BTI 2014 | India Country Report

	scale	score	rank	trend
Status Index	1-10	**7.19**	# 26 of 129	
Political Transformation	1-10	8.10	# 20 of 129	➔
Economic Transformation	1-10	6.29	# 45 of 129	➔
Management Index	1-10	**6.35**	# 21 of 129	

Key Indicators

Population	M	1236.7	HDI		0.554	GDP p.c.	$	3876.0
Pop. growth[1]	% p.a.	1.3	HDI rank of 187		136	Gini Index		33.9
Life expectancy	years	66.0	UN Education Index		0.459	Poverty[3]	%	68.8
Urban population	%	31.7	Gender inequality[2]		0.610	Aid per capita	$	1.7

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. 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 is a well-established democracy, and its elected representatives have the effective power to govern; no veto players undermine the democratic credentials of the state. However, during the period under review, the performance of democratic institutions and the government's steering capability were hampered by a range of factors. Despite an electoral victory in 2009, the United Progressive Alliance (UPA) government was extremely weak due to the dependence of its largest coalition member, the Indian National Congress, on smaller coalition partners and external supporters, some of which staunchly opposed its reform efforts. Moreover, a range of structural deficits contributed to qualify the overall positive assessment on the functioning of Indian institutions. Among these deficits are an overburdened judicial system and rampant corruption, which undermine good governance at all levels. For the first time in 2011, however, a broad protest movement against corruption emerged. Unleashed by the revelation of several major corruption cases, this movement inspired a public debate over the problem and forced the government to promote measures to address corruption and improve transparency. In 2012, another broad popular movement emerged in reaction to a brutal rape case in Delhi. The protests addressed not only the problem of violence against women but also the ineffectiveness of the police and the justice system. These cases are illustrative of the increasing assertiveness of Indian civil society which, propelled by small activist groups and also increasingly by members of the middle class, is calling for improvements in the functioning and accountability of institutions. The fact that the anti-corruption movement has not affected actual government policies at the time of writing (reforms have been blocked by parliament) shows that vested interests are still a major obstacle to change in India. At the same time, the government quickly enacted new interim laws on rape and other sex crimes in February 2013, thereby showing the growing impact of civil society activism.

On the country's welfare regime, during the period under review the government continued on its reform path as a part of an agenda of "inclusive growth." Several large-scale programs in education and health care launched in the mid-2000s have begun to show results. For example, primary

school enrollment has reached 100% and nearly 30 million families living below the poverty line are, as of 2012, participating in a health insurance scheme. Nevertheless, poverty and inequality are still major structural difficulties. Around 30% of the Indian population still lives in poverty, and marginalized social groups are limited in their ability to participate in social and economic life, despite a range of affirmative action policies.

While the Indian economy had not been substantively affected by the financial crisis, it showed some signs of weakness during the review period. GDP growth fell to a nine-year low of 6.5% in the fiscal year 2011 – 2012, and India's record trade deficit of $20 billion in October 2012 contributed to a current account deficit of 4.2% of GDP. The fiscal deficit amounted to 6% of GDP in 2011 – 2012, and in 2011 the rupee significantly depreciated, falling below its long-term average. Inflation remained high during the period. Among the factors contributing to India's worsening economic performance were not only massive power shortages that impacted industrial productivity but also corruption scandals that effectively paralyzed the telecommunications and mining sectors, as well as inspired investor uncertainty over the cumbersome progress of legislative reforms addressing mining, taxes and land acquisition. Only in September 2012 did the government show a renewed willingness to proceed on its reform path by announcing a reduction in fuel subsidies and an opening of several sectors to foreign direct investment.

History and Characteristics of Transformation

The democratic political transformation of India dates back to colonial times and to the progressive introduction of self-governance and voting rights. This tradition was nurtured and expanded in free India, interrupted only by a brief interlude of the emergency government regime, from 1975 to 1977. Electoral democracy has become the only game in town; even radical political forces abide by its rules and do not try to gain power outside parliamentary boundaries. Elections are free and fair; extra-constitutional veto powers are nonexistent; the military is under strict civilian control; the media enjoy considerable freedom of expression; and civil society is vibrant yet somewhat shallow. Civil rights are guaranteed, even though major exceptions in conflict-prone regions. Substantive democracy has suffered since independence by limited electoral choice, by the predominance of the Indian National Congress Party at every political level and by the concomitant mobilization and recruitment of local notables into the party machine. This diminished the access of less-privileged sectors of society to positions of political power and obstructed structural social reforms. However, India has undergone a dramatic (second) democratic upsurge 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 byproduct 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 market-friendly turnaround was propelled by a severe balance of payments crisis in 1990 – 1991. The reforms since the crisis have transformed India into a vibrant and dynamic market economy, even though some sectors are still closed to private enterprise and international investment. India's new economy is driven by a considerable improvement in factor productivity, the rise of world-class enterprises and – recently – by a massive increase of the savings and investment rate. There remain, however, considerable reform deficits, most notably outdated labor, land and bankruptcy regulations, a lack of sustained progress in privatization and the absorption of public resources by non-meritorious subsidies, wage and interest payments to the detriment of public investment in infrastructure and the improvement of health and education services. After 2004, when a minority government was backed from outside by leftist parties, hardly any progress could be made with regard to the more difficult second-generation reforms; however, a range of inclusive social policies were instituted (Education for All, National Rural Health Mission, National Rural Employment Guarantee Scheme, loan waiver for small- and medium-sized farmers) – some of a more populist character but all intended to make growth more inclusive. After the 2009 elections, the United Progressive Alliance government was nearly paralyzed in its reform efforts, due to its dependence on small coalition partners.

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

Transformation Status

I. Political Transformation

1 | Stateness

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

The Naxalites are running parallel administrations in some of the areas under their control. However, the movement was weakened during the review period, after being termed India's greatest security challenge by Prime Minister Manmohan Singh in 2006 and major episodes of violence in 2009 – 2010. Moreover, violent incidents and clashes decreased in Kashmir and in the northeast.

The vast majority of the Indian population accepts the Indian nation-state as legitimate. Only in remote areas where the state and its institutions are virtually absent is the legitimacy of the nation-state called into question. These areas are mainly those inhabited by tribal people and characterized by the presence of Naxalites in central India; and some remote areas in the northeast, which are inhabited by small ethnic groups and tribes and are also characterized by the presence of rebel organizations.

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

Under the Indian National Congress-led United Progressive Alliance government, the secular credentials of the country, previously undermined under the government led by the Hindu-nationalist Bharatiya Janata Party (BJP), were restored in 2004. However, several religious lines of conflict still play a role in Indian politics.

Question
Score

Monopoly on the use of force

7

State identity

8

No interference of religious dogmas

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Violence directed against Christian minorities has not been tackled decisively, and Muslims often face wholesale discrimination and are implicitly associated with Islamist terrorism.

India's administrative and bureaucratic structure stems from the British colonial empire. The state has therefore a differentiated administrative structure, providing jurisdiction, tax authorities and law enforcement. Several difficulties are found in the provision of basic services, especially in rural and remote areas. Here, big deficiencies are apparent, especially in the fields of transport infrastructure as well as the provision of basic services such as water, education and health. In 2010, 92% of the Indian population had access to water sources and only 34% of the population had access to sanitation services. However, the Indian government has realized the need to tackle these issues and over the past few years has set up several programs aimed at improving public services. The success of these programs, however, remains limited, mainly due to poor governance and corruption.

Basic administration

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2 | Political Participation

India has had free and fair elections for nearly seven decades since independence, with only a minor interruption in the 1970s. Universal suffrage by secret ballot is ensured, a large number of political parties are able to run and political posts are filled according to the outcomes of elections. Parliamentary elections in India are a huge exercise, with nearly 700 million people voting at 800,000 polling stations.

Free and fair elections

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Elections are managed by an independent and impartial Election Commission whose members are appointed by the president and can be removed from office by parliament. Since the late 1990s, the Election Commission has undertaken several efforts to improve the electoral process, including among other initiatives the introduction of electronic voting machines and the digitalization of electoral rolls. Overall this has improved the transparency of registration procedures for voters. However, some problems remain in several states, where electoral rolls were cleaned in a strategic manner to remove politically relevant voter groups. Polling procedures are generally considered to be conducted in a transparent, impartial and correct manner. However, buying votes and bribing voters are widespread practices among political parties in India, which substantially corrupts the whole election process.

Democratically elected political representatives have the effective power to govern in India. There are practically no veto powers that undermine democratic procedures by retaining prerogatives that cannot be touched by democratically elected representatives. The Indian military has never exceeded its competencies and has always remained under strict civilian control – unlike with other countries in the region. Other potential veto players have chosen democratic procedures to express their discontent with government policies. External actors are unable to manipulate

Effective power to govern

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domestic politics in India, given the state's strong performance and the high value it attaches to the principles of sovereignty and non-interference.

The Indian constitution guarantees the freedom to assemble peacefully, even though the state can impose restrictions in the interest of public order or to preserve the sovereignty and integrity of India. In practice, the right to demonstrate is mostly guaranteed. Given the low degree of internal democracy in political parties, demonstrations are frequently used by civil society as a tool to forward demands to the government. Massive protests took place, for example, against corruption in 2011. In 2012, a gang rape case in Delhi unleashed a wave of nationwide protests for the greater security of women and against the corrupt and ineffective police. While protests are rarely repressed, there are some reports of intimidation and harassment, for example against protesters and activists demonstrating against hydropower projects and dams in the states of Assam and Arunachal Pradesh. The formation of interest groups is legally easy. This has led to the emergence of a large number of NGOs operating in a range of fields, from the promotion of women's and minority rights to ecological and social issues. While most of these NGOs are fragmented, only weakly institutionalized and often dependent on political parties, they actively contribute to an increasingly thriving civil society.

Association / assembly rights

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Freedom of expression in India is guaranteed by the constitution. A large number of national and local newspapers and television channels contribute to the dissemination of information and to the diffusion of a plurality of opinions on most issues. On domestic affairs, the press is outspoken and has revealed a number of corruption scandals involving businessmen and politicians during the period under review. On matters related to foreign policy, however, most journalists tend to conform to official government positions and to practice a certain degree of self-censorship. Moreover, there are reports of cases of intimidation of journalists and even of arrests on charges of sedition. The Indian government has recently acted in a restrictive manner over the dissemination of information through the Internet and social media. In August 2012, for example, it blocked several Internet websites after violence broke out in the state of Assam.

Freedom of expression

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3 | Rule of Law

The horizontal separation of powers is guaranteed and implemented through a system of checks and balances. The legislative's control over the executive is hampered mainly by structural factors such as the limited competence of many members of parliament and short parliamentary session periods. Moreover, the workings of parliament are also hampered by the frequent interruptions of sessions and walkouts by opposition parties. The judiciary has historically played a major role in the consolidation of Indian democracy. In 2011 and 2012, however, the judiciary was often criticized by the legislative, which lamented a certain degree of "judicial

Separation of powers

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overreach." As far as the vertical separation of powers is concerned, the autonomy of state governments in the federal system is guaranteed in the fields envisaged by the constitution. The system of fiscal federalism strengthens the autonomy of the union states by providing for transfers from the central government to state governments. Moreover, representative bodies at the local level have a certain degree of administrative autonomy and allow for political representation down to the village level.

The Indian judiciary is institutionally differentiated and largely independent from the legislative and executive branches. The Supreme Court enjoys a high degree of recognition in India. Over the past years, it has played a major role in fields like the persecution of human rights violations, for example by declaring unconstitutional the Salwa Judum militia that had been created to fight Naxalite rebels in the state of Chhattisgarh in 2011. However, since India's independence there has been continuous tension between the legislative and the judiciary. In 2010, the Judicial Standards and Accountability Bill were passed by the Lok Sabha, the lower house of parliament. This bill, which creates a framework for addressing complaints against judges, still has to be passed by the Rajya Sabha, the upper house, and to be approved by the president. However, in 2012 the government discussed further changes to the bill, among others a clause prohibiting judges to make "unwarranted comments" against the conduct of other institutions or government officials. While the bill has provoked fears about a limitation of judicial independence, it will also be a tool to increase judicial accountability. Presently, judges cannot be persecuted for minor failures and the only action that can be taken against them is their impeachment with the approval of parliament.

Independent judiciary

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The main problem of the Indian judiciary, however, is its limited functional operability, which is mainly due to understaffing. According to a New York Times article, in 2008 India had a ratio of 14 judges per million people, with only Guatemala, Nicaragua and Kenya displaying a lower ratio worldwide. This leads to massive delays in the hearing of cases and to extremely long periods of detention when awaiting trial. To cite an example: in early 2011, over 95,000 rape cases were awaiting trial by Indian courts and only 16% of them were resolved at the end of that year. In 2012, a first effort to address these problems by improving court management and introducing performance standards was made by the Supreme Court, which developed an action plan for the introduction of a National Court Management System.

The rule of law in India is massively undermined by political corruption. Officeholders who engage in corruption often slip through political, legal or procedural loopholes and are not effectively persecuted. However, a massive anti-corruption movement which started in 2011 has generated an entirely new awareness among the population, for the first time openly challenging the widespread culture of corruption and leading to increasingly adverse publicity for politicians involved in

Prosecution of office abuse

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corruption cases. Several major scams were uncovered in 2010 and 2012. In 2012, for example, a coal mining scandal was revealed, with the government reportedly allocated coal blocks instead of auctioning them, leading to an estimated loss of $34 billion. Apart from large-scale cases such as this, corruption is widespread at all administrative levels. Misuse of public office and conflicts of interest are common. In 2011, Prime Minister Manmohan Singh addressed this issue at the ministerial level by requesting that the ministers in his government disclose their assets. Despite symbolic gestures and the introduction of new measures to improve transparency, public officers still maintain a large margin of discretion in their operations.

De jure, civil rights are guaranteed in India. A major exception is areas where emergency laws are in force. The Armed Forces (Special Powers) Act (AFSPA) is applied in so-called disturbed areas, among others in Jammu and Kashmir and in the northeastern states. The AFSPA allows for the arrest without a warrant of anybody suspected of having committed an offence and protects soldiers from prosecution, virtually allowing them to act with impunity. The AFSPA has been the object of much controversy in India against the background of massive abuses by security forces in the state of Manipur in 2004. The government instituted a working group that recommended repealing the law, and international bodies have repeatedly asked the Indian government to do so. While the government has been considering the introduction of amendments to the AFSPA, the army has reportedly staunchly opposed them. In 2011, the Jammu and Kashmir the State Human Rights Commission (SHRC) found that hundreds of bodies in unmarked graves were those of local Kashmiris, possibly killed by the security forces (and not, as previously alleged by the government, by Pakistani militants). The government of Jammu and Kashmir has announced an investigation, but the AFSPA will make any investigation difficult to carry out.

Civil rights

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All over India, custodial killings and police abuses, including torture and rape during custody, are the order of the day. In general, underprivileged groups are particularly affected by the limited enforcement of protection laws and by the extremely slow working of the judicial system. De facto, disadvantaged social groups do not enjoy equal access to justice. Discrimination and violence against women remain major issues in India. According to a study by the University of British Columbia, every year 100,000 women die in fires – often dowry crimes – and another 125,000 women die because of the consequences of serious injury, which are mostly not reported as homicides. Moreover, sex crimes and rape are extremely widespread. In 2011, 24,000 complaints were filed with the police, but the unreported figure of cases is much higher. The problem of violence against women, however, came to the fore in India after a rape case in Delhi at the end of 2012, leading to mass protests across the whole country. These demonstrations initiated a broader discussion about the prosecution of crimes against women and about the safety of women in general. Also, ethnic

discrimination remains widespread in India, despite protections for all minority groups.

4 | Stability of Democratic Institutions

Overall, democratic institutions in India perform their functions in an effective manner. However, tensions between institutions at different levels often lead to counterproductive friction. Among the factors leading to friction are, at the national level, the instability of the governing coalition and its dependence on smaller coalition partners with particularistic interests; and coordination problems among different ministries dealing with overlapping issue areas. The repeated disruptions of parliament sessions by opposition parties have also contributed to hampering the adoption of laws and the approval of reforms. Moreover, vertical coordination between the national and the state level is problematic, with multiple social programs operating at different levels. Among the problems most seriously hampering the efficient working of the public administration are a lack of incentives for officials and corruption.

<div style="float:right">Performance of democratic institutions

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

<div style="float:right">Commitment to democratic institutions

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5 | Political and Social Integration

The Indian party system is fairly stable and socially rooted. While a huge number of parties expressing particular interests exist at the national and state levels, due to this fragmentation the system rewards centrist tendencies. Coalitions are mainly formed on a pragmatic basis, often leading to heterogeneous groupings. This impacts the actual ability of government coalitions to effectively promote reforms. While some leftist parties and the Hindu-nationalist Bharatiya Janata Party (BJP) have stronger internal structures, most parties are rather weakly institutionalized. Informal procedures, factionalism and clientelism prevail, while internal democracy is weak. Single leading figures such as Sonia Gandhi as the president of the Indian National Congress have immense power in shaping the political course of their parties. Regional parties are also in many cases highly dependent on their leading figures. As an example from Tamil Nadu, the Dravida Munnetra Kazhagam (DMK) and the All India Anna Dravida Munnetra Kazhagam (AIADMK) are clearly dominated by their respective leaders, Karunanidhi and Jayalalithaa. The financing of parties and of their electoral campaigns is highly opaque. According to a study by the Association for

<div style="float:right">Party system

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Democratic Reforms (ADR), which collected data on party financing through the right to information law for 2003 – 2011, less than 20% of the earnings of six national parties and of 36 local parties came from officially declared donations. According to ADR, a large part of the remaining 80% must come from cash donations of "black money," or unreported illegal funds.

While a large number of interest groups exist in India, only a small share of the population belongs to or actively participates in the activities of associations. Ideological fragmentation and a close association of interest groups to political parties increase the risk of pooling conflicts in civil society. Labor unions and employers' federations are only partly autonomous due to the traditional role of the state in the Indian economy. However, social movements of different kinds have become more and more assertive, and the number of NGOs has been steadily increasing. According to a report by the Ministry of Statistics and Program Implementation (March 2012), there are more than three million registered non-profit institutions in India. Among the most active NGOs are the electoral watchdogs Association for Democratic Reforms (ADR) and Mazdoor Kisan Shakti Sangathan (MKSS) as well as the Self Employed Women's Association (SEWA), which works for women's empowerment and the promotion of women's rights. While these organizations are frequently promoted by intellectuals and members of the middle class, they often fight for the rights of marginalized social groups. NGOs have played an increasingly important role in the formulation of policies and are often included in consultation processes.

Interest groups
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The Indian elite is proud of the country's achievements as the world's largest democracy in terms of population and as one of the most stable democracies among post-colonial states. Democratic principles are also firmly rooted in the Indian population, as confirmed, for example, by the World Values Survey. Even poorer sections of society believe in the weight of their vote and take part in elections. In fact, it is commonly acknowledged that Indian elections are substantially determined by the votes of the rural population. Interestingly, however, members of the growing middle class increasingly express their disaffection with politics and with the "political class" in general. In some cases, this even leads to praise for the Chinese model, which is seen as attractive due to its higher degree of efficiency. Overall, however, no veto powers exist that seriously call into question democracy in India. Fringe groups, however, such as ethno-nationalist insurgents and Maoist groups fighting, as they see it, for the rights of the poor and landless rural population, are not part of the pro-democratic consensus of Indian politics and society.

Approval of democracy
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The still extremely hierarchical character of Indian society contributes in hampering the formation of a sense of solidarity across different social groups. However, things have started to change with increased social mobility and the diffusion of civil society organizations. The large number of associations, some of them led by leftist intellectuals and lawyers, has contributed to create some degree of social protection

Social capital
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for vulnerable social groups. While the anti-corruption movement and protests against rape and violence against women have been mainly driven by the middle classes, they are an expression of a growing solidarity on topics that cut across and affect all parts of the Indian society. A large number of initiatives also take place at the grassroots level, with local groups collectively organizing to carry out strikes and protests. Tribal groups have a long tradition of resistance and protests since the colonial period. Moreover, local communities have become increasingly vocal, for example in resisting mining projects and land acquisitions. These self-help organizations are sometimes manipulated for political purposes, but they often act in an autonomous manner to promote the interests of their communities.

II. Economic Transformation

6 | Level of Socioeconomic Development

Socioeconomic barriers

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Poverty and inequality in India are pronounced and partly structurally ingrained. India is still a country with the largest absolute number of poor worldwide. The share of people living below the national poverty line has fallen from over 70% in the 1970s to approximately 30%. With the $2-per-day poverty line as a point of reference, however, in 2010 some 68.7% of the Indian population could be considered as poor. The yearly decline by about one percentage point (on the national poverty line) between 2004 and 2005 and 2009 and 2010 has been slower than what might have been expected, against the background of high growth rates during those periods. Poverty is still widespread among the rural population as well as among the urban population active in the informal sector. Moreover, poverty has increasingly affected a range of states that were largely left untouched by the economic boom and have been plagued by bad governance in past decades, among them Uttar Pradesh, Orissa and Madhya Pradesh. With an HDI score of 0.547 in 2011, India ranks 134 of 187 countries worldwide in terms of human development.

In 2005, India had a Gini index of 33.4. According to an OECD report published in 2011, inequalities in income distribution have increased between the early 1990s and the late 2000s. Inequalities are particularly evident across regions, across social groups as well as between skilled and unskilled workers. Social exclusion continues to affect the traditionally marginalized lower castes (the so-called Scheduled Castes, SCs) as well as ethnic minorities (the so-called Scheduled Tribes, STs) and Muslims. Gender inequality is also a major problem in India. With a Gender Inequality Index of 0.617, India rates extremely low in international comparison. While women's rights and gender equality are officially recognized, women are de facto still largely discriminated. Discrimination ranges from the abortion of female fetuses (and

corresponding numeric gender disparity) to the intra-familial discrimination of women in the access to food and sanitation. This is mainly related to the persistence of patriarchal family structures, especially in northern India. However, some improvements could be observed in women's access to education. Enrollment rates in primary education are now equal for boys and girls. However, disparities in secondary and tertiary enrollment have remained substantial, with a ratio of female-to-male enrollment of 91.8 and 72.6, respectively.

Economic indicators		2009	2010	2011	2012
GDP	$ M	1365372.9	1710917.2	1872845.4	**1841717.4**
GDP growth	%	8.5	10.5	6.3	**3.2**
Inflation (CPI)	%	10.9	12.0	8.9	**9.3**
Unemployment	%	-	3.5	-	-
Foreign direct investment	% of GDP	2.6	1.5	1.7	-
Export growth	%	-4.7	19.7	15.3	**3.0**
Import growth	%	-2.1	15.8	21.5	**6.8**
Current account balance	$ M	-26186.4	-52274.7	-60038.0	-
Public debt	% of GDP	75.0	68.5	66.4	**66.8**
External debt	$ M	256229.2	290351.1	334331.0	-
Total debt service	$ M	16517.4	24406.5	29177.4	-
Cash surplus or deficit	% of GDP	-5.4	-3.6	-3.7	-
Tax revenue	% of GDP	9.6	10.1	10.4	-
Government consumption	% of GDP	11.9	11.4	11.6	**11.8**
Public expnd. on edu.	% of GDP	3.2	3.3	-	-
Public expnd. on health	% of GDP	1.1	1.1	1.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.9	2.7	2.6	**2.4**

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Pease Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

In India, market competition has an institutional framework, but in several areas state intervention is still in place. For example, there are forms of discrimination based on foreign versus local ownership, and some sectors of the economy are heavily protected. Foreign direct investment is still prohibited in a number of sectors, among them in agricultural activities. However, during the review period, some substantial reforms took place in this regard. Among them are the relaxation of limits on foreign ownership in airlines (now up to 49%) and media (up to 74%) as well as the opening of the multibrand retail market to foreign investors (subject to state government approval) announced in September 2012.

Market-based competition

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The Indian rupee is not pegged to any foreign currency. It is fully convertible on the current account. On the capital account, however, it is only partially convertible. Since the Reserve Bank of India (RBI) trades in the currency market to impact effective exchange rates, the currency regime amounts to a de facto controlled exchange rate. In 2011, the RBI appointed a committee to prepare for fuller capital account convertibility. In 2012, the governor of the RBI announced, however, that this will be a "gradual" longer-term process.

The informal sector is still extremely large. According to The Economist, over 450 million people were employed in the informal sector at the time of writing. In 2006, the contribution of the informal sector to total GDP amounted to over 55%.

In 2009, new anti-monopoly laws were introduced, and the Competition Commission of India (CCI) became functional. While its activities are still hampered by a multitude of sectoral regulations, the CCI was rather proactive in the first years of its existence. As an example, in 2012 the CCI imposed a fine of $1.15 billion on a number of cement companies accused of having formed a cartel.

Anti-monopoly policy

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India is one of the original members of the WTO, strongly advocating multilateral trade and providing at least most favored nation treatment to WTO members as well as to other partners. Since the opening of its economy in 1991, India has been increasingly liberalizing trade. Its average most favored nation tariff rate declined from 15.1% in 2006 and 2007 to 12% in 2010 and 2011, according to the 2011 WTO Trade Policy Review. Tariffs on agricultural products, however, are still high (33.2%). This is related to the strategic importance of the agricultural sector for the Indian economy, since a large part of the population is active in this sector and food security has always been a major concern.

Liberalization of foreign trade

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Several further exceptions remain to full trade liberalization. India's import regime, particularly its licensing and permit system and tariff structure, are extremely complex. Besides the tariff rate, importers have to pay a range of additional duties.

In many cases, imports are subject to non-tariff barriers such as prohibitions, licenses, restrictions or sanitary requirements. Health, safety, security and self-sufficiency reasons are cited in imposing import restrictions. Moreover, India has been actively using anti-dumping measures, especially in the chemical and textile sectors, and has generally become rather protectionist in an attempt to limit the deterioration of its balance of payments. India's merchandise trade deficit in 2011 and 2012 was 50% higher than in the previous fiscal year. In fiscal year 2011 – 2012, India almost tripled its exports in comparison to five years earlier, with total goods exports worth $310 billion – however, imports amounted to almost $500 billion. To promote exports, during the period under review the government adopted tax incentives and credit facilitation measures.

India's banking system has significantly evolved since the start of economic reforms in 1991. It has become increasingly solid and was one of the few banking systems that was not seriously compromised by the global financial crisis. Overall, the share of nonperforming loans steadily decreased, from 10.4% in 2002 to 2.4% in 2010, and the capital-to-assets ratio rose from 5.5% in 2002 to 7.1% in 2010. The Reserve Bank of India (RBI) has issued guidelines for the implementation of Basel III within five years. However, this will be a difficult achievement since the law provides for the government to hold a majority share in public sector banks. Due to the high fiscal deficit, it will be difficult for the government to provide the necessary capital to public sector banks.

Banking system

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In 2012, the Banking Laws (Amendment) Bill was passed by both houses of parliament. The bill provides for a reform of the banking sector, among other reforms, to strengthen the regulatory powers of the RBI. Moreover, it is expected to attract foreign investment in the Indian banking sector by increasing the voting rights of investors in private sector banks. The bill also provides for the issuing of new licenses, against the background that no new licenses have been issued since 2002. Despite these positive developments, in December 2012 the rating agency Moody's declared that its outlook for Indian banks remained negative, due to an increase in the share of nonperforming loans in 2012 and to the challenges that banks will face in maintaining capitalization levels constant.

8 | Currency and Price Stability

While inflation (consumer price index) was extremely high in 2010 (12%) and 2011 (8.9%), it has slowed since September 2011. Overall, India's inflation is particularly related to commodity-price shocks, especially domestic food prices. Food prices rose again in 2012, among other reasons due to the weak monsoon season. However, high borrowing by the government contributed to inflation as well. Moreover, inflation is expected to remain high due to cuts in fuel subsidies. While the rupee had appreciated above its long-term average in 2010 and 2011, in 2011 it depreciated by 20%, falling

Anti-inflation /
forex policy

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well below its long-term average. In 2012, the Reserve Bank of India (RBI) repeatedly lowered the cash reserve ratio. In April 2012, it cut the repo rate to 8%, but it has been reluctant to lower it further despite pressure from the Indian government to loosen its monetary policy. While the independence of the RBI is not determined by law and connections to the government are in place (Prime Minister Manmohan Singh, for example, was a governor of the RBI in the 1980s), de facto the RBI has been able to set rates independently. It has played an important role in dealing with the financial crisis and is one of the few institutions in India that has not been accused of corruption. However, in December 2012, the finance ministry did not renew the tenure of the RBI deputy governor, who had been critical of the government – a possible first sign of political meddling. According to RBI data, the provisional real effective exchange rate for 2010 – 2011 (base 2004 – 2005=100) was 102.3.

In 2003, India introduced the Fiscal Responsibility and Budget Management (FRBM) Act, which mandated a phased reduction in the fiscal deficit to 2.5% of GDP as well as the elimination of revenue deficit. This law was an important signal in terms of a commitment to fiscal discipline, even though its targets were not achieved in 2007 – 2008. Moreover, the law generally increased fiscal transparency and responsibility by mandating that the government regularly issue reports to be discussed in parliament. As a response to the financial crisis, the government issued a series of stimulus packages. The crisis contributed in derailing the government's consolidation program. In fiscal year 2010 – 2011, the fiscal deficit declined to 5.1% of GDP from previously higher levels, thanks to non-tax revenues deriving from telecom spectrum auctions. In 2011 – 2012, the fiscal deficit amounted to 6% of GDP, according to the World Bank. Lower-than-expected revenues and higher subsidy payments contributed to make the government miss its deficit target by about 1% of GDP. For 2012 –2013, the government budget targets a fiscal deficit of 5.8% of GDP, which can only be achieved through a massive reduction in subsidies and by selling stakes in state-owned enterprises. The United Progressive Alliance (UPA) government aims to implement a policy of fiscal consolidation in the medium-term. In October 2012, Finance Minister Chidambaram announced that the government would cut the budget deficit to 3% of GDP by fiscal year 2016 – 2017. Indian states, which have a certain degree of fiscal autonomy but are dependent on transfers from the central government, have traditionally pursued irresponsible fiscal policies, essentially waiting for bail-outs from the center. However, things have started to change. According to The Economist, the states' deficit, which amounted to 5% a decade ago, dropped to 2.2% of GDP in 2011 – 2012. India's public debt is still massive, but it declined steadily from over 80% in 2002 to 69.2% in 2010. Public debt is mostly owned by domestic creditors.

Macrostability

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9 | Private Property

Property rights in India are adequately defined, even though a constitutional amendment allows for the state to appropriate property for social welfare purposes. Overall, the main political actors do not call into question the principles of private property, private initiative and the need for attracting foreign investment. However, there are still several limitations. In 2012, India ranked 62 of 130 countries in the International Property Rights Index. This is because of, among other reasons, an archaic land record system and piracy affecting intellectual property rights. Moreover, according to the World Bank's 2012 Doing Business Report, registering property in India requires 44 days and five procedures. This is mainly related to bureaucratic constraint and procedural deficits. The acquisition of land by large companies often leads to protests by the local population.

Property rights
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Private companies in India are viewed institutionally as important engines of economic production and are given legal safeguards. In some sectors, recent reforms entail an increase of the allowed share of foreign participation. In September 2012, the government announced that it would relax the limits on foreign ownership in airlines and media as well as open the multibrand retail market to foreign investors (subject to state government approval). However, a concentration of market power is tolerated. In fact, in India there are still over 1,600 state-owned companies of different kinds with over 5 million employees. As far as bureaucratic and legal hurdles are concerned, these are still high. Starting a business in India requires 27 days and 12 procedures, according to the World Bank Doing Business data.

Private enterprise
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10 | Welfare Regime

While social safety nets in India were traditionally mainly based on family structures, a range of reforms initiated in the mid-2000s substantially improved the chances of marginalized sections of Indian society to receive compensation for social risks. Programs like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) provide for the temporary employment of people living below the poverty line. Moreover, there are a range of other programs at the national and the state level addressing a variety of issues with different modalities of distribution. The Public Distribution System (PDS), for example, provides for the distribution of food grain staples and kerosene to the poor through "ration shops." The program is managed by the government-owned Food Corporation of India. Regulation of the program is shared between central and state governments. The Integrated Child Development Services (ICDS) aims to address malnutrition and health problems for children and their mothers. UNICEF and the World Bank have assisted the Indian government in implementing this program. The Aajeevika-National Rural Livelihoods Mission (NRLM) is a program initiated in 2011 by the Ministry of Rural

Social safety nets
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Development (MoRD) with support by the World Bank. It aims to empower the rural poor among others through the formation of self-help groups and the promotion of self-employment through the access to credit. However, the effectiveness of many of these programs is dubious, mainly due to corruption and leakages. In 2010, public expenditure on health amounted to 1.2% of GDP, with no substantial increase over the previous decade. Some of the programs by the Indian government also have a clearly populist character. Among them is the planned cash transfer scheme to the poor, which was the object of heated debate at the time of writing. It was widely criticized as an effort by the Indian National Congress to gain votes in the 2014 elections.

As far as health insurance is concerned, there are several schemes sponsored by the central government that are targeted at employees in the formal sector (Employees' State Insurance Scheme) or at civil servants (Central Government Health Scheme). Moreover, Andhra Pradesh, Tamil Nadu and Karnataka have developed their own health insurance schemes. Some major improvements in terms of population coverage of health insurance were made with the introduction of the Rashtriya Swasthya Bima Yojana (RSBY), a health insurance scheme for families living below the poverty line. According to the government, 28.6 million families were participating in the program in 2012. The central government covers some 75% of the costs for RSBY, with the remaining 25% covered by state governments. Despite this range of programs and their growing reach, a significant part of the population is still affected by poverty and social risks of all kinds.

Equality of opportunity in India has not been achieved. Members of the lower castes, Muslims, members of tribal communities and other marginalized social groups do not have – de facto – equal access to education and employment. There are, however, several forms of affirmative action aimed at promoting the participation of marginalized groups. Among them are reservations for members of Scheduled Castes (SCs), Scheduled Tribes (STs) and Other Backward Classes (OBCs) in the public sector and at universities. The Indian constitution also provides for the reservations of seats in elected bodies corresponding to the share of SCs and STs in the population of each constituency. The system of reservations has contributed to improving social mobility and to fostering the political empowerment of members of marginalized groups. In some cases, SC members have managed to attain leading political positions – Uttar Pradesh Chief Minister Mayawati is an example of this trend.

Discrimination of women remains a major issue in India. Especially in the still extremely patriarchal north of India, women tend to be discriminated against from the very beginning within their families. With poor families, this means worse access to food and sanitation. As far as access to education is concerned, some substantial progress has been made in primary and secondary education, but the ratio of female-to-male enrollment in tertiary education is still 72.6%. According to a 2011 report by the National Statistical Organization, the worker population ratio in rural areas was

Equal opportunity

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55% for men and 26% for women; in urban areas it was 54% for men and 14% for women. Women still play a subordinate role also in politics – with some notable exceptions, such as Indian National Congress President Sonia Gandhi or Delhi Chief Minister Sheila Dikshit. Only around 10% of Indian members of parliament are women. In recent years there has been a huge debate on the introduction of quotas for women in the national parliament and state legislative assemblies. While the so-called Women's Reservation Bill, which provides for a 33% reservation of this kind, was passed by parliament's Rajya Sabha, or upper house, in 2010, it had not yet been voted on in the Lok Sabha, the lower house, at the time of writing. A rape case that took place in Delhi at the end of 2012 unleashed a broad debate on the role of women in society and on women's rights. Whether this will lead to any substantial changes in the longer term remains to be seen.

11 | Economic Performance

The Indian economy experienced a slowdown during the period analyzed, but economic performance is still good. For fiscal year 2011 – 2012, real GDP growth declined to a nine-year low of 6.5%, from 8.4% for the two previous fiscal years. According to the World Economic Outlook published by the World Bank, a stabilization of real growth at around 6% can be expected for 2013 given the announcement of reforms in September 2012 and the corresponding increase in confidence. Structural problems contributed to the slowdown in the review period. Among them are massive power shortages, especially in 2012; investor uncertainty due to planned reforms in mining, tax and land acquisition legislation; and the corruption scandals in the telecommunication and mining sectors. The slowdown was particularly evident in the industrial sector, where growth declined from 11% in the last quarter of fiscal year 2009 – 2010 to just 1.9% in the first quarter of 2012, to slightly rise to 3.6% in the first quarter of 2012 – 2013.

Output strength

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Due to decelerating export growth and high oil prices, according to the World Bank, India's current account deficit reached 4.2% of GDP in fiscal year 2011 – 2012. The expanding trade deficit, which reached a historic high of $20 billion in October 2012, was somewhat offset by growing remittances. India's overall fiscal deficit amounted to 6% of GDP. Inflation (consumer price index) was worryingly high during the review period and, given the high fiscal deficit and the weakness of the rupee, inflationary pressure is likely to remain a problem. Foreign direct investment inflows in fiscal year 2011 – 2012 were higher than in the previous year. According to a 2011 report by the National Statistical Organization, the unemployment rate, defined as the number of people unemployed per 1,000 persons in the labor force, was 16% in rural areas and 34% in urban areas.

In September 2012, faced with a risk of a financial crisis, the Indian government announced a range of reforms, among them an increase in fuel prices (diesel prices

rose by 12%), a reduction on liquefied petroleum gas subsidies and changes in the rules on foreign direct investment. These announcements somewhat increased confidence in the Indian economy by underscoring the government's willingness to enact reforms. Nevertheless, growth is expected to further decline in 2013.

12 | Sustainability

India faces a range of environmental problems, from air pollution to water pollution and water scarcity, waste management issues, soil degradation and biodiversity loss. India is also one of the largest emitters of greenhouse gases. Some 38% of India's emissions come from electricity production (69% of electricity is generated from coal), 22% from the iron, steel and cement industries and 18% from agriculture. In 2012, India ranked 125 of 132 countries on the Environmental Performance Index of the Yale Center for Environmental Law and Policy. This reflects the fact that environmental concerns still receive only sporadic consideration by the government, which clearly prioritizes growth. Among the broader population, awareness of the environment is extremely low. Environmental regulations such as the Air (Prevention and Control of Pollution) Act of 1981 are in place, and monitoring and enforcement agencies such as the Central Pollution Control Board exist. In the field of air pollution, the Supreme Court has promoted action plans, while the National River Conservation Plan aimed to reduce the industrial pollution of rivers and to build sewage treatment facilities. According to a study carried out at the Harvard Environmental Economics Program, air regulations have led to a reduction in air pollution over the past decades, while water pollution regulations have largely been ineffective, due to problems with implementation. India has only recently started to develop proper climate change policies. In 2008, the government published its National Action Plan on Climate Change. Of several "missions" envisaged in this document, only the National Mission on Energy Efficiency and the Solar Mission have been established so far. However, other initiatives such as the creation of the Low Carbon Expert Group in 2010 and the planned inclusion of low-carbon development goals in the 12th Five Year Plan (2012 – 2017) indicate the willingness on the part of the government to address the issue of climate governance – despite India's reluctant negotiating position on this issue in international forums.

Environmental policy

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India's education policy contributes to a system of education and training that is mostly sub-standard, with some notable exceptions. With a literacy rate of 62.8% and a gross enrollment ratio of 63.2% in secondary education and 17.9% in tertiary education, there are still massive deficits in the access to education. Even though primary enrollment has reached 100%, dropout rates are still high (6.8% in primary schools in 2010 – 2011) and the quality of education is poor. The parallel systems of private and government schools contribute to deepening the gaps in education among social groups. However, it must be acknowledged that India made great progress on

Education policy / R&D

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a range of indicators in the field of education in recent years. According to World Bank data, the dropout rate in primary schools has fallen from 15% in 2002 – 2003 to 6.8% in 2010 – 2011; the pupil-to-teacher ratio shifted from 43:1 in 2004 to 31:1 in 2010 – 2011; and under the Sarva Shiksha Abhiyan (SSA), a scheme initiated in 2003 by the central government, over 240,000 new schools were built and nearly half a million schools were provided with sanitation facilities. The Right to Education Act, effective in 2010, for the first time made education a right and started to address the goal of providing better-quality education. As far as tertiary education is concerned, there are a number of high-class colleges and universities, especially in the natural sciences. However, in the academic field, India suffers from a massive brain drain. With expenditures for education amounting to 3.3% of GDP in 2010 and expenditures for research and development moving around an unchanged rate of 0.75% of GDP from 2001 – 2007, India still ranks low in international comparisons.

Transformation Management

I. Level of Difficulty

The management performance of the Indian government is limited by a range of structural constraints. Among them, nearly 30% of the population still lives under the poverty line and child malnutrition is still extremely widespread. While India has a growing reservoir of young, well-trained and English-proficient workers, the persistent low degree of literacy and the lack of a structured vocational-training system imply an immense loss of potential. While India is relatively well-equipped to deal with natural disasters, as its response to the 2004 tsunami has shown, one of the main structural obstacles limiting the management performance of the government is the country's extremely poor infrastructure. The economic growth of past years has increasingly burdened India's infrastructure, pushing it to its limits in several areas, especially the power sector, as has been revealed by repeated massive blackouts. According to a study by McKinsey & Company, the growth of the manufacturing sector, increasing domestic consumption and the connection of further thousands of villages to the electricity grid will contribute to making the country's power infrastructure deficits an even more serious problem in coming years. The economy also suffers from problems in road, rail and port infrastructure. Seaports are extremely inefficient; only half of the road network is paved; and, according to estimates by The Economist, traffic congestion is so bad that it costs the economy $6 billion per year, while a lack of cold storage and distribution networks hampers the export of products like vegetables.

Structural constraints

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While figures like Mahatma Gandhi demonstrate that India has a tradition of civic engagement, social trust is still relatively low. However, things have been changing over the past decades and India now has hundreds of thousands of NGOs operating in a range of issue areas, including environmental groups, human rights groups and so on. Unions and employer associations remain relatively fragmented and are often affiliated with political parties. The government is also promoting the formation of self-help groups in rural areas through schemes like the Aajeevika-National Rural Livelihoods Mission, which was initiated in 2011. A civic culture of participation in public life has always been rather strong, and the large number of demonstrations that take place all over India on any subject shows that also people from marginalized social groups take to the streets and organize to make their voice heard.

Civil society traditions

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A range of cleavages exist in Indian society. They concern caste and social status, ethnicity, religion (especially tensions between Hindus and Muslims), and gender. Since these cleavages rarely overlap and reinforce each other, however, no major nationwide armed conflict has taken place in recent decades, and episodes of violence have remained relatively limited. Among exceptions are the insurgency in Kashmir, the Naxalite conflict in central India and the activities of rebel groups in the northeastern states, which continued during the review period.

<div style="text-align: right">Conflict intensity

5</div>

II. Management Performance

14 | Steering Capability

<div style="text-align: right">Question
Score</div>

The Indian National Congress-led United Progressive Alliance (UPA) government has shown good ability to set strategic priorities. While the focus on large social programs has been pursued in a rather consistent manner, the approach to economic reforms has sometimes been shortsighted and inconsistent. This was related to a weakening of the UPA government after a series of corruption scandals and to turbulent coalition politics. Especially out of fear of alienating its smaller coalition partners, the government took some steps back, for example on the opening of the Indian market for foreign multibrand retail companies. In 2012, however, Prime Minister Manmohan Singh announced his government's willingness to continue on the path of economic reforms, thereby bringing new impetus to the process.

<div style="text-align: right">Prioritization

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The government was able to effectively implement its reform policies only to a certain extent. Delays in the implementation of public schemes and welfare programs, corruption, and the tapping of benefits by non-target groups are still widespread and limit the effectiveness of governmental social policies. The central government has tried to address these problems by strengthening the supervision of policy implementation. Within the Ministry of Statistics and Program Implementation, the Department of Program Implementation has the task of monitoring the implementation of social schemes. Moreover, the central government has in past years tried to streamline existing programs to increase their efficiency. The main difficulties related to implementation are due to poor budget management of single states. For example, Uttar Pradesh spent only 52% of its fiscal allocations in 2012. While the central government has offered incentives for improving implementation of schemes at the state level (for example, the central government covers 90% of the costs for the National Rural Employment Guarantee Act (NREGA) scheme, while unemployment allowances would have to be covered by the single states), leakages are still widespread.

<div style="text-align: right">Implementation

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In the development of new social schemes, the Indian government has resorted to a range of learning opportunities, from cooperation with international partners to the consultation of (academic) experts and civil society representatives. In this field, therefore, the government demonstrates a general ability of policy learning. Flexibility in policymaking, however, is often limited by the sheer magnitude of government programs. Moreover, inefficient policies in many cases are not improved on the basis of learning and previous experience. They are, instead, kept alive because powerful political actors or interest groups have a stake in keeping the status quo. For example, the heavy subsidization of food and fuel, the continued support of loss-making state enterprises, or increases in the wages of public servants show that massive obstacles to flexible policy adaptation are still in place.

Policy learning

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15 | Resource Efficiency

The Indian government makes only partially efficient use of available human, financial and organizational resources. The Indian state has inherited from the British colonial government an efficiently organized bureaucratic system based on recruitment and promotion on merit. While formally recruiting procedures are still transparent, a large number of quotas and reservations for disadvantaged social groups as well as politically motivated dismissals and appointments seriously impact the efficiency of the system. Institutions geared to reform public administration exist and have become increasingly vocal. In particular, the Second Administrative Reforms Commission (ARC) was appointed by the government in 2005 with the aim of improving the accountability, sustainability and efficiency of public administration. The ARC produced a range of reports on issues from the organizational structure of the government to financial management systems. It also produced a list of suggestions to improve police efficiency at the state level. However, while ARC reports have been discussed by a ministerial group, implementation has proceeded slowly.

Efficient use of assets

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The use of budget resources has been hardly efficient. The budget deficit of the central government and the states absorbs resources that cannot be invested in sectors such as infrastructure or social services. Despite efforts by the United Progressive Alliance (UPA) government to speed up reforms in 2012, subsidies largely remain in place and the public sector is still over-financed. Tax revenue has increased since 2001, but no substantial changes have taken place in recent years. In 2010, tax revenue amounted to 9.7% of GDP. The government has made major efforts to reform the tax system. A centerpiece of reforms will be the introduction of the Goods and Services Tax (GTS), the implementation of which was originally planned for 2010 but was repeatedly delayed. At the time of writing, the implementation was announced for April 2013. The GTS will replace a range of other taxes at the central and state levels, such as the central sales tax, state-level sales tax, and so on. Tax

evasion remains a major problem in India. According to Global Financial Integrity, India was the eighth-largest exporter of illicit capital in 2001 – 2010, losing an estimated $123 billion in illegal funds or "black money."

The Indian government has only limited success in its coordination of conflicting policy objectives and interests. Political coalitions are usually formed in opportunistic terms instead of in terms of common goals. Also within the United Progressive Alliance (UPA) coalition, smaller parties have been pursuing the particularistic interests of their regional and caste-based constituencies. A coordination committee headed by Indian National Congress President Sonia Gandhi has not been able to avoid frictions and the exit of parties from the coalition. For example, the Trinamool Congress withdrew its support from the UPA after the announcement of subsidies cuts and reforms on foreign direct investment in the retail sector in September 2012, thereby threatening the very existence of the UPA government. Coordination problems also exist among the 51 Indian ministries and their often diverging agendas. Furthermore, policy coordination is often difficult among Indian states, as became evident in the problem of jointly addressing the Maoist insurgency in central India. In this case, coordination was improved under the supervision of the Ministry of Home Affairs. On a range of issue areas, interministerial committees are in place to improve coordination. As far as actual policies are concerned, the government has made some effort to improve coordination, for example by streamlining different welfare programs. However, a range of overlapping and often ad hoc, populist programs continue to exist, especially at the state level.

Policy coordination

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Corruption has always been a major problem in India, but during the review period this issue took center stage in Indian politics as never before. The so-called 2G spectrum scam, which was revealed in 2010 and involved politicians undercharging telecommunication companies with an estimated loss of $32 billion for the state, unleashed a massive public debate on the issue of corruption. Several other corruption scandals, for example in the mining sector, further fueled this debate. Under the leadership of social activist Anna Hazare, a large and popular movement against corruption emerged in April 2011. With nationwide demonstrations, representatives of the movement called for the introduction of the Jan Lokpal Bill (Citizens' Ombudsman Bill), a law providing for the establishment of an independent institution to investigate corruption cases. While proposals for the creation of an institution of this kind had been circulating since the 1960s and had even been repeatedly discussed in parliament, the Lokpal Bill had never been approved. As a reaction to the requests made by the anti-corruption movement, the Lokpal Bill was passed in the Lok Sabha, or lower house of parliament, in 2011. However, it was not discussed in the Rajya Sabha (upper house of parliament) due to time shortages. Activists of the anti-corruption movement called for several changes in the bill proposed by the government, among others the introduction of measures for the protection of

Anti-corruption policy

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whistleblowers and the application of the bill to all levels of public administration – also to lower levels, where corruption is particularly widespread and directly affects ordinary citizens.

As a reaction to the protests, in 2011 the government introduced the Citizen's Charter and Grievance Redressal Bill, but also this bill was still pending at the time of writing. Overall, therefore, the government demonstrated a certain degree of willingness to address the grievances of the demonstrators, but draft laws were blocked in parliament. Meanwhile, 2012 saw another series of major corruption cases, among others a scam involving the National Rural Health Mission in the state of Uttar Pradesh and a large corruption scandal in the mining sector.

Importantly, some of these scandals were uncovered by the Comptroller and Auditor General (CAG) of India, the authority that audits central and state governments' expenditures. This reveals a growing willingness on the part of state institutions to tackle the problem of corruption. Other mechanisms are also in place. For example, the Right to Information Act of 2005 allows any citizen to request information from public institutions, except in sensitive, security-related issue areas; the information has to be delivered within 30 days. While this measure represents an important step forward on transparency and accountability, in many cases the requests have led to legal controversies and, as a consequence, to substantial delays. Overall, therefore, corruption remains a major problem in India, but 2011 and 2012 have seen a growing awareness about this problem among the broader Indian population and a range of initiatives aimed at tackling it.

16 | Consensus-Building

The democratic principles of the Indian state are not seriously called into question by any relevant political actor. A huge debate over economic reforms however exists over a range of issues, from trade liberalization to the abolition of subventions or the creation of special economic zones. Among the actors opposed to a reform course in the United Progressive Alliance (UPA) government are a number of regional parties, some leftist parties and members of the bureaucracy who fear they might lose their privileged positions.

Consensus on goals
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Democratic principles are deeply rooted in India and there are no significant actors who seriously challenge the democratic principles of the Indian state. The main exception are the Naxalites, Maoist-inspired rebels who are fighting for the rights of the landless and the tribal population in central India and whose declared goal is the subversion of the Indian state. While they were defined as the single biggest internal security threat by Prime Minister Manmohan Singh in 2006, they do not represent a political force that effectively challenges the Indian state as a whole. In past years, the government has reacted to the Naxalite insurgency with a mixture of police

Anti-democratic actors
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action, support for local militias and a strengthening of development-related measures. While the Naxalites still control portions of territory and even run parallel administrations in some areas of the state of Chhattsgarh, their influence has weakened over the past few years.

Indian society is characterized by the existence of multiple cleavages related to caste, religion and ethnicity. The Indian constitution provides for a mitigation of potential conflicts, given the prominence of the principle of secularism, the federal structure of the state, and the provisions for the political representation of otherwise marginalized social groups. The central government also contributes to depolarize cleavage-based conflicts. However, there are several political actors operating at the state level who enjoy a political advantage from existing cleavages and therefore tend to exacerbate them. Among the most divisive figures, for example, is Narendra Modi, a politician of the Hindu-nationalist Bharatiya Janata Party who has been the chief minister of Gujarat since 2001. In 2002, Modi reportedly not only tolerated but even instigated the killing of up to 2,000 Muslims in deadly riots. But also other caste-based or regional-based parties tend to contribute to the exacerbation of tensions at the local level. The movement for the creation of a separate state of Telangana out of Andhra Pradesh is an example of how virulent regional tensions can become. The fact that no major violent conflicts have broken out in India is therefore not a consequence of depolarizing policies pursued by political actors, but rather the result of the multiplicity of cross-cutting cleavages, which mostly do not overlap, thereby preventing the formation of large opposition coalitions.

Cleavage /
conflict
management

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A large number of nongovernmental organizations of all kinds exist in India. The political leadership allows for civil society participation, even though in many issue areas policymaking is still quite centralized. However, civil society is extremely active and has been increasingly able to compensate for a lack of formal access to policymaking by mobilizing large numbers of supporters in huge nationwide demonstrations. The cases of the anti-corruption movement led by Anna Hazare in 2011 and of the protests against rape and violence against women in 2012 demonstrate the huge mobilization potential of civil society groups. Moreover, they show that the government reacts to popular discontent and tries to accommodate (at least some of) the demonstrators' demands.

Civil society
participation

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

Reconciliation

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since 2011. Moreover, there are calls by tribal groups for a rehabilitation policy for members of Scheduled Tribes (STs) who have been displaced by large mining projects, especially in the states of Jharkhand, Orissa and Chhattisgarh.

17 | International Cooperation

The Indian National Congress-led United Progressive Alliance (UPA) government explicitly aims at promoting a policy of economic reforms and "inclusive growth." Corresponding policy programs have been promoted over past years. Among them are the Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) which was launched in 2006 and guarantees 100 days of employment per year to adult members of any rural household; the National Rural Health Mission (NRHM), launched in 2005; or the Rashtriya Swasthya Bima Yojana (RSBY), a health insurance scheme for families living below the poverty line. In its development efforts, the Indian government has been increasingly stressing its self-sufficiency and autonomy. Correspondingly, in 2003 India declared that it would accept bilateral development assistance only from a limited number of states: Germany, Japan, Russia, the United Kingdom and the United States. Indian institutions are often perceived as "difficult" partners to deal with in a bilateral setting by international donors. India's focus on sovereignty and non-interference does not imply, however, a general unwillingness to cooperate with international partners, particularly with multilateral institutions or to seek support in the field of development. Several of the social programs promoted by the Indian government have been developed with international assistance.

Effective use of support

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Generally speaking, India has been able to generate a high degree of confidence as a credible and reliable partner in its relations with the international community and in its reform efforts. One major issue, however, remains corruption. Recent corruption scandals and the popular movement against corruption, about which the international media has reported extensively, have generated a great deal of attention on this topic, arguably impinging upon India's reputation as a cooperation partner. However, India's democratic credentials and the United Progressive Alliance (UPA) government's willingness to implement development policies are not called into question. In the field of economic reforms, however, the liberalization of trade and the deregulation of foreign direct investment have proceeded at a slow pace. The liberalization of the multibrand retail sector, for example, encountered strenuous domestic opposition and could only be approved in 2012, after nearly leading to the fall of the government. In international forums like the WTO, India has often pursued an inflexible negotiating strategy. Moreover, it initiated a large number of anti-dumping cases. In other fields of global governance, for example on climate policy, India has also actively promoted its own national interests, to the detriment of international agreements.

Credibility

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India has had a difficult relationship with most of its neighbors for decades. The longstanding conflict with Pakistan substantially hampers any meaningful forms of multilateral regional cooperation. The charter of the South Asian Association for Regional Cooperation, for example, explicitly excludes the discussion of "contentious and political issues," thereby limiting the operational possibilities and the relevance of this regional organization. Since the 1990s, India has pursued a somewhat more cooperative policy toward neighboring states, leading, for example, to trade concessions with most of its neighbors. Moreover, India has tried not to overtly interfere with the domestic affairs of neighboring states, even though there are reports of covert Indian influence, for example in Nepal's troubled transition to democracy. A large number of contentious issues remain in place with small neighboring states like Bangladesh and Nepal, which still harbor suspicions toward India and increasingly prefer China as an economic and political partner. India, for its part, has not displayed a credible and sustained interest in the strengthening of relations with its neighbors or in acting as a regional leader to deepen regional integration.

Regional
cooperation

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Strategic Outlook

India has been rather successful in promoting transformation in recent decades. India's democracy has proven to be stable and political participation by previously marginalized groups has increased. Economic liberalization has led to a growth success story, even though the period under review was characterized by a slowdown in GDP growth and a worsening of most macroeconomic indicators. However, the relatively jobless character of India's growth, the poor performance of agriculture and growing regional disparities contribute to qualify India's developmental success story. Overall, economic growth has only marginally contributed to poverty reduction, while disparities among social groups have increased. In the longer term, these trends might contribute to a deterioration of the country's social fabric.

The main challenges that India is still facing regard the working of key institutions, which often fall prey to quarrels among the particularistic interests of political actors or to unbridled corruption and abuse of office. It is in these areas that the Indian government will need to make vigorous reform efforts. A strengthening of the hopelessly understaffed judicial system and a thorough reform of the police would increase citizens' confidence in institutions. The most important problem that the Indian government will need to address, however, is that of corruption. In fact, a more decided fight against corruption would have positive implications over a whole range of issues. In economic terms, it would substantially increase the confidence of foreign investors, making India a more attractive destination for foreign direct investment. It would improve the implementation of infrastructure projects, which India desperately needs to foster its economic development. It would also contribute to make existing social programs more effective, by improving the access of marginalized sections of society to health services and education, thereby giving more substance to the government's agenda of "inclusive growth." An essential precondition for a better fight against corruption is the improved coordination among political actors and the creation of a genuine willingness on the part of political parties to cooperate on these issues. The fact that the anti-corruption law, which was requested by demonstrators in 2011, had not been approved by parliament at the time of writing shows the reluctance of political actors to make serious progress on this topic. An improvement in the working of parliament and better coordination among members of the governing coalition are preconditions that are difficult to achieve but necessary for the approval of any reform.

To successfully proceed on the path of democratic transformation, India will also need to improve its civil rights situation. A reform of the Armed Forces (Special Powers) Act is long overdue. Persistent violence against marginalized groups, especially against women, needs to be addressed. Moreover, incipient tendencies to act restrictively on the dissemination of information through the Internet and social media need to be stopped to guarantee freedom of expression.

To regain confidence among foreign investors and to revive economic dynamism, the Indian government will need to proceed on its reform path. The announcement of the relaxation of the

limits on foreign ownership in the airline and media industries and the opening of the multibrand retail sector were steps in that direction. Overall, however, second-wave structural reforms have shown a poor record so far. Further important reforms will concern tax, mining and land acquisition laws as well as a further – unpopular – cutting of subsidies. India should also intensify its efforts in the fields of pollution control and climate change to limit the future negative impact of climate change on agriculture and, more generally, on the population's livelihood.