

BTI 2012 | India Country Report

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scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	1170.9	HDI	0.547	GDP p.c.	\$	3582
Pop. growth ¹	% p.a.	1.3	HDI rank of 187	134	Gini Index		36.8
Life expectancy	years	65	UN Education Index	0.450	Poverty ³	%	75.6
Urban population	%	30.1	Gender inequality ²	0.617	Aid per capita	\$	2.1

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

Executive Summary

India can be regarded today as a well-established and functioning democracy with no strong extra-constitutional veto player. The most glaring deficits in this bright picture are poor law enforcement, the slow working of the judicial system, lack of neutrality of the police forces and poor safeguarding of civil rights in tension-prone areas. India has seen a far-reaching, rapid and successful transformation of its economic order since 1991, making the country the second fastest growing in the world. This process was driven by productivity improved mostly by domestic investments in the service sector and more recently in industry, although agriculture has lagged behind. Economic dynamism and relatively good macroeconomic management were also responsible for a swift recovery from the impacts of the global financial crisis. There are still a number of reform deficits, most prominently in regard to heavy public deficits, unproductive subsidies, the massive infrastructural backlog and outdated labor, land and bankruptcy laws. Some of these deficits have already (cautiously) been tackled in the last few years, but more needs to be done if the government intends to bring the country to a sustainable path of 8% – 10% annual growth. The relatively good ranking of India in regard to the state's monopoly over physical violence, the rule-based working of the administration, the independence of justice and the high esteem of democratic procedures was maintained. The government tried successfully to make the political and economic process more inclusive by increasing expenditures for basic education and health, by investing in rural infrastructure and by launching a country-wide employment guarantee program. Care was also taken to accommodate grievances of minorities (tribals, Muslims) and to find a negotiated solution for long-standing conflicts in the north-east. Efforts to find a solution to the Kashmir-conflict suffered a setback. This was also influenced by the interruption of the composite dialogue with Pakistan following the terrorist attacks in Mumbai. The Indian government also took a lead in bringing forward regional cooperation by making greater concessions than partners. On the other hand further economic reforms more or less stagnated, especially in regard to privatization, further liberalization of foreign investment and progress in making the currency fully convertible. Public

finances deteriorated in the course of the financial crisis, bringing the budget deficits to a new record. A quick return to fiscal prudence is, however, already visible. Political stability did benefit from the broader mandate, the Congress Party and its allies won the last election which also strengthened secular forces and weakened casteist parties and the potential spoilers of further reforms. Victory for the ruling coalition was in no small way brought about by its more inclusive social agenda. Later state assembly elections showed a clear trend towards rewarding good governance and a weakening of the traditional anti-incumbency factor.

History and Characteristics of Transformation

The democratic political transformation of India dates back to colonial times, and the progressive introduction of self-governance and voting rights. This tradition was nurtured and expanded in free India, interrupted only by the brief interlude of the emergency 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 the parliamentary set-up. Elections are free and fair, civil rights are guaranteed (but circumscribed under certain circumstances and in conflict-prone regions) extra-constitutional veto powers are non-existent, the military is under strict civilian control, the media enjoy considerable freedom of expression and civil society is vibrant yet somewhat shallow. Substantive democracy has suffered since independence by limited electoral choice, because of the predominance of the Congress Party at every political level and the concomitant mobilization and recruitment of local notables into the party machine. This diminished the access of less privileged sections of society to positions of political power and obstructed structural social reforms. However, India has undergone a dramatic (second) democratic upsurge in the last two 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 by-product of this development was unstable coalition governments at the center and in some states, 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 fully fledged market economy is more recent. The country followed the path of import substituting 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 completely market-friendly turn-around was propelled by the severe balance of payments crisis in 1990/91. The reforms made since the crisis have completely transformed India into a vibrant and dynamic market-economy where only very few sectors are 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, land and bankruptcy

regulations, 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; on the other hand 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 farmers) – some of a more populist character but all intended to make growth more inclusive.

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

Transformation Status

I. Political Transformation

1 | Stateness

There are only minor problems of stateness in India. State monopoly of physical violence is nearly complete, apart from some rural conflict zones in central India (e.g., Naxalite), areas of separatist activity in Kashmir and some small states in north-east India. Only in these regions do insurgent groups sometimes run a rather circumscribed kind of parallel administration. As militants groups in these zones do not have a common perspective or agenda, their activities do not constitute a very severe challenge for overall stateness.

Identification with the nation and the definition of nationality poses local problems in some outer regions of the country but there is consensus among scholars that, generally speaking, India is an example of successful nation-building in an extremely fractionalized society. India, as all South Asian countries, suffers from intra-state conflicts, especially in the north-eastern territories. However, one must acknowledge that only a few splinter groups in zones with separatist activity do not regard themselves fully as citizens of India. Less radical groups in these same regions would be content with the granting of a generous degree of regional autonomy or by meeting their economic grievances, and they have intermittently signaled preparedness to negotiate on these lines. Some have even entered into peace agreements with the government.

The secular credentials of the country were more or less restored at a national level after the new United Progressive Alliance (UPA) government took power in late 2004, although at state level endeavors to indulge in communal politics have been noticed (e.g., initiatives against “forced” conversion, against cow slaughter etc.). Growing violence directed against Christian minorities has not been dealt with decisively. Muslims are often made responsible for the terrorist activities of some radical splinter groups. At the same time the government went ahead with restoring the traditional rights of tribals to their land and forest produce, set up a commission

Question
Score

Monopoly on the
use of force

8

State identity

8

No interference of
religious dogmas

9

to look into the social discrimination against Muslims and earmarked a certain share of new programs for the benefit of scheduled tribes and castes.

India inherited an efficient administration from the colonial government, with recruitment and promotion on merit. This heritage was undermined to a certain degree by increasing the reservation quota for certain sections of the population and frequent, politically motivated transfers of officers. These tendencies were more pronounced at the state level, where administrations were practically colonized by ruling parties. Despite this the post-colonial state has made rapid strides in setting up a nationwide grid of basic services for security welfare and cultural citizenship. Policies of liberalization in recent decades have resulted in the retreat of the state from providing subsidized public welfare and created the need for alternative services. This need has been ably met through the rise of national and international NGOs that work closely with the state and civil society.

Basic
administration
8

Indian police forces are highly inefficient, politically dependent and corruption-prone. As a consequence, the conviction rate of criminals is low, police atrocities against civilians are frequent and the government quite often has to rely on the army to quell internal disturbances. Improvements are in sight, as the Supreme Court has mandated the establishment of an investigating police commission and has ruled that corrupt officers can be prosecuted without government consent. Furthermore, a pro-active judiciary compensates for deficient policing to some extent through public service litigation. This, complemented by a vigilant press that avidly reports incidences of state failure and public distress manages to keep the state accountable. The Right to Information Act made the administration far more transparent, although the harassment of activists is common and the disclosure of information is far from perfect.

2 | Political Participation

Since independence India can boast of a nearly uninterrupted record of general, free, fair and more or less violence-free elections, accompanied by rising voter turnout (especially among the poorer and backward segments), the growing sophistication and independence of voters and by increasingly frequent and peaceful power transfers at the center and in the states. The state makes police and military forces available for deployment at the discretion of the independent election commission. In contrast to the earlier elections, which were dominated by the upper castes, thanks to political mobilization and the effective functioning of positive discrimination, adequate representation is available to the lower social classes, religious minorities and women. Even in conflict-ridden areas (e.g., Punjab, Kashmir, north-east) elections led and lead to political de-escalation, and have even been used explicitly for this purpose.

Free and fair
elections
9

There are literally no extra-constitutional veto powers or political enclaves. The military always exhibited maximum political restraint, is under strict civilian control and conceives its own role purely in professional terms. The activities of the private militia of landowners or vigilante groups in Naxalite areas are a minor problem, and some were suspended after 2005 by order of the Supreme Court. Civil associations (unions, employer federations) nearly always act as junior partners of the government, are fragmented, politically affiliated and rather weak (their occasional militancy notwithstanding). As there are few intermediaries between the government, the parties in power and the people, elected rulers have a nearly unlimited power to govern at large.

Effective power to govern
10

The freedom of association is fully guaranteed, and the formation of interest groups is legally easy. Consequently associations, unions, NGOs and social movements proliferate (although association density is moderate). Most of them are only poorly institutionalized, politically fragmented or act as front organizations for their respective parties and lack internal democracy. Social movements and NGOs abound, and often act as democratic, social or ecological watchdogs, as advocacy agents for less privileged groups or even as intermediaries in communal conflicts. Not all of some are independent of political interference. Strikes and demonstrations are frequent and are only rarely repressed, dissolved or discouraged.

Association / assembly rights
10

India can boast of a growing and wide circulation of free, discerning and outspoken newspapers of different political shades in all national and regional languages. Nearly every political party, association or social movement publishes its own mouthpiece. Citizens also have a broad choice among a multitude of state and private television channels reporting non-stop about political developments. Freedom of expression is undermined in rare instances, but this has more to do with the interference of radical popular movements than with state repression.

Freedom of expression
9

3 | Rule of Law

Horizontal separation of power is assured, and while vertical separation was often restricted by the politically motivated replacement or undermining of state governments, these restrictions have been lifted by the coalition governments that came to power after the mid-1990s and by their dependence on smaller, regional parties. Federalism has also suffered from a multitude of central programs which interfere with the competencies of state governments and more recent efforts to enforce reductions of state budget deficits. The control of the executive by the parliament suffers from the modest professional competence of parliamentarians, extremely short session periods and the lack of data gathering and research support. The judiciary has recently come under considerable attack from the legislative branch, which feels that the courts have been exceeding their authority in

Separation of powers
9

interpreting the law. This is however more a consequence of legislative “underreach” in defining civil rights.

In dealing with the violation of human rights, the Supreme Court enjoys considerable esteem and broad-based competence in the examination of constitutional correctness of laws and as an appellate body. In recent years the court has become rather proactive in curbing violations of minority rights, upholding administrative accountability and safeguarding the rights of future generations. The independent election commission can boast of a similar record and today tightly controls the upkeep of stipulated election codes. The courts remain institutionally autonomous, in spite of pressures by the executive, interference in nomination and the transfer of politically unpopular judges. The upper courts made the effort to restore their independence in nominations by creating new committees filled predominantly by higher justice officials. The government has also held back from forming a national justice commission which would have ruled on failing or corrupt judges. Rule of law in India is more restricted by the understaffing and slow functioning of justice, leading to a massive accumulation of unfinished litigations and the keeping of accused but unconvicted people in custody. Problems are also caused by low thresholds for initiating and prolonging processes, overly detailed laws and regulations etc. Underprivileged sections of the population shy away from the courts because of non-awareness of legal procedures and lack of financial means.

Independent
judiciary
8

Misuse of public office is common in India and was only intermittingly punished as the consent of ministries was necessary in order to file cases against them. In addition, transparency of administrative transactions is moderate and the discretion of public officers in implementing government regulations is still considerable. The culture of corruption is deeply entrenched in India and has not changed for the better in the last few years. Licenses, admissions and government posts are frequently awarded to the highest bidder. As a consequence India is still listed in the upper/lower range by several international ranking institutions in regard to corrupt practices and regulatory quality. Spectacular corruption cases, involving parts of the political class, are still rather frequent. The often-cited nexus of politicians, bureaucrats and criminals in India became was only partly weakened by the watchdog efforts of the election commission and NGOs.

Prosecution of
office abuse
6

Civil rights are ensured except in regions where emergency laws prevail. However, the rights of underprivileged sections are circumscribed by the existence of private security forces, who often act with impunity, by the unsatisfactory enforcement of relevant protection laws, the slow working of the judicial system (leading to unreasonable delays in the disposal of criminal cases) and the victimization of the accused during police custody. After the terrorist attacks in Mumbai the government introduced new legislative proposals to create a national investigation agency, and

Civil rights
7

special courts which would deal with terrorist activities and allow for the legal detention of suspects without trial for half a year.

4 | Stability of Democratic Institutions

Democratic institutions in India are more or less stable. There are issues such as the instability of state governments, the shaky character of recent multi-party governments (which gave even minority parties political blackmail power), and the endemic floor-crossing by parliamentarians who switch to the opposition or new parties in order to profit personally from new political equations. This has delayed or obstructed important constitutional and economic reform projects. Institutional efficiency is also hampered by the multitude of tax rates and rebates and other provisions which allow discretionary leeway for government officials. Accountability is also hampered by the proliferation of ministries and agencies, a multitude of only modestly coordinated vertical programs implemented by unions and states, and insufficient decentralization of financing to lower tiers. It must however also be mentioned that the government made a fair effort to bring most government programs under one sectoral umbrella, to create model frameworks or agencies for regulating public services and to give incentives to states to bring their household in order. With the anti-defection law promulgated in 2004, floor-crossing has declined slightly.

Performance of
democratic
institutions
8

Democratic institutions are accepted and held in high esteem by voters, although this does not extend to the police and the parties, which are trusted by very few people. Even poor people feel that their vote carries weight and they take pains to register. Democratic competition is the only game in town, except for quite miniscule insurgent groups like the Naxalites or separatist groups in Kashmir and the north-east. Some of these splinter groups can sometimes be brought into the mainstream by sincere peace negotiations or granting of cultural autonomy.

Commitment to
democratic
institutions
9

5 | Political and Social Integration

The Indian party system is fragmented but relatively stable, volatility is low and the system rewards centrist tendencies because of the extremely plural character of society. This means that coalition building is easy. Most parties are nevertheless only weakly institutionalized, and party discipline is low despite measures against floor-crossing. Formal organizational structure and programmatic appeals are mostly replaced by informal procedures, factionalism, clientelism and mobilization along ascriptive identities. The communist parties and the Bharatiya Janata Party (BJP) with its disciplined frontal organizations fare only slightly better. Internal party democracy is very weak, the financing of parties and their election campaigns is highly “informal”. Despite this, the poorly institutionalized character of Indian

Party system
7

parties does not hinder their effectiveness as election machines and as political agenda setters. Some of the defects are the consequence of the progressive recruitment of lower strata into the party command, leading to their progressive empowerment.

Membership of associations in India runs into millions, but interest groups in the traditional sense are rather weak and fragmented across ideological and party lines. They often fight against each other rather than against their opponents. This is also why labor relations are still conflict-prone. Because of the long-standing dominant economic role of the state, labor unions and employers' federations are only partly autonomous. Economic liberalization brought the emergence of new, professional associations. Social movements (for women, for environmental or human rights concerns etc.) have become more visible and assertive. They are dominated by members of the middle class, but often act as advocacy associations for lower strata. Civil society is still a bit shallow, as only a small share of citizens are members of any association. Nevertheless, civil society has a growing influence on the political agenda and (sometimes) on intra- and inter-ethnic harmony. The development of all Indian NGOs and civil society organizations (CSOs) is a new phenomenon. It has been facilitated by the progress of globalization and new legislations like the Right to Information Act.

Interest groups
7

Most people in India prefer the democratic system to any alternative. Unfortunately this does not always extend to tolerance for dissent or respect for religious and cultural diversity. There is also a substantial part of the population which sympathizes with authoritarian leadership which is not averse to imposing its will on opponents by violent means.

Approval of
democracy
9

The caste system and occasional outbreak of inter-caste and inter-religious violence give the impression of low social capital to those unfamiliar with India. However, a closer look at the ground reality and available survey data on trust, legitimacy and efficacy helps develop a different, and more scientifically valid picture of the Indian situation (as opposed to a superficial and journalistic impression). In the past, India's social hierarchy and slow industrialization combined to produce a context where vulnerable social groups and workers did not enjoy the same high level of protection as in industrial liberal democracies. However, a vast range of labor legislation, labor movements and indigenous forms of collective protest such as gherao, dharna, boycott have generated an alternative mode of protection.

Social capital
6

Associational activities are multifaceted as India is one of the countries with the largest number of associations and NGOs. Civil society groups often led by lawyers, social activists and left-wing academics are a rising phenomenon. Though a latecomer to the liberal political culture of CSOs, India has succeeded in generating a minimum level of protection for workers and vulnerable social groups. Those that are not or only weakly associated with political institutions have become

quite vocal and assertive and have taken on important issues neglected by state agencies or parties (violence against women, violation of civil rights, transparency of governance, safeguarding of the environment). Their views are now taken more seriously by the government and the participation of NGOs in the planning, implementation and monitoring of government schemes has increased considerably.

II. Economic Transformation

6 | Level of Socioeconomic Development

According to commonly used development indicators, India is still regarded as a lower-income country, albeit one progressing at a very rapid pace, second only to China. Its development level, measured by the HDI, does not assure every citizen's basic needs nor freedom of choice. India is still the country with the largest number of people living in absolute poverty (around 24% of the population). Incidence of poverty has declined since the mid-1970s, but less than is allowed for by the growth rate. Poverty became increasingly concentrated on some laggard states and social groups (lower castes, tribals, Muslims). Development progress was uneven, and disparities between states increased after economic reforms. The slowest progress was made by some sectors (agriculture, informal sector), social groups and union states with poor endowments and bad governance. Recent programs for social inclusion (most notably the rural employment guarantee scheme) have had a positive impact (e.g., on wages for agricultural labor) but it is clear that India has been far less successful in using high growth for poverty reduction and improving the life chances of broad segments of its society than, for example, China. At the same time, just as in China, inequality is on the rise. Given the increasing gap between strong growth dynamics and (weaker) poverty reduction and prevention of deepening inequalities, one could argue that while poverty has somewhat decreased in recent decades (but not in the period under review) inequality increased and both poverty and inequality became even more structurally ingrained.

Question
Score

Socioeconomic
barriers
4

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	1242426.3	1215992.8	1377264.7	1727111.1
GDP growth	%	9.8	4.9	9.1	8.8
Inflation (CPI)	%	6.4	8.4	10.9	12.0
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	2.1	3.6	2.6	1.4
Export growth	%	5.9	14.4	-5.5	17.9
Import growth	%	10.2	22.7	-1.8	9.2
Current account balance	\$ mn.	-8075.7	-30972.0	-25921.8	-51781.0
Public debt	% of GDP	73.0	73.0	71.1	69.2
External debt	\$ mn.	202928.6	225994.2	249993.1	290282.0
Total debt service	\$ mn.	39366.6	30963.5	16503.0	20080.5
Cash surplus or deficit	% of GDP	-0.5	-4.7	-4.9	-
Tax revenue	% of GDP	11.9	11.2	9.8	-
Government consumption	% of GDP	10.3	11.0	12.0	11.5
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	4.1	4.2	4.2	-
R&D expenditure	% of GDP	0.80	-	-	-
Military expenditure	% of GDP	2.3	2.5	2.8	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Market competition is assured in most sectors of the economy. The formerly massive regulation density has shrunk markedly with the exception of agriculture, labor, housing and the land market. Business transactions with the administration are still cumbersome, costly and time consuming. Quite a few products are still reserved for exclusive production by the small-scale sector, obstructing their employment potential. Regulation of foreign and large local companies was dismantled, and the investment regime is now among the most liberal in Asia.

Market-based
competition

6

Sector concentration indices are still high, despite government endeavors to reverse them during the last few decades. Privatization of public companies only resumed recently (at a modest pace) and was not always followed by sufficient regulation for the new ventures, allowing windfall profits for new owners. Legal procedures for the restructuring and liquidation of sick private or public companies are inadequate, time-consuming and inefficient, and obstruct the shift of economic assets to more productive uses. The weak protection of shareholders encourages risky company strategies.

Anti-monopoly
policy
6

Trade barriers have come down but are still not on a par with the standard in competitor countries in Asia. Moderate average tariff rates (around 14%) and the near complete abrogation of non-tariff barriers are compensated to a certain degree by the massive use of anti-dumping measures – here India ranks near the top. Customs clearance has improved but is still more time consuming than in comparable economies.

Liberalization of
foreign trade
7

The Indian financial system is highly developed and deep. It was thoroughly reformed after 1991. Bank profits increased, capital adequacy ratios were satisfactory and non-performing loans were falling. State banks are still dominant, but the public sector absorbs a considerable share (40%) of bank resources and a further 40% of the remaining credit scope is directed towards priority sectors. The stock markets are efficient, well-developed and buoyant. The most glaring deficits of the financial sector are the under-development of a market for corporate debt and the near neglect of credit demand by SMEs. The government has moved to make credit available to SMEs while reining in any tendencies towards populist policies by state governments. This has been facilitated by the general policy of liberalization.

Banking system
8

8 | Currency and Price Stability

In India a consequent policy of price stability was always followed, as public tolerance for inflationary tendencies is low. The Reserve Bank of India (RBI) always pursued a cautious monetary and currency policy, supported by strong internal mobilization of savings and increasing inflows of foreign capital and remittances. Currency reserves reached a record level in early 2008 (around \$310 billion), forcing bank authorities to sterilize (hoard) part of the inflows. They fell during the global financial crisis but have since nearly recovered. Countercyclical government and RBI measures during the financial crisis accelerated monetary growth. These, together with a quick return of foreign capital inflows and national/global food shortages fuelled inflation, especially in basic staples for the poor. This forced the RBI to tighten monetary policy in several instances.

Anti-inflation /
forex policy
9

The Fiscal Responsibility and Budget Management Act was aimed at maintaining fiscal balance till 2008/09 and supplemented by similar initiatives of state governments, and was successful in consolidating the deficit of the center and the states to a manageable level of below 7% (2008/09) in spite of the launching of new social programs, a pay hike for public employees and the upgrading of physical infrastructure. However, the stimulus packages launched to mitigate the impact of the financial crisis combined with the delayed impact of earlier measures (debt waiver for the farmers, pay hike in the public sector, enlargement of the rural employment guarantee schemes) to bring the consolidated fiscal deficit of the center and the states to a new height of above 10% of GDP. This seriously derailed the consolidation program. The government only hesitantly pursued a calibrated exit strategy from the expansionary fiscal stance, aiming to reduce the budget deficit by 1.2% during the fiscal year 2010/11 and more so afterwards. This will be supported by massive receipts from mobile phone licenses, decontrol of petrol prices and – hopefully – by the introduction of the comprehensive, integrated (federal and state) goods and services tax. Despite renewed buoyancy in tax receipts in the course of the economic recovery, greater rationalization of expenditures will be necessary if the fiscal consolidation targets are to be achieved. Public debt is massive, but of a long-term nature and mostly owed by domestic creditors.

Macrostability
7

9 | Private Property

Property rights are adequately defined, although the constitution allows restrictions in the public interest. The upholding of property rights, the prerogative of private initiative and the necessity of attracting foreign investments are questioned by no state government or important political party. Enforcement of legal titles is, however, costly and time consuming, and the acquisition of new land for corporate use from farmers or tribals is often politically contested.

Property rights
8

Private local and foreign companies are allowed in nearly every sector of the economy, although bureaucratic clearance is still time consuming and costly. The share of foreign participation permitted has not been raised further. In a narrowing range of product lines, only small-scale companies can do business. Agriculture and allied industries are still heavily regulated. The slow privatization of public companies accelerated after 1998 (except in the states), came to a near complete halt between 2004 and 2009 and has since been taken up again.

Private enterprise
6

10 | Welfare Regime

India disposed traditionally only of a rudimentary system of social security for the privileged workers of the state and formal sector. In 2005 however, the government introduced a massive employment guarantee scheme for the poor in rural areas

Social safety nets
5

(granting a maximum of 100 days work per family) which was later extended to all districts, was managed satisfactorily (with the usual leakages) and has already helped to raise agricultural wages. The government also introduced a rudimentary health and pension scheme for the elderly below the poverty line. There is a whole gamut of central and state poverty schemes, providing subsidized food and cooking oil, credit for self-employment and ad-hoc rehabilitation packages. Recent improvement efforts notwithstanding, these programs are still badly targeted (leading to significant spread effects to the non-poor). Public expenses for basic social services have risen since 2006 but are still inadequate compared to the average of similar countries. New legislation such as the National Rural Employment Generation Act (NREGA) has considerably enhanced the capacity for social safety nets. In spite of liberalization, subsidies on essential commodities for people below poverty line (BPL) are kept intact.

India is certainly not a frontrunner in improving social indicators, which in addition vary widely between states, between districts within states, and among religious and social groups. In consequence equality of opportunity is not assured: Social indicators correlate positively with income, higher position in the caste order, Hindu and urban background. Women are disadvantaged in a systematic way, especially in the backward “Hindi belt,” as demonstrated by the massive female deficit in the population and the severe malnutrition of girls. Low castes, tribals and Muslims are discriminated against in terms of education, land ownership and – despite quotas – in access to positions in the public sector.

Equal opportunity

4

11 | Economic Performance

India has become the second fastest growing economy word-wide. Growth was most pronounced in the service sector, but has rapidly caught up in industry, leaving only agriculture behind. Growth was predominantly driven by total factor productivity (recently also by the rapid rise of savings and investment) and by buoyant internal and external demand. Growth is relatively capital and skill-intensive, therefore poverty eradication and employment generation for the masses is less than it would be otherwise. India is now more integrated into world markets and so suffered a pronounced setback in the international financial crisis in late 2008, but growth recovered quickly to its former trajectory, supported by the revival of nearly every sector and of exports and foreign capital inflows. Long-term prospects are bright because of several untapped growth sources (second generation reforms, young and growing labor force, migration etc.).

Output strength

10

12 | Sustainability

The quality of the environment leaves much to be desired and is deteriorating. The economic costs of environmental degradation are considerable (according to World Bank estimates between 6% to 8% of GDP) and mainly due to unsafe water, air pollution and soil degradation. The main victims of this degradation are the poor. There is no dearth of comprehensive laws to keep the environment safe nor lack of regulatory institutions, special action programs or active ecological movements. Environmental agencies lack adequate staffing, and insufficient monitoring (especially of SMEs) is carried out. Furthermore, there aren't enough sanctions for non-compliance. This is only partly compensated by judicial activism in environmental matters.

Environmental
policy
5

Education achievements in India leave much to be desired. Enrollment into the primary and secondary system was increased (not in the least by new initiatives), and gender disparities went down, but millions of children are still out of school, drop-out rates are high and – most importantly – the quality of education (in terms of cognitive achievement) is very poor. The educational success of students is highly influenced by geographical, social and religious factors. Parents who can afford to have opted out of public schools to proliferating private institutions, which are scarcely monitored and regulated. The Indian government now spends more on education than previously, but still less than comparable countries. Underfunding is most pronounced in secondary education and vocational training. India on the other hand can boast of a full range of high-class colleges, universities and elite institutions which produce sufficient numbers of graduates for skill-intensive sectors. Traditionally research-averse private companies were forced by international competition to enhance their efforts, although public research is still heavily focused on defense and space applications. The availability of general and specialized skills-based training has become more effective in comparison with the past. This has been made possible partly through a new national initiative called Sarva Siksha Aviyam (or “education for all”), funded by national and state governments as well as international donor agencies.

Education policy /
R&D
6

Transformation Management

I. Level of Difficulty

Structural constraints such as poverty, land ownership, untouchability, and religious violence remain considerable. However, thanks to a national grid of food storage, India has achieved a high level of food security. Despite flood, drought and epidemics, famines no longer loom on the horizon. In cases of natural disaster, such as earthquakes or landslides, India does not have to wait for emergency relief from donor countries. Militancy in Kashmir and the north-east has generally been contained. Difficulties in regard to democratic consolidation in India are low because of a sustained tradition of popular participation, the deep roots of democratic institutions, the lack of extra-constitutional veto powers and the balancing-out of multiple, cross-cutting social, regional and religious cleavages. Difficulties in actual political management are, however, considerable, as the governments at the center are composed of a multitude of mostly small and therefore particularistic parties and factionalism within parties is rampant. These difficulties declined in 2009/10 because the governing alliance got a relatively broad electoral mandate and could dispense with the backing of leftist parties. The problems raised by linguistic/ethnic/social tensions remained at the same level or increased slightly as conflicts about the creation of a separate state (Telengana) intensified, unrest in Kashmir flared up after clashes between youth groups and the security forces and as the government again tried to provide a military solution to the Naxalite problem. It became harder to manage economic transformation due to the fall-out of the global financial crisis. Growth rates, exports and foreign capital inflows fell in a situation where fiscal space was already severely constrained and financial actors scarcely reacted to monetary easing by the RBI. The crisis led to difficulties in the export-oriented sectors, leading to considerable labor-shedding. The effects of the crisis proved to be short-lived, but left a massive budget deficit, mounting public debt, accelerating inflation and the more or less unavoidable delay of further economic reforms. Economic difficulties will not subside easily, even when the international environment brightens, as the government has to make room for massive investments to clear the backlog in infrastructure and improve the quality of public services and the density of social safety nets.

Structural
constraints
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Civil society is only partially helpful in overcoming these obstacles. Labor unions are highly fragmented and unable to conclude and honor any social pact. Labor militancy fell during the last decade as the share of regularly employed workers declined. Industrial federations have become more assertive, and are demanding a follow-up to the first round of economic reforms but remain hesitant to back real concessions in bi- and multilateral trade negotiations or on initiatives to stop global warming. NGOs and social movements are increasingly acting as guardians of civil and minority rights and environment quality, as well as upholding the probity of political life and the accountability of government at every level. This does not always make governance easier, but leads to long delays in public or major private projects (irrigation dams, power generation, extraction sites etc.) and regulations (e.g., new forest policy).

Civil society traditions

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The incidence of militant conflicts in India remained more or less at the same level. The conflict over Kashmir flared up again, as the government mismanaged the situation after protests against the killing of students in the state. As a consequence, economic activity in Kashmir nearly came to a stand-still. Recent unrest was not due to any interference by foreign terrorists. It remains to be seen if the governments' belated peace initiative will bear fruit. Conflicts in the north-eastern states have barely subsided even though the government tried to do its best to come to a negotiated solution. Conflicts in this region are simply hard to manage. The Naxalites went ahead with attacks on security personnel and facilities, killing hundreds and continuing to raise "taxes," by siphoning off public funds and extorting money from kidnapped business people. However, as one can gather from the recent negotiated release of a kidnapped district collector in Orissa, India might be in the process of developing a general strategy for negotiating violent politics. In comparison with these developments, the agitation for an independent state carved out of Andhra Pradesh are far less spectacular, although they led to a general strike, attacks on firms by pro-Telangana activists and eventually the dispatch of army units to the state.

Conflict intensity

5

II. Management Performance

14 | Steering Capability

Prioritization was not an easy task for the government; with the impact of the global financial crisis it had to concentrate on immediate support schemes for the economy in general and for sectors most affected by the crisis. This focus was necessarily in opposition to the necessity of bringing budget deficits and credit absorption by the state into line with the credit needs of the private sector, and the larger financial

Question
Score

Prioritization

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needs for neglected public goods required for long-term growth – especially with regard to power and transport infrastructure and the improvement of health and educational facilities. This scope was already rather narrow before the crisis, due to several costly programs for debt forgiveness and restructuring (for farmers), generous pay-hikes for public employees, the full-scale launch of the rural employment guarantee scheme, the upgrading of rural and urban infrastructure and new initiatives to conserve energy. These programs were sometimes populist in character, but in the main appropriate to make growth more sustainable and inclusive. As expenditures on non-meritorious subsidies were only lightly pruned (e.g., in petrol) and as a massive part of public revenues are absorbed by salaries, interest payments for public debt and defense expenditures, the remaining leeway was severely circumscribed. Therefore the additional fiscal stimulus for overcoming the impact of the global financial crisis was rather weak, focusing on industrial sectors hit disproportionately by the crisis, on rural infrastructure and on bolstering programs of social security for the informal economy. In this sense, the government prioritized well.

The Implementation Directorate of the national government and legislative committees such as the Public Accounts Committee (PAC) are responsible for monitoring the implementation of government policies. The recent establishment of the Joint Parliamentary Committee (JPC) to investigate failures in implementing correct procedure in the allocation of public resources is an example of how the political system of India now takes seriously the implementation of public policies. A serious effort has been made in recent years to trim the multitude of often overlapping central programs which exist under one umbrella (in education, health, employment), to put resources directly at the disposal of responsible local authorities, to improve participation of stakeholders and to monitor program inputs, output and outcomes (by relevant yardsticks). The implementation of public schemes has definitely improved, although delays, uneven utilization of budgetary resources and the spread of benefits to non-target groups are still frequent. A large part of the blame falls on badly governed states. The central government tried to discipline states by rewarding their efforts to reduce budget deficits, make state electricity boards more efficient and give incentives for better implementation of new schemes (e.g., the rural employment program, the urban renewal and the rural health mission). Long-standing schemes with questionable worth (e.g., the Public Distribution System or fertilizer subsidies) were, however, only partly touched upon. In some cases such as the environmental policy, implementation failures are taken up by the Supreme Court, acting at its own initiative, under the doctrine of public service litigation.

Policy learning is uneven. It has improved under newly launched programs which have been thoroughly prepared by expert committee reports, hearings of civil society and by copying best practice. Political learning in other fields is rather slow

Implementation
7

Policy learning
7

and incomplete, caused not in the first instance by knowledge deficits but by the conflicting interests of powerful social groups and their political representatives, on whose support the government depends. Vivid examples are the only gradual improvement of tribal rights to forest lands (spread over more than 20 years), the maintenance of subsidy programs with unequal social impact, the constant launching of populist schemes (like the debt waiver) and indiscriminate salary increases for public employees. These learning deficits are expensive, intended for the benefit of the wrong groups and carry negative consequences for sustainable development.

15 | Resource Efficiency

The government is using the available financial and personal resources for the transformation project more efficiently than before but still far from optimally. The budget deficit of the center and the states, which declined markedly till 2007/08, shot up during the global financial crisis (see above), not only because of a rather moderate fiscal stimulus but more so because of the delayed impact of earlier programs. The deficit is absorbing a massive portion of bank credit, thereby crowding out private investment (primarily for SMEs) and hindering much needed public investment in critical areas (infrastructure, education and health). In the case of the considerable expenditures on poorly targeted and partly unproductive subsidies, generous salary increases in the public sector, schemes of questionable value, numerous tax loopholes, incentives and exemptions (for agriculture and parts of the service sector) as well as tax holidays, the deficit is caused more by structural than by cyclical factors. Tax administration has, however, much improved. The Fiscal Responsibility and Management Act brought a definite reduction in the deficit before the full onset of the financial crisis. Efforts are being made to bring fiscal consolidation back on track and to put a cap on the relative volume of public debt. Unfortunately the introduction of a General Sales Tax, which would increase revenues and put an end to the myriad of indirect taxes, has been delayed by states governed by the opposition.

The coordination of conflicting objectives is hampered by the opportunist behavior of political parties and their frontal organizations inside and outside the central government. As soon as parties join the opposition they reverse policy preferences, whereas smaller parties inside the government are mostly busy doling out favors to their particular constituencies. Coordination is also hampered by the often overlapping mandates of far too many departments who follow their own agenda, and the plethora of special programs. Coordination was improved by the consolidation of central programs under fewer headings, the establishment of interministerial committees and a coalition steering body at the central level. However, the consolidation of programs went in tandem with an undermining of

Efficient use of
assets

6

Policy
coordination

7

state competencies and growing central transfers made directly to the district level and outside the framework set by the finance commission.

Corruption is well-entrenched at every level of the polity and administration and has become accepted as a fact of life. This does not mean that there is a dearth of legislative actions to curb corruption or of relevant units to fight it. But there is certainly a basic lack of respect for legal endeavors to end malpractices, especially among the political leaders who are the most visible culprits. Corruption is encouraged by the still heavy administrative (discretionary) regulation, necessitating the consent of numerous offices for even trivial demands. This situation is only improving very slowly. Corruption is also stimulated by the way parties and election campaigns are financed, often by unaccounted donations and/or simply black money. As investigations against failing politicians and bureaucrats are rare and stretched out, very few of them have been convicted in India.

Anti-corruption
policy
5

16 | Consensus-Building

Most people, groups and parties in India would agree that the country is and should remain a fully fledged market economy and a consolidated democracy. Differences of opinion on the broad strategic outline of India's future course are relatively minor. This does not mean that all parties and groups necessarily agree on the precise means to achieve further progress. There is intense disagreement on the proper share of the public and private sector in economic and social activities, on removing the remaining tariff and non-tariff hurdles, on making the currency fully convertible, on more market-based pricing of public services and goods, and on establishing special economic zones on agricultural. There is also dissent on the precise meaning of a secular state, the extension of quotas to additional groups, the political empowerment of women and the treatment of minorities and their often militant leaders.

Consensus on goals
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Anti-democratic veto actors do exist but are small in number. Most prominent among them are militant (separatist) groups in Kashmir and the north-east and Naxalites in the tribal belt. Some of these groups could be brought back into the political mainstream if offered genuine autonomy within India and generous rehabilitation packages. The small remainder could be dealt with by firmness. Some problems are, however, intractable, as every solution would create new minorities or because some militant groups are manned and supported from outside. Their disruptive potential is, however, decreased.

Anti-democratic
actors
9

Political cleavages are accommodated as far as possible (e.g., by reservation policies, development packages, the creation of new states or autonomous regions). Newly emerging groups were incorporated into the political leadership or created new political outfits. Sometimes this statesmanship was exercised only after futile

Cleavage /
conflict
management
8

efforts to suppress dissent by military means. This can easily be observed in the treatment of the Naxalite problem, where what was at first a purely military approach was complemented by a two-pronged stratagem of law and order and development. The last three governments have been largely successful in inducting a broad cross-section of the population into the structure of participation and elite recruitment. The competitive political marketplace has become the great “joiner” of India’s diverse society.

The participation of civil society in the political process has definitely increased. India is sometimes represented as the NGO capital of the world, counting up to 100.000 different organizations and self-help associations. Protests, demonstrations and strikes are an everyday occurrence. NGOs also became more institutionalized, supported by generous donations from the local population and international agencies. Transfers are still tightly controlled by the government which is also the main cooperation-partner of the associations and certainly the most important addressee of demands. Parliaments do not play a prominent role in NGO interactions. In spite of the large number of associations, the membership ratio in total population is still fairly low.

Civil society participation
8

The reconciliation between the victims and perpetrators of past injustices is a weak spot in India. The rehabilitation of past victims (of communal conflicts, natural disasters, land alienation) suffers from undue delays in police investigations, judicial proceedings, shunning of responsibility by concerned agencies and limited compensation for victims. The record is improving somewhat, as recent compensatory packages for tribals, Muslims and lower castes demonstrate. The government also tries to avoid consent (e.g., on the establishment of new extraction units) for potentially trouble-creating activities of public and private agents.

Reconciliation
n/a

17 | International Cooperation

International development cooperation had only a very limited part in the initiation, implementation and financing of market reforms or in consolidating democracy as assistance is very small in relation to the usual parameters (GDP, gross investment, exports). It did have a marked effect on the launch of reforms in social sectors and in the improvement and management of physical infrastructure. The Indian government has curtailed the number of bilateral donors to safeguard sovereignty and is cultivating a self-confident posture in dealings with donors. This does not mean that the government is not asking for more assistance if the necessity arises (in the aftermath of the current global financial crisis) or that the central or the state governments are not cooperative. Quite a few union states initiated far-reaching reforms in the education, health and infrastructure sectors or in regard to the overall approach of market-friendly reforms, supported by international organizations.

Effective use of support
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There is, however, no opportunity for any unilaterally imposed political dialogue. Liberalization and deregulation of trade and foreign direct investment did progress slowly, with an eye more to the local constituencies than to foreign partners, although the necessity of attracting more foreign investment is acknowledged by governments of all political shades.

The Indian government has become a reliable partner in the combat of international terrorism and in curbing nuclear proliferation. It was and is actively engaged in a multitude of peace-keeping missions and is actively backing the operations and the mandate of multilateral and regional organizations, albeit with the intention of improving its influence there. This does not mean that the government always supports initiatives that run counter to the perceived interest of important constituencies – as demonstrated by the blocking of WTO negotiations or the refusal to take larger responsibilities against global warming (softened by unilateral, non-verifiable commitments).

Credibility

9

India displayed for a long time an overbearing and uncompromising attitude towards its neighbors. In the last few years India has, however, demonstrated a new preparedness to make unilateral concessions to accommodate their interests (in regional cooperation), to restrain themselves from excessive political interference during conflicts (e.g., Nepal and Sri Lanka) and to engage with Pakistan in an encompassing dialogue (also covering Kashmir).

Regional
cooperation

8

Strategic Outlook

It is the aim of the Indian government to convert the country into a developed economy before 2020 and correspondingly into a major player on the global scene. This can be achieved if reforms are followed through. Supported by economic liberalization, the country has experienced rapid, productivity-led growth over the past decade. Exports, foreign investments and remittances shot up. This enabled the country to achieve a comfortable balance-of-payments situation, to reduce the burden of foreign (less so of domestic) debt and to accumulate massive foreign exchange reserves. It also helped the country to weather the storm of the global financial crisis rather well, with only a minor dip in growth. In parallel with growth, India has made progress in reducing absolute poverty and improving health and education standards. Progress could have been more rapid, if economic growth would have been less capital- and skill-intensive. Improvements have been uneven (regionally and groupwise), and nearly non-existent in some areas (malnutrition, maternal mortality). Substantial disparities of opportunity therefore remain. The income gap between faster and slower growing regions, between skilled and unskilled workers has increased, but has reached only moderate proportions in comparison to other fast-growing countries. India is endowed with a growing number of world class enterprises (investing overseas) and a huge reservoir of highly skilled workers, and is sitting on some unexploited growth reserves (a young, growing workforce, migration from agriculture to industry, untapped potential of intra-regional growth). As democratic consolidation, functioning federal arrangements for the expression of diversity and political inclusion of the elites of underprivileged groups has already been achieved, India is positioned better than some competitor countries to withstand the political conflicts normally accompanying rapid development. As economic growth is still lopsided, the government should be encouraged to foster a more equitable sharing of benefits in its policy. The people-friendly program of the actual central government is therefore heading in the right direction, some populist aberrations (like the debt waiver scheme or the maintenance of massive subsidies) notwithstanding. An improvement of the fiscal stance is clearly necessary – even more so after the derailment of the consolidation process – firstly to fund the country's large infrastructure needs (especially in power and transport) which currently impair its competitiveness and hurt the growth of labor-intensive enterprises, and secondly to improve the quality of health and education, of agricultural irrigation and extension and of rural infrastructure. More flexible labor regulations could attract labor-intensive investment and create jobs for the unemployed millions and those trapped in poor quality jobs. Most environmental indicators suggest that growth is extracting an increasing toll on the country's natural resources. Climate change will in future have a massive impact on India, mainly through its water resources but also in regard to agricultural yields. The government has already launched initiatives to save energy, enhance the supply of energy from renewable sources and conserve the environment. These efforts should be intensified. Additionally, with its rapidly rising emission of greenhouse gases, India has to contribute to international mitigation efforts if only to weaken the excuses of other obstructers. There are a few areas where the

democratic credentials of the country could still be improved. Most prominent among them is the judicial sector, plagued by a massive backlog of litigations, understaffing and also some dose of corruption. This should not obscure the fact that the high courts and the election committee have taken a proactive stand in prosecuting malpractices, upholding civil rights, maintaining the transparency of governmental procedures (supported by freedom of information acts) and safeguarding the environment. Initiatives to make the police forces more independent from political interference and more trustworthy for the common man are urgently required. Policies of reasonable accommodation of rebel groups based in India (in Kashmir, the north-east and Naxalite-infected districts should be encouraged by the international community, while the prosecution of minorities (Muslims, Christians etc.) should be unequivocally condemned. This should be accompanied by the clear rejection of any foreign-sponsored attempt to fuel ethnic or religious conflicts.