India: taking stock of Modi's five years

SUMMARY

From 11 April to 18 May 2019, 900 million Indians are invited to take part in the world's biggest democratic event: the election of the 543 members of the Lok Sabha (lower chamber). Voting will be held across the country in seven phases and the result will be declared on 23 May.

In 2014 the Hindu nationalist Bharatiya Janata Party (BJP) obtained the absolute majority in India's Lok Sabha, and Narendra Modi became prime minister. Enjoying a strong and undisputed mandate, Modi has generated expectations of unleashing the country's economic potential and has adopted many flagship initiatives in a bid to change the country.

In the last five years, India has overtaken China as the fastest growing economy, becoming the world's sixth biggest economy and a space power. Doing business in the country has become easier. Poverty has been reduced. The government succeeded in introducing major fiscal unification reform and a new law on bankruptcy. It failed, however, to create the necessary stock of jobs for young people or to promote long-awaited labour reforms. The situation for farmers has worsened, and an overnight demonetisation hindered progress among small businesses and rural communities, while failing to bring real advances in the fight against corruption. State banks hold large stocks of bad loans and the government has increased pressure on the central bank and on its independence.

Hindu nationalism and religious intolerance, pressure on freedom of expression, possible state intrusion into privacy, citizenship issues and other topics have been matters for concern in the area of human rights, although the country remains a robust democracy governed by the rule of law.

Modi has increased the country's presence in the global arena, although the framework of India's relations with the major powers has not changed. Following two summits in 2016 and 2017, the EU and India have embarked on a road towards cooperation on non-trade issues. Trade has meanwhile stagnated and little progress has been made in negotiations on a trade and investment agreement.
Introduction

In 2014, India decided to turn the page on 10 years of Indian National Congress (INC) rule and gave an absolute majority in the lower chamber (Lok Sabha) to the Hindu nationalist Bharatiya Janata Party (BJP). With this strong mandate, prime minister Narendra Modi set out to fulfil his electoral promise to ‘build a strong, self-reliant and self-confident India’. His ‘maximum governance, minimum government’ slogan, which seemed to announce a programme of liberalisation, raised hopes that the country's economic potential would be unleashed. The programme actually focused more on reducing bureaucracy in business, witness the slogan when launching the ‘Make in India’ initiative (see box next page): ‘Goodbye red tape, hello red carpet’. Modi raised expectations in the business world having enjoyed a reputation for competent economic management during his mandate as chief minister of north-western state of Gujarat. He was also expected to fundamentally reboot and reorient India’s foreign policy goals, content and process. Enjoying a strong and undisputed mandate within his party, he struck a starkly different style from his predecessor Manmohan Singh, showing a charismatic and authoritative personality, and making a direct connection with the public opinion through orchestrated media events and wide use of social media.

Economy and finance

India has enjoyed significant growth over the last five years and has overtaken China as the world’s fastest-growing major economy. In 2017 it overtook France as the world’s sixth biggest economy, slightly behind the UK; it is third largest in terms of purchasing power parity (PPP). Part of this growth has been underpinned by factors such as the low price of oil – 82 % of which is imported. India has achieved a notable improvement in ease of doing business: several reforms have enabled the country to improve its rank from 134th in 2014 to 77th place in 2019. During Modi’s rule, India attained the historic achievement of no longer being home to the largest number of poor people – it now has the third largest number, after Nigeria and Congo — and at present poor people make up 3.4 % of the Indian population (47 million, as opposed to 268 million in 2011).

India has however performed less impressively on job creation: while it needed to create some 800 000 jobs a month for young people joining the labour force, the National Sample Survey Office’s (NSSO’s) periodic labour force survey found out that the unemployment rate stood at a 45-year high of 6.1 % in the 2017-18 period (it was 2.2 % in the 2011-12 period) and the problem is particularly acute among young people. Also, the labour force participation rate was 49.8 % in the 2017-18 period, less than in the 2011-12 period (55.9 %). The government, having failed to accelerate long-awaited labour reforms – tried to bury the report, sparking a controversy that led to the resignation of two members of the National Statistical Commission (NSC) and raised concern over political interference in data estimation, also in relation to the downwards revision of growth figures under previous administrations. According to an independent think tank, the Centre for Monitoring Indian Economy, unemployment has been increasing steadily, reaching 7.4 % in December 2018, and India lost 11 million jobs in 2018, with much higher losses in rural areas. One symbol of the employment crisis were the 28 million applications for 90 000 posts at Indian Railways in the context of a long-awaited massive modernisation programme. A 2018 International Labour Organization (ILO) report shows that low pay and wage inequality remain serious challenges on India's path to achieving decent working conditions and inclusive growth, in a country where the share of informal
employment is quite high (88.2 % according to a 2018 ILO report based on 2012 data). The BJP however claims that the Modi government has created 15 million jobs a year.

Analysts point to the November 2016 overnight demonetisation, when the government suddenly announced that 500 and 1000 rupees banknotes (€ 6.4 and € 12.8) were invalid and had to be exchanged for new ones, in a bid to curtail the shadow economy (estimated at 20 to 25% of gross domestic product (GDP)), reduce the use of illicit and counterfeit cash and root out terror financing. The invalidation of 86% of the country’s banknotes brought mixed results, however. It increased tax revenues, but also harmed small businesses and rural communities, allegedly provoking 1.5 million job losses, with only a modest impact on the fight against corruption and a missed the opportunity to follow up with further bold reforms.

Farmers’ discontent has been rising. In November 2018 tens of thousands of rural workers marched on the parliament in Delhi, protesting against increasing operating costs and dipping produce prices. Farmers make up 42% of the workforce, although agriculture represents only 16% of GDP. A 2017 report by the Comptroller and Auditor General (CAG) shows farm distress has worsened in recent years. In India 15 000 farmers commit suicide every year.

The historic introduction of a long-awaited goods and services tax (GST), bringing fiscal unification to a previously complex structure of thousands of different tax rates for goods and services across the country, has also helped to boost tax revenues, though its six rates, several exemptions and the ongoing possibility to carry out checks on the borders between India’s 29 states were a compromise. Another major economic reform was the adoption of the Insolvency and Bankruptcy Code, creating a legal framework for dealing with bankruptcy in line with global standards. India has raised ceilings for foreign direct investment (FDI) in several sectors, including defence, air transport, retail, construction, pharmaceuticals, insurance and pension, telecoms. However, Air India has failed to attract buyers.

India’s state-controlled banks – controlling 70% of the country’s credit system – are caught up in a non-performing corporate debt crisis. Non-performing loans have reached an estimated US$ 210 billion, with India surpassing Italy as the country with the world’s worst bad-loan ratio. This has resulted in many shadow banks taking a significant market share (more than a third of all new loans) and funding a real estate investment boom. However, disappointing returns on some key projects resulted in defaults, even affecting triple-A institute IL&FS (Infrastructure Leasing & Financial Services).

The government increased pressure on the Reserve Bank of India (RBI) to allow some bad-debt-burdened public banks to lend more easily, and pushed for it to transfer part of its surplus reserves to boost economy (and breach the fiscal targets) in the months ahead of the general elections. The attack on the RBI’s independence was evident in October 2018 when, in an unprecedented move,
the finance ministry invoked Section 7 of the Reserve Bank of India (RBI) act, allowing the executive to issue directions in the public interest to the central bank. In December 2018 RBI Governor Urjit Patel resigned. His predecessor from 2013 to 2016, Raghuram Rajan, former IMF chief economist, had also had conflicts with the government and was not offered a second mandate, as would usually be the case. The nomination of the more malleable Shaktikanta Das in December 2018 has sparked fears regarding RBI autonomy. The RBI has relaxed the prompt corrective action (PCA) framework, under which 11 public banks were placed due to stressed assets, and has allowed five of them to resume lending, prompting concerns. The government has announced the recapitalisation of some state-controlled banks, subject to conditions. RBI has also cut the interest rate twice, ahead of the general elections, pointing at a reduced inflation.

Human rights

India is a robust multicultural democracy governed by the rule of law. It was the only country in the region to rank as ‘free’ in the Freedom in the world 2019 report. However, in its Country Report on Human Rights Practices for 2018, the US Department of State drew attention to cases of extrajudicial killings of suspected criminals and insurgents, unresolved disappearances, police torture, and life-threatening prison conditions. A number of government corruption cases were reported, though the Corruption Perceptions Index reported an improvement from 94th place in 2013 to 78th place in 2018. According to Human Rights Watch (HRW), sedition and criminal defamation laws have sometimes been used to prosecute citizens who have criticised government officials or opposed state policies. Furthermore, there have been numerous reports of journalists and members of the media being threatened or killed as a result of their reporting. The 2018 World Press Freedom Index places India 138th out of 180 countries (just before Pakistan) and denounces a growing self-censorship in the media and among journalists. Also, on the basis of the 2010 Foreign Contribution Regulation Act (FCRA), the government has imposed restrictions on foreign funding of some nongovernmental organisations (NGOs). The government has proposed changes to the Information Technology Act, in order to oblige social media operators to set up systems for the prompt sharing of information sought by law-enforcement agencies, with a view to tracking the origins of viral fake claims that sometimes result in lynchings. Mechanisms of this kind might however infringe users’ privacy and are being resisted by WhatsApp. Also on the basis of the Information Technology Act, in December 2018 the government authorised nine central agencies and the Delhi police to intercept, monitor and decrypt information transmitted by or stored in any computer, raising public concern regarding individual liberties. Limits to free speech have been evoked by government members in a bid to equate dissent with a lack of patriotism.

Aadhaar, the world’s largest biometric ID system, a national identity scheme that issues every resident in India with a

Hindu nationalism

Hindu nationalists represent a core part of Narendra Modi’s electoral base. Their goal is to shape a country inspired by ‘Hindutva’ conservative Hindu cultural norms deploring the modern secular values of other parties. Some government initiatives have indulged them. In October 2018 the world’s tallest statue – at 182 metres, twice the height of the Statue of Liberty – was inaugurated in Gujarat (Modi’s home state), to celebrate independence hero Vallabhbhai Patel. Places have been given new Hindu names – to dissociate them from British colonial rule. The death of the first BJP prime minister Atal Bihari Vajpayee in August 2018, seemed to symbolise the end of an idea of moderate Hindu nationalism, against a backdrop of religious tensions today. In Uttar Pradesh, Yogi Adityanath, a hard-line Hindu monk appointed chief minister in March 2017 after the BJP won elections, supports the construction of a Hindu temple in Ayodhya, on the site where a mosque was destroyed by a Hindu mob in 1992 sparking riots across the country and especially in Mumbai (then Bombay), claiming up to 2,000 casualties. Cow defence is also an issue (cow slaughter is banned in 18 Indian states): violent mob attacks by cow defence squads, often targeting Muslims or low-caste Hindus, have multiplied. In October 2018, a tense situation occurred around the Hindu temple of Sabarimala in Kerala state, when women of reproductive age, following a Supreme Court decision in their favour, tried to access it despite strong resistance from devotee men. According to the 2011 Census, Hindus made up 79.8 % of the population, Muslims 14.2 %, Christians 2.3 %, Sikhs 1.7 %, and other religions 2.0%.
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unique 12-digit ID linked to biometric and demographic data, to streamline welfare services and root out fraud, has been criticised on grounds of a potential threat to privacy and security. Although it is not formally mandatory, it is necessary to benefit from an increasing number of welfare programmes. The Supreme Court declared the system legitimate in December 2018. On February 2019, the government dropped an unpopular amendment to the India Citizenship (Amendment) Bill, aimed at offering citizenship to non-Muslim migrants from Pakistan, Bangladesh and Afghanistan. It has been argued that the bill was designed to win over Bengali Hindus to the BJP with the elections in sight. Another citizenship issue that shook public opinion occurred in 2018 in the Assam state, where a controversial draft National Register of Citizens (NRC) excluded four million people, prompting concerns among some United Nations (UN) experts that the people left out could become stateless. In 2018, the government tabled the ‘Muslim Women (Protection of Rights on Marriage) Bill’ to outlaw the triple talaq, which gives Muslim men the right to instant divorce, without reciprocity. The bill was passed by the Lok Sabha but remained stuck in the Rajya Sabha (higher chamber) while the Supreme Court declared the triple talaq unconstitutional. The government therefore adopted a controversial executive order to make the triple talaq a punishable offence. The government meanwhile refused to criminalise the section of the Indian Penal code legitimising marital rape. There is still a long way to go to achieve women’s empowerment in India: for instance, only 3.5% of chief executives are women. The government has adopted several schemes to promote gender equality, including the Beti Bachao Beti Padhao scheme designed to combat sex-selective abortion (the rate of live births hit an unusually low 918 girls per 1 000 boys in 2011) and promoting education and empowerment for girls.

The Supreme Court has adopted several judgements on human rights issues. In September 2018 it scrapped a colonial-era law criminalising gay sex. A few weeks later it repealed another colonial-era law on adultery, allowing a husband to prosecute any man who engaged in sexual relations with his wife but preventing a wife from prosecuting either her husband or any woman with whom he was engaged in extramarital relations.

In June 2018 the UN High Commissioner issued a report on Kashmir criticising the excessive use of force by Delhi’s security forces in the Indian-administered part. Since 2016, hundreds of Kashmiri protesters have been blinded by Indian shotgun pellets used as a ‘non-lethal’ crowd control measure. The 1990 Armed Forces (Jammu and Kashmir) Special Powers Act and the 1978 Jammu and Kashmir Public Safety Act give security forces virtual immunity against prosecution for any kind of human rights violations. India’s Official Spokesperson rejected the report as ‘fallacious, tendentious and motivated’ and as making a ‘selective compilation of largely unverified information’ and seeking ‘to build a false narrative’. He underlined that the ‘report violates India’s sovereignty and territorial integrity’ as the ‘entire state of Jammu and Kashmir is an integral part of India’.

Foreign policy

Although the BJP government has not changed the framework of India’s relations with the major powers substantially, Modi has increased the country’s presence in the global arena. He has built relations with India’s southern Asian neighbours (‘neighbourhood first’ diplomacy), while the policy towards southeast Asia has been rebranded Act East, with a special focus on the Association of Southeast Asian Nations (ASEAN). Modi has also cultivated close relations with the Gulf countries. However, India’s relations with its historically antagonistic neighbour, Pakistan, have not improved. The leadership change in Islamabad in 2018, with the election of Imran Khan as prime minister, has not brought any significant change, partly because Pakistan does not feature high on Modi’s agenda. The South Asian Association for Regional Cooperation (SAARC) has not advanced owing to the rivalry between India and Pakistan. Delhi looks to alternative regional groupings such as BIMSTEC (the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation) and other frameworks in order to enhance connectivity in South Asia. India succeeded in cancelling a SAARC summit originally scheduled for November 2016 in Pakistan in the aftermath of a militant attack on Indian security forces in Uri – India-administered Kashmir – killing 18 soldiers and
prompting anger against Islamabad from Delhi and a military reaction against militants. India’s approach was muscular in the aftermath of deadly attacks on its army in Jammu and Kashmir by Pakistan-based terrorists: in particular, the Pulwama suicide attack on 14 February 2019 which killed 40 police officers and provoked a severe crisis in bilateral relations. India retaliated with an air strike on Balakot in Pakistani territory (the first cross-border strike in 50 years) targeting alleged training camps, and revoking Pakistan’s most favoured nation status. The Pakistani air force then conducted an airstrike on Jammu and Kashmir; in the subsequent dogfight an Indian pilot was shot down over Pakistan and captured, but was quickly released. Analysts argue that the standoff may favour Modi’s electoral chances.

India is apprehensive about China’s growing ties with Pakistan and the Himalayan countries, but also with some countries in the Indian Ocean, traditionally within Delhi’s sphere of influence. Beijing is seeking to develop its Belt and Road Initiative (BRI), provoking a feeling of encirclement in India. Delhi’s firm stance against the Chinese building a Himalayan road led to the Doklam Plateau standoff in 2017. Despite this, relations have mostly been constructive – Beijing is Delhi’s second trading partner – and Delhi, despite harbouring reservations regarding the BRI, has joined the Chinese-led Asian Infrastructure Investment Bank (AIIB). It has also joined the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), the BRICS’s answer to the Western-led International Monetary Fund (IMF) and the World Bank, where they are underrepresented. India, alongside Pakistan, has also joined the Shanghai Cooperation Organisation (SCO), in which China is a dominant partner.

Further afield, bilateral relations with the US and Japan have blossomed under Modi’s administration, while Russia remains a key provider of security hardware to India, a country that, according to the Stockholm International Peace Research Institute (SIPRI) database, was only recently overtaken by Saudi Arabia as the largest importer of defence equipment in the world. India has also started to extend its outreach to Africa, where it has to compete with China in terms of trade and access to natural resources.

India has continued to push for permanent membership of a reformed UN Security Council and, in his speech opening the World Economic Forum in Davos in January 2018, Modi positioned himself as an advocate of globalisation over isolationism, in an implicit response to protectionist stances promoted by US President Trump. Despite these good intentions, India remains fundamentally a protectionist country: in the months following the Davos speech, India raised import duties on hundreds of items (on textiles in particular), either to bolster the internal production of electronics, or to protect a falling rupee. India has not signed any new trade deals under the BJP government. Furthermore, as far as investments are concerned, in March 2016 Delhi’s government announced that it had terminated bilateral investment treaties (BITs) with 58 countries, including 22 EU member states. India was one of the most frequently-named respondent states in BIT proceedings; the government adopted a new Model BIT aiming to reduce India’s exposure to future claims. Nevertheless, after the US withdrawal from the Paris Agreement on climate change, the Indian government reaffirmed its commitment; and India is also a leader in promoting renewable energy.
In March 2018 Modi, together with French President Emmanuel Macron, co-chaired the founding conference of the International Solar Alliance (ISA).

**EU-India relations**

India has traditionally been keen to nurture bilateral relations with some key EU Member States, rather than engaging with the EU. As prime minister, Modi has visited Germany four times and France three times. France maintains a naval base at La Réunion and a further military presence in Mayotte, Djibouti and the United Arab Emirates, all in the Indian Ocean; Paris and Delhi hold annual bilateral naval drills named Varuna. In 2012, France’s Dassault was awarded a tender to provide India with 126 Rafale fighter jets. The BJP government withdrew the tender and negotiated a deal, signed in September 2016, downsizing to the purchase of 36 aircraft. The deal has sparked a political storm in India, especially around the real amount that Delhi agreed to pay to Dassault, and a much awaited CAG report released on February 2019 failed to address questions on the topic. In his first visit to India in March 2019 ahead of the founding conference of the ISA, French president Emmanuel Macron expressed the wish France to replace the UK as India’s gateway to Europe. The UK, meanwhile, has several strategic interests in the region (including in Diego Garcia, Singapore, Nepal and Bahrain), while some look at Brexit as an opportunity for a new UK-India trade deal, others underline that the two partners’ relations with the EU may overshadow bilateral ties.

Nevertheless, the EU and India are the world’s two largest democracies, both with a multilevel system of governance containing elements of federalism. The two are like-minded multicultural entities sharing the same values of freedom, equality, tolerance and the rule of law. They share many common challenges and therefore EU-India cooperation is a natural consequence. After a four-year break, there have been two EU-India summits during Modi’s mandate. In March 2016, EU-India relations were reinvigorated with the 13th EU-India summit, which took place in Brussels. The partners endorsed an EU-India agenda for action 2020. The parties adopted two joint declarations on environmental issues: one on an ‘Indo-EU Water Partnership’ supporting the Indian ‘Clean Ganga’ and ‘Clean India’ flagship projects; the other on a ‘Indo-EU Clean Energy and Climate Partnership’ supporting climate dialogue with India on the wake of the Paris Agreement and reinforcing energy cooperation, mainly on renewable energy sources. Highlighting the importance of contacts between their citizens, they established a common agenda on migration and mobility. They also adopted a joint declaration on counter-terrorism. The European Investment Bank (EIB) and India formally agreed on a €450 million long-term loan to finance the first metro line in Lucknow, the capital of Uttar Pradesh. The 14th summit, held in Delhi in October 2017, maintained the political momentum, although it did not register any major advances. The EU-India leaders adopted joint declarations on cooperation in combatting terrorism; clean energy and climate change; and a partnership for smart and sustainable urbanisation. During the summit, other documents were agreed, such as: the Implementing Arrangement between the Science and Engineering Research Board (SERB) and the European Research Council (ERC); a €500 million EIB loan agreement for the Bangalore Metro Phase-II project; and a joint declaration between the Interim Secretariat of the International Solar Alliance (ISA) and the European Investment Bank (EIB) aimed at mobilising investments for broad-based deployment of affordable solar energy applications across the 121 prospective member countries of the ISA.
The two summits diversified the partnership beyond trade, but without giving the decisive boost needed to restart the negotiations for a bilateral trade and investment agreement (BTIA) that began in 2007 and stalled after 2013 following 12 rounds of negotiations. Following the 14th summit, trade negotiators met in April 2018, to discuss current gaps between differing levels of ambition. However differences remain, in particular on market access for goods, public procurement and services; on a sustainable development chapter with social and environmental clauses; on a stronger intellectual property regime; and on India being recognised by the EU as a data-secure country. As a result, growth in EU-India trade is on a slow path (see Figure 2 above), despite the EU being both India’s biggest trading partner and its main foreign investor (€76.7 billion in 2017); India was the EU’s ninth trading partner in 2018. Total EU-India trade in 2018 was €91.5 billion: EU imports were worth €45.8 billion and exports €45.7 billion. Trade in services amounted to €33.7 billion in 2017.

Acknowledging India’s growing geostrategic importance, in November 2018 the EU adopted a strategy on India in order to lend new impetus to the bilateral relations. The strategy is aimed at reinforcing the 2004 strategic partnership; cooperating more closely on global challenges; reinforcing cooperation on foreign policy, security and defence; realising the untapped potential of the trade and investment relationship; investing in talent and innovation; and building on common values. The strategy reflects the European Parliament’s recommendations adopted on June 2017.

### 2019 India’s general elections

From 11 April to 18 May 2019, 900 million Indians are invited to take part in the world’s biggest democratic event: the election of the 543 members of India’s Lok Sabha (lower chamber). Voting will be held across the country on seven days spread over five weeks and the result will be declared on 23 May. The media focus is on a duel between incumbent BJP prime minister Modi and Indian National Congress (INC) opposition leader Rahul Gandhi. Hailing from the Nehru-Gandhi family, Rahul Gandhi is enjoying support in the key state of Uttar Pradesh from his charismatic sister Priyanka Gandhi Vadra, whose entry into active politics has been the subject of speculation for years. The election is a complex process in which states’ electoral dynamics and regional parties may play an important role. In January 2019 two key parties in Uttar Pradesh, which had formerly been bitter rivals, announced an alliance, while a big rally in Kolkata (promoted by West Bengal chief minister Mamata Banerjee) marked the creation of a national electoral coalition, both challenging the BJP but not joined by the INC leadership. Modi’s popularity reached its low point between 2018 and early 2019; however, after the February 2019 Balakot airstrike, his net approval rating rose to an all-time high of 62% and satisfaction with the BJP-led NDA (National Democratic Alliance) coalition, that dipped in 2018, is now almost back to previous levels, potentially boosting its electoral chances.

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