerable citizens. However, critics point out that the scheme's funding is not guaranteed, and that its announcement was clearly made to gain votes ahead of the 2019 general elections. States including Telangana, Orissa, Delhi, Kerala and Punjab refused to implement the scheme, arguing that they already had better programs in place in their states.

Another main feature of the government's reforms in the social sector has been a drive toward digitalization, cash-free transactions and a connection between welfare programs and the Aadhar program of biometric data collection. Despite potential increased efficiency and reduced costs, these moves have a range of downsides in terms of further marginalizing vulnerable populations, or women and girls, for example, who frequently suffer intra-familial discrimination.

Social safety nets

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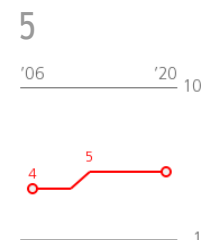
Equality of opportunity in India has not been achieved. Members of the lower castes, Muslims, members of tribal communities and other marginalized social groups do not have – de facto – equal access to education and employment. There are, however, several forms of affirmative action aimed at promoting the participation of marginalized groups, for example reserved places for members of scheduled castes (SCs), scheduled tribes (STs) and other backward classes (OBCs) in the public sector and at universities. The Indian constitution provides for reserved seats in elected bodies corresponding to the share of SCs and STs in the population of each constituency. This system has helped improve social mobility and fostered political empowerment within marginalized groups.

Discrimination against women remains a major issue in India. Especially in the north of India, which remains extremely patriarchal, women tend to face discrimination within their families from the very beginning. As far as access to education is concerned, some substantial progress has been made in primary and secondary education; also, in tertiary education, the ratio of female-to-male enrolment (Gender Parity Index) is now 1.0. However, India's labor-force participation rate among women has declined over the past decade, from 27.7% in 2007 to 24.5% in 2017. With some notable exceptions, women still play a subordinate role in politics too. Only 11.8% of legislators in the lower house of Parliament are women. Women's organizations have been calling for the revival of the Women's Reservation Bill, which calls for a total of 33% of seats in national and state legislative assemblies to be reserved to women. This bill has been pending since 1996. A series of rape cases since 2012 have generated an entirely new societal awareness about the conditions of women in India, but it will take years to achieve substantial changes in the general attitude toward women. India's ranking (108th) in the Global Gender Gap Index 2018 was still very low.

Discrimination against Muslims and members of so-called scheduled tribes has worsened in recent years. Muslims have long been a marginalized community, but according to a recent study, their intergenerational upward social mobility has strongly decreased over the past two decades. Under the present government, Muslims (as well as Dalits) have been victims of increasing numbers of mob attacks by Hindu vigilante groups against (alleged) consumers and traders of beef. Many BJP leaders have publicly made statements that are derogatory to women and have suggested social and moral policing. Non-citizens too have been discriminated against – especially Muslim migrants from Bangladesh. In 2018, the government published an updated list of all citizens of Assam, which excludes around 4 million people who migrated to the state after the creation of Bangladesh. Mostly for domestic political mobilization purposes, the BJP government has announced that it will ultimately deport those who are unable to prove they are Indian citizens.

Equal opportunity

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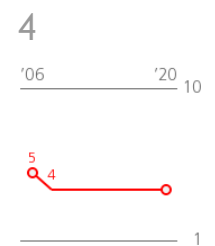
11 | Economic Performance

The upward trend of the Indian economy continued during the review period. Among the so-called emerging economies, India is the only nation besides China that displays consistently high growth rates. In 2017, GDP growth amounted to 6.68%, slowing slightly as a consequence of the effects of demonetization. The October 2018 IMF World Economic Outlook projected a growth rate of 7.3% for 2018 and 7.4% for 2019. According to the report, India's continued economic growth is due to structural reforms and a still-favorable demographic dividend. Growth in GDP per capita (constant local currency) amounted to 5.4% in 2017.

Output strength
9

In 2014, India's current account deficit totaled to $39 billion, rising again as compared to the previous review period. The inflation rate fell to 3.3% in 2017 (from 4.9% in 2016 and 2015). The government's efforts to attract foreign direct investment, however, displayed only moderate results, with inflows falling to just 1.5% of GDP in 2017 (2016: 2.0%, 2015: 2.1%). In absolute terms, FDI declined from $44 billion in 2016 to $40 billion in 2017 and was mostly directed at the services sector. One of the main challenges for the government is the creation of as many as 1 million jobs per month in order to accommodate India's growing young workforce. However, the government has failed to deliver on what was one of its main electoral promises. Campaigns like "Make in India" have had only limited success, and the unemployment rate remains at 3.5% (even though this figure has only limited relevance given the importance of the informal economy, with its unregulated employment). GDP per capita in PPP terms steadily increased over the past decade, doubling from 3,485 to 7,056 current international dollars between 2007 and 2017.

The introduction of the GST was probably the most important reform during the review period. India's tax revenue remains very low (11% of GDP in 2013, no more recent data available). However, GST implementation has reportedly increased the number of indirect taxpayers by over 50%. Since the Income Tax Department can now more easily verify if GST and income tax records are in sync, this has reportedly also led to increases of 17% in net corporate income tax collections from and of almost 19% in net collections from personal income tax.

12 | Sustainability

India faces massive environmental problems, from air pollution to water pollution and water scarcity, waste management issues, soil degradation and biodiversity loss. India is also one of the world's largest emitters of greenhouse gases.
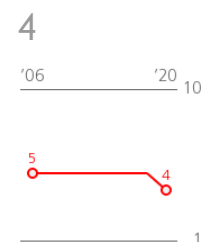
Environmental
policy
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The Indian government has taken measures to address the issue of pollution, for example by aiming to reduce households using solid fuel for cooking by 50%, by eliminating subsidies for polluting cooking gas, and by launching a "clean Ganga" action plan. The government has also pledged to eliminate single-use plastic entirely in India by 2022. With regard to climate change mitigation, the present government took a more cooperative stance at the Paris climate conference of 2015 than did the previous Congress-led governments. For his engagement in the formation of an International Solar Alliance, Prime Minister Modi was awarded the U.N.'s highest environmental award in 2018, being named UNEP "Champion of the Earth."

However, the government's rhetoric has not been matched by concrete achievements, and indeed its approach to environmental issues has been more than ambivalent. Critics point out that the government has consistently watered-down laws concerning wildlife, forests, air and waste. It has become easier to obtain wildlife clearances for industrial projects, and the new coastal regulation zone rules reduce coastal protection. The government has focused on growth and investment, and levels of environmental awareness remain extremely low within the population at large. As a result, India's ranking in the Environmental Performance Index compiled by the Yale Center for Environmental Law and Policy worsened considerably during the review period, from rank 141 out of 180 countries in 2016 to rank 177 out of 180 in 2018. In terms of air quality, India ranks 178th. Fully 14 out of the 15 most polluted cities in the world are in India.

Over the past decade, India's score on the U.N. Education Index has steadily improved, from 0.452 in 2007 to 0.556 in 2017. The literacy rate in 2011 (no more recent World Bank data are available) was 69.3%. The gross enrolment ratio in secondary education increased to 75% in 2016, and to 26.9% in tertiary education. Yet India's system of education and training remains mostly sub-standard, with some notable exceptions. There are still massive deficits with regard to access to education, even though signs of improvement are evident. The parallel systems of private and government schools contribute to deepening the gaps in education among social groups. According to the Annual Status of Education Report (2018), the proportion of children enrolled in private schools in rural areas grew from 22% in 2008 to 30% in 2018.

Education policy /
R&D
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The Right to Education Act, which took force in 2010, made education a right for the first time, and started to address the goal of providing better-quality education. As far as tertiary education is concerned, there are a number of high-class colleges and
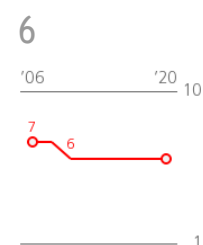
universities, especially in the natural sciences. However, in the academic field, India suffers from a massive brain drain. With expenditures for education amounting to 3.8% of GDP in 2013 and expenditures for research and development declining to 0.6% of GDP in 2015, India still ranks low in international comparisons. The BJP-led NDA government's continuation of politically motivated rather than merit-based appointments to leading positions in universities and research institutions has been harmful to the further development of high-quality academic research.

Governance

I. Level of Difficulty

The management performance of the Indian government is limited by a range of structural constraints. While poverty has been declining, India is still home to around 50 million people living in extreme poverty on below $1.90 per day (official data from the National Sample Survey Office Consumer Expenditure Survey for 2017 to 2018 is slated for release in June 2019). Child malnutrition is still extremely widespread. While India has a growing reservoir of young, well-trained and English-proficient workers, the persistent low degree of literacy and the lack of a structured vocational-training system imply an immense loss of potential. India is relatively well-equipped to deal with natural disasters, as its response to the 2004 tsunami and its support for Nepal after the 2015 earthquake showed.

Structural constraints

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One of the main structural obstacles limiting the management performance of the government is the country's still extremely poor infrastructure. The government has recognized the problem and improving infrastructure has been one of the main reform goals of the present government. And indeed, some progress has been achieved, particularly with regard to extending the power grid to remote villages and in the development of transportation infrastructure. Among other items, the government highlights the construction of 25 new airports in four years, a reduction of turnaround time by one-third at major ports, and a substantial expansion of the highway network.

India has a long tradition of civic engagement and a range of role models in that regard – first of all Mahatma Gandhi. Millions of NGOs are operating in a range of issue areas, including on environmental issues, the protection of human rights and the struggle for gender equality. A civic culture of participation in public life has always been rather strong, and the large number of demonstrations that take place all over India on any subject shows that also people from marginalized social groups take to the streets and organize to make their voice heard. By contrast, unions and employer associations remain relatively fragmented and are often affiliated with political parties. However, levels of social trust are still rather low, and the situation is worsening due to increased social tensions, particularly among religious groups. In the social capital sub-index of the Legatum Prosperity Index 2018, India was ranked 102 out of 149 countries, a decline from previous years (it was ranked 84 out of 140 countries in 2016).
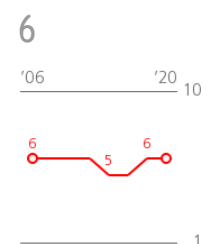
Civil society traditions

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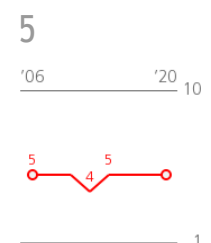
A range of cleavages exist in Indian society. They concern caste and social status, ethnicity, religion (especially tensions between Hindus and Muslims), and gender. Since these cleavages rarely overlap and reinforce each other, however, no major nationwide armed conflict has taken place in recent decades, and episodes of violence have remained relatively limited. However, a range of conflicts continue to exist in different parts of the country. The situation in Jammu and Kashmir remained extremely unstable throughout the review period, particularly after the breakup of the governing coalition in November 2018. According to Crisis Watch, the year 2018 (through November) saw the highest number of casualties in a decade (400 fatalities according to reports by the Indian Army). The Naxalite conflict in central India also saw a renewed intensification of violence in 2018 (404 fatalities between January and November according to the South Asia Terrorism Portal) as compared to the previous year (January-November 2017: 290 victims; 2016: 433 victims; 2015: 251 victims). By contrast, in the northeastern states, the incidence of violence by armed groups has decreased, with 64 victims between January and November 2018 (SATP data; 2017: 95 victims; 2016: 165 victims; 2015: 273 victims).

The primary and most dangerous conflict line has been that dividing Hindus and Muslims. Hindu nationalist groups' increased feelings of freedom under the present government has led to an increase in violence and intimidation vis-à-vis the Muslim minority and to the establishment of a majoritarian Hindu discourse. Even the secular Congress party has been shifting toward what has been dubbed "soft Hindutva," or a wooing of Hindu religious sentiments, for example when Congress President Rahul Gandhi visited a range of Hindu temples during the Gujarat election campaign in 2017. In any case, while calling for societal harmony, Rahul Gandhi has refrained from depicting Congress as an advocate of Muslims' causes.

Overall, the population's degree of polarization along religious cleavages has increased. Given the growing discontent with the present government's economic performance among sections of the population, we can expect the BJP to increasingly use religion for the purposes of political mobilization ahead of the 2019 general elections.

Conflict intensity

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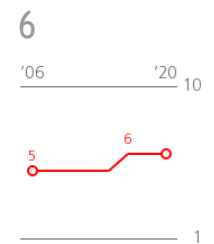
II. Governance Performance

14 | Steering Capability

The BJP-led government has the majority and the political support to take on a longer-term perspective to address important reforms. The prime minister has clearly displayed a will to carry out reforms in a broad range of areas, from sanitation to infrastructure. While programs and schemes have mushroomed over the past years, the government's initiatives have in many cases amounted to blind activism, and implementation has been rather poor. Among many examples, the construction of toilets to address the problem of open defecation has proceeded quickly, but the new toilets are often dysfunctional and are not used by the target groups. In many cases, the government does not seem to have a coherent strategy nor a clear ability to prioritize and organize its policy measures. The abysmal implementation of "demonetization" in late 2016, the excessive complexity of the new GST system and the unclear funding provided to the "Modicare" health care program reveal the limits of prioritization and strategic planning. Generally speaking, however, the government has put a clear strategic priority on the issue of economic growth and is pursuing this overarching goal in a rather systematic manner. Among the challenges faced by the government is the pressure exercised by hardline Hindu-nationalist groups, which follow a particularistic agenda that creates social unrest and might ultimately undermine the government's developmental agenda if the BJP forms a new government after the 2019 elections.

The BJP-led NDA government was elected with a clear mandate for change and economic development. Overall, it has been successful in achieving high growth rates and improving investment conditions, but it has failed to create jobs at the pace required. FDI has mostly gone to the services sector, while policies aimed at boosting manufacturing have largely failed. Recently, we have even seen desperate measures like tariff increases that hint at a return to import substitution policies. Initiatives such as the prime minister's "clean India" campaign are useful in generating a greater awareness among the population, but their impact is far from clear. The implementation of the new Goods and Services Tax has been emblematic of these problems; the new system is excessively complex, and the initial implementation period was characterized by a confusing addition of new exceptions. Yet, overall, the middle- and long-term impact of GST is expected to be positive both in terms of better connectivity within India and of increased tax revenues.

Even aside from the enormous structural challenges related to India's huge and growing population, along with the legacy of corruption, institutional weaknesses and
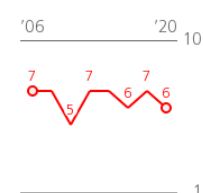
Question
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Prioritization
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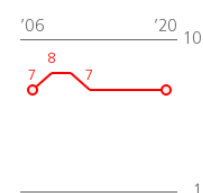
Implementation
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bureaucratic sclerosis, other factors hinder the successful implementation of reforms. Among them are a prioritization of short-term (electoral) gains by the Modi government and the corresponding hyper-activism in the creation of new schemes and programs. Moreover, the influence of conservative Hindu nationalist groups may contribute to hamper reforms. For example, recent instances of protectionism can be traced back to some elements of Hindu nationalist ideology.

More so than previous governments, the present government has been flexible and dynamic when it comes to the introduction of new policies, even though the sheer magnitude of government programs and the recalcitrance of the bureaucracy remain major obstacles to flexible policy learning and adaptation. The government's NITI Aayog think tank has a Development Monitoring and Evaluation Office that oversees the central government's schemes and programs, and continuously collects data on the performance of various ministries. While a monitoring body also existed previously under the Planning Commission, the new office is supposed to be more effective thanks to real-time data collection and monitoring efforts. Yet, during the review period, a centralization of these offices reportedly took place, with several of its regional branches located across India closed. While huge amounts of data are gathered by the government for monitoring and policy learning purposes, it is unclear to what extent the Modi government has made use of such data. Data on employment, including a household employment survey, have not been released since early 2018, most likely to conceal the government's poor record at job creation. Overall, it has to be noted that most of the reforms introduced by the government have been rather cosmetic in nature. A typical tool employed by the BJP-led NDA government has been the renaming or rebranding of existing schemes and programs, with little change in substance. The willingness to learn from international partners seems to have decreased, if one keeps in mind the growing suspicion vis-à-vis foreign NGOs, which are often perceived as meddling with internal affairs and possibly even hampering India's growth prospects.

Policy learning

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15 | Resource Efficiency

When it comes to the efficiency in the use of available resources, the BJP-led government presents some interesting contradictions. On the one hand, Modi came to power with the explicit aim of reducing bureaucracy and governing more efficiently, under the general motto of "minimum government, maximum governance." And indeed, India's rapid hike in the World Bank's Doing Business rankings reveals that some progress has been made. However, a number of the measures introduced by the government have been piecemeal, and changes have been implemented slowly. Some examples, such as the almost complete marginalization of the Ministry of External Affairs from decision making on foreign-policy issues, reveal that Modi's centralization of decision-making procedures can have negative implications. The use of budget resources continues in many cases to be inefficient.
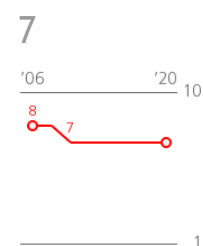
Efficient use of assets

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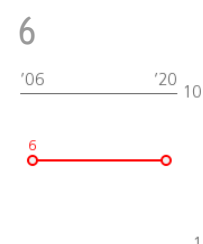
In 2017 to 2018, India did not meet its gross fiscal deficit target of 3.2% of GDP, as the gross fiscal deficit was 3.5%.

On the other hand, resource efficiency is increasingly hampered by the politically motivated appointment of unqualified persons – often members of the Hindu nationalist RSS.

The Indian state inherited an efficiently organized bureaucratic system from the British colonial government based on recruitment and promotion on merit. Yet a range of factors, including political interference, corruption and structural constrains on the autonomy of the bureaucracy have contributed to a high degree of bureaucratic inefficiency.

When it comes to "responsible" decentralization, some progress has been made. The Modi government aims to further empower the states under the principles of "cooperative federalism" and "competitive federalism." Representatives from the states are part of the National Institution for Transforming India (NITI) Aayog, a body that replaced the old National Planning Commission in 2015. The states have also been encouraged to play a more prominent role in foreign economic policy through paradiplomacy. This has been reflected, for example, in the creation of a States Division in the Ministry of External Affairs. Yet, the impact of such new measures on Indian federalism will become evident only in the longer term.

The Indian government tries to coordinate conflicting objectives, but frictions and redundancies among different government agencies remain significant. The government has made explicit efforts to improve coordination between national and state governments, for example through the creation of the NITI Aayog. The introduction of the Goods and Services Tax represents a major improvement in terms of policy coordination, as it transforms India into a single market.

Policy coordination

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The review period also saw an increasingly personalized and centralized mode of coordination through the prime minister and a small circle of advisors. Persons close to Prime Minister Modi have been appointed to key positions, for example at the Reserve Bank of India. While centralized decision-making can have advantages in terms of efficiency, in the longer run it might create bottlenecks and undermine policy goals by setting narrow priorities. Moreover, a range of overlapping and often ad hoc programs continue to exist, especially at the state level. The frequent relabeling of programs and the constant mushrooming of new initiatives by the central government have also been detrimental for policy coordination.
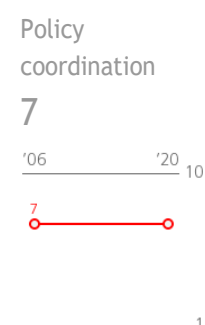
India has long had a system of laws and institutions to combat corruption. The constitution provides for the Comptroller and Auditor General (CAG) to audit all expenditures by the union and state governments, as well as that of bodies and authorities substantially financed by the government. A Prevention of Corruption Act was enacted in 1988. Yet corruption has been pervasive in India for decades. It became a major topic in 2011, when a large anti-corruption movement led by social activist Anna Hazare emerged after a series of major corruption scandals. One of the drivers of Modi's electoral success in 2014 was his populist campaign against a corrupt elite. However, few substantive changes were made to India's anti-corruption institutions and practices under Modi. While the demonetization policy of 2016 had the declared objective of eliminating "black money," observers agree that it completely failed to address the problem. At the same time, the government has failed to appoint the anti-corruption authority called Lokpal, which had been one of the main demands of the 2011 anti-corruption movement. A notable development during the review period was the introduction of some changes to the rules for the financing of political parties – in particular, opening the possibility for foreign funding and donations from companies, as well as the introduction of anonymous donations through electoral bonds. Critics argue that such measures will not increase transparency in political finance, but will rather promote illicit funding and crony capitalism.

Anti-corruption policy

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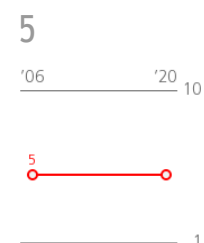
16 | Consensus-Building

The democratic principles of the Indian state are not seriously called into question by any relevant political actor. What has been increasingly called into question, however, is the secular character of the Indian state.

Consensus on goals

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While the BJP-led NDA government has clearly pushed for economic liberalization, radical Hindu nationalist forces opposed to a "Western-style" market economy have become more vocal and influential in the government. Critical voices in the media and from some leftist parties remain opposed to many of the reforms introduced by the government, and to policies such as the abolition of subsidies and the creation of special economic zones. Much of this criticism has been leveled against the adverse impact such measures have had on the education, health and agriculture sectors. Increased privatization of education and the withdrawal of funds from public universities and research institutions has led to a crisis in higher education, with decaying infrastructure and increasing numbers of students. In January 2019, the government announced that 10% of university places would be set aside for economically weaker sections (EWS), which has led to universities announcing that they would accept 25% more students overall, without commensurate infrastructure expansion. The crisis in agriculture due to agricultural policies that have resulted in low prices for farmers' produce and corresponding indebtedness has led to suicides of farmers across the country.
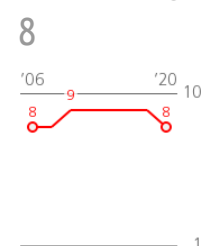
Democratic principles are deeply rooted in India, and there are no significant actors who seriously challenge them. The main exception are the Naxalites, Maoist-inspired rebels who are fighting for the rights of the landless and the tribal population in central India, and whose declared goal is the subversion of the Indian state. However, they do not represent a political force with any means of seriously challenging the Indian state.

Anti-democratic actors

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The influence of hardline Hindu nationalist groups, by contrast, has further increased during the review period. While these groups do not explicitly call into question the democratic nature of the Indian state, they certainly seek to undermine its fundamental principles by calling into question its secular credentials and seeking to make India a Hindu nation. Their polarizing attitude has reinforced religious cleavages within India's society and gives them the potential to disrupt current reform processes.

Indian society is characterized by the existence of multiple cleavages related to caste, religion and ethnicity. The Indian constitution provides for a mitigation of potential conflicts, given the prominence of secularism, federalism and provisions for the political representation of marginalized social groups. However, the willingness of the political leadership to prevent society from falling apart along these cleavages has further declined during the review period. The religious cleavage has been reinforced, and the BJP-led government has only half-heartedly condemned episodes of mob violence against Muslims and the activities of cow vigilante groups. While regional or caste-based conflicts persist, this is the most serious and potentially dangerous cleavage. Ahead of the 2019 general elections, we can expect Hindu nationalist groups to use religion further for purposes of political mobilization.

Cleavage / conflict management

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The fact that no major violent conflicts have broken out in India is less a consequence of depolarizing policies pursued by political actors than the result of the multiplicity of crosscutting cleavages, which mostly do not overlap, thereby preventing the formation of large opposition coalitions.

A large number of nongovernmental organizations of all kinds exist in India. Civil society is extremely active and has been increasingly able to compensate for a lack of formal access to policy-making by mobilizing large numbers of supporters in huge nationwide demonstrations. While the anti-corruption movement of 2011 and the protests against rape and violence against women of 2012 were short-lived, they contributed to change the awareness of the broader population on these topics. The political leadership allows for civil society participation in some areas. For example, large numbers of civil society, academic and business representatives were involved in the drafting of a "Strategy for New India @75" document unveiled by the NITI Aayog in December 2018. Nevertheless, actual policy-making is in many cases still centralized, and under Prime Minister Modi, a further centralization of power in the hands of the executive, and particularly of the prime minister, has been evident. In this regard, the space available for civil society participation has definitely shrunk.
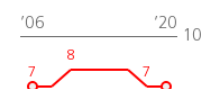
Civil society participation

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While India has not experienced major civil wars calling for the establishment of mechanisms to promote reconciliation, smaller instances of conflict and acts of injustice abound. While the government has displayed its readiness to rehabilitate victims of past injustices, rehabilitation is often not pursued expeditiously. This is due, on the one hand, to the overburdened justice system and, on the other, to delays (and sometimes to major flaws) in police investigations. The dealing with atrocities committed in Kashmir as well as with atrocities against Muslims and members of scheduled castes (SCs) has been extremely poor.

Reconciliation
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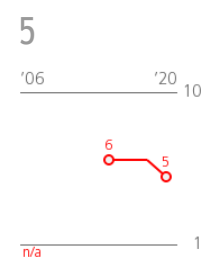
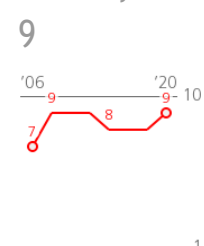## 17 | International Cooperation

The BJP-led NDA government has a clear focus on economic growth, but has also continued to address human development issues, from the fight to poverty to the improvement of health and education. The government has placed appreciable focus on the achievement of the Sustainable Development Goals. Yet when it comes to international support, the current central government has followed previous Indian governments in emphasizing its self-sufficiency and autonomy. In 2003, India declared that it would accept bilateral development assistance only from a limited number of states: Germany, Japan, Russia, the United Kingdom and the United States (the British Department for International Development ended traditional financial aid to India in 2015). The present government has retained this policy and has sharpened the monitoring of and restrictions applied to foreign NGOs perceived as meddling with internal affairs. Indian institutions are often perceived by international donors as "difficult" partners to deal with in a bilateral setting. However, India's focus on sovereignty and non-interference does not imply a general unwillingness to cooperate with international partners, particularly with multilateral institutions, or to seek support in the field of development. Several of the social programs promoted by the Indian government have been developed with international assistance, for example from the World Bank. Among the areas in which India makes use of international assistance, for example from Germany, are the fields of renewable energy and energy efficiency, sustainable urban development, and environmental protection and resource conservation.

Effective use of support
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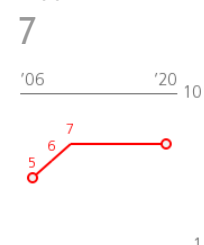
In recent years, India has come to be perceived as an increasingly influential international actor. The negotiating position of the Indian government has often been uncompromising on issues seen as endangering its domestic needs or as undermining the principles of sovereignty and non-interference – among the many such examples are India's position in trade negotiations, its refusal to accept binding targets for greenhouse gas emissions, its ambivalent approach to norms such as the principle of the Responsibility to Protect, and its refusal to sign the Non-Proliferation Treaty (NPT) or the Rome Statute on the International Criminal Court. While such uncompromising positions can make India a difficult negotiating partner, its remarkably consistent stand on most of these issues have contributed to giving the

Credibility
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country a high degree of international credibility. For example, India's consistent adherence to non-proliferation standards (despite not being a signatory of the NPT) has led to the perception that India is a responsible and reliable nuclear power. The signing of the agreement on civilian nuclear cooperation with the United States in 2008, which de facto acknowledges India's status as a nuclear power, confirms this. During the review period, the Modi government has continued its predecessors' tradition of improving relationships with all relevant international actors. India's acceptance by the international community as a reliable partner, including on global governance issues, is confirmed not only by these close bilateral relationships, but also, for example, by the European Union's development of an ambitious new strategy that sees India as a partner in shaping a "rules-based global order."

India's relations with its neighbors in the South Asian region have been difficult for decades. The longstanding conflict with Pakistan substantially hampers any meaningful forms of multilateral regional cooperation. The charter of the South Asian Association for Regional Cooperation explicitly excludes the discussion of "contentious and political issues." India itself pushed for the inclusion of this clause in the charter, thereby undermining regional cooperation. With smaller neighboring countries, India has long had difficult relationships shaped by the extreme power asymmetry, by small states' fears of being "absorbed" by India, and by India's own (often inconsistent) meddling with their internal affairs. Despite its successes in global politics, India has completely failed in its regional policy: it has not developed a "vision" for its region, it has not provided leadership nor made concessions to neighboring countries, and it has not been able to limit the growth of China's influence in what has traditionally been its sphere of influence.

Regional cooperation

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Prime Minister Modi, who initially seemed poised to revolutionize India's relations with its South Asian neighbors, ultimately followed an inconsistent policy course in its approach to South Asia. On the one hand, the government introduced the slogan "neighborhood first" to indicate that it intends to make South Asia a foreign-policy priority. On the other hand, India did not take any initiatives to improve relations with its neighbors during the review period. India-Pakistan relations remained tense after the escalation following some attacks on Indian military facilities in 2016. An increasingly heated media discourse and rhetoric as well as pressures from hardline Hindu nationalist groups make it increasingly difficult for the Indian government to deescalate tensions with Pakistan. If there were to be a major terrorist attack on Indian civilians, this could have deleterious consequences. In its approach toward Afghanistan, India continued its development aid activities (India is the fifth-largest donor in Afghanistan), and at least to some extent, it also became more active on security matters. In March 2018, the government agreed to buy four more helicopters for the Afghan army, and India has agreed to support the Afghan Air Force through a trilateral cooperation with Russia, from which most spare parts need to be bought. These might be some initial hints at a more "muscular" approach to regional security, in line with Hindu nationalist ideology. Relatedly, in a summer 2017 border standoff
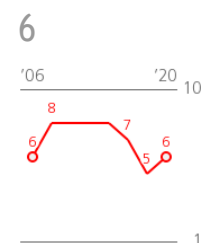
with Chinese troops in Doklam, a contested territory claimed by both China and Bhutan, the Indian government displayed a remarkable degree of resolve in resisting Chinese pressure (ultimately, the issue was quietly solved so that both sides could save face).

Strategic Outlook

India has been rather successful in promoting transformation over the past several decades. The country's democracy has proven to be stable, and political participation among previously marginalized groups has increased. Economic liberalization has led to a growth success story, which seems to be set to continue. However, the relatively jobless character of India's growth, the poor performance of agriculture and growing regional disparities all require some qualification to India's developmental success story. Overall, economic growth has contributed only marginally to poverty reduction, while disparities among social groups have increased. In the longer term, these trends might contribute to a deterioration of the country's social fabric.

One of India's primary challenges derives from the working of key institutions, which often fall prey to quarrels among the particularistic interests of political actors, or alternately to abuse of office. The new government has recognized the need to address this issue and came to power with a clear mandate for change. It has to a certain extent managed to streamline bureaucratic procedures and structures, but its fight against corruption has been shaped mainly by initiatives with great media visibility (e.g., the "demonetization" policy). What seems to be lacking is a willingness to introduce genuine reforms in fields like political-party finance, or measures such as the appointment of an anti-corruption authority. Modi's anti-corruption discourse reflects his populist agenda, but should be accompanied by substantive policy measures. These could have a range of positive implications. In economic terms, they would further increase the confidence of foreign investors, making India a more attractive destination for foreign direct investment. They would improve the implementation of infrastructure projects, which India desperately needs to foster its economic development. They would also contribute to make existing social programs more effective, by improving access to health services and education among the marginalized sections of society. In institutional terms, a strengthening of the hopelessly understaffed judicial system and a thorough reform of the police would increase citizens' confidence in institutions. As a new government will be formed after general elections in 2019, a further important area to address will be the inclusiveness of growth. While this topic was high on the agenda of the Congress-led government, it played a mainly rhetorical role for the Modi government, which put greater emphasis on business-friendly economic policies. Similarly, the sustainability of growth should be further prioritized by the current and the future government.

However, the most worrying trend during the review period was the growing societal polarization along religious lines, and the systematic suppression of dissent. Freedom of expression has been severely curtailed, while traditional media and especially journalists critical of the government have been openly persecuted. Members of hardline Hindu nationalist organizations have been appointed to influential positions in a variety of sectors, leading to worrying levels of control and prompting self-censorship in these environments (academia being a case in point). Foreign NGOs have been further curtailed in their activities. Moreover, the secular character of the state has been increasingly called into question. Hindu nationalist groups have in some instances acted as veto

powers, and the government has done little to avoid the spread of vigilante violence on issues like the protection of cows, which are holy to Hindus. Episodes of mob violence and lynching of Muslims or members of the lower castes accused of killing cows or consuming beef have intensified. The government's reaction has been half-hearted. Ahead of the general elections in spring 2019 and given the rising dissatisfaction with the economic policies of the government, we can expect a surge in political mobilization along religious lines – and a concomitant increase in violence. The opposition parties should refrain from falling prey to the predominant Hindu nationalist majoritarian discourse and from adopting a "soft Hindutva" discourse. They should instead consistently highlight the secular character of the Indian state and openly speak out against further discrimination against the Muslim and other minorities.