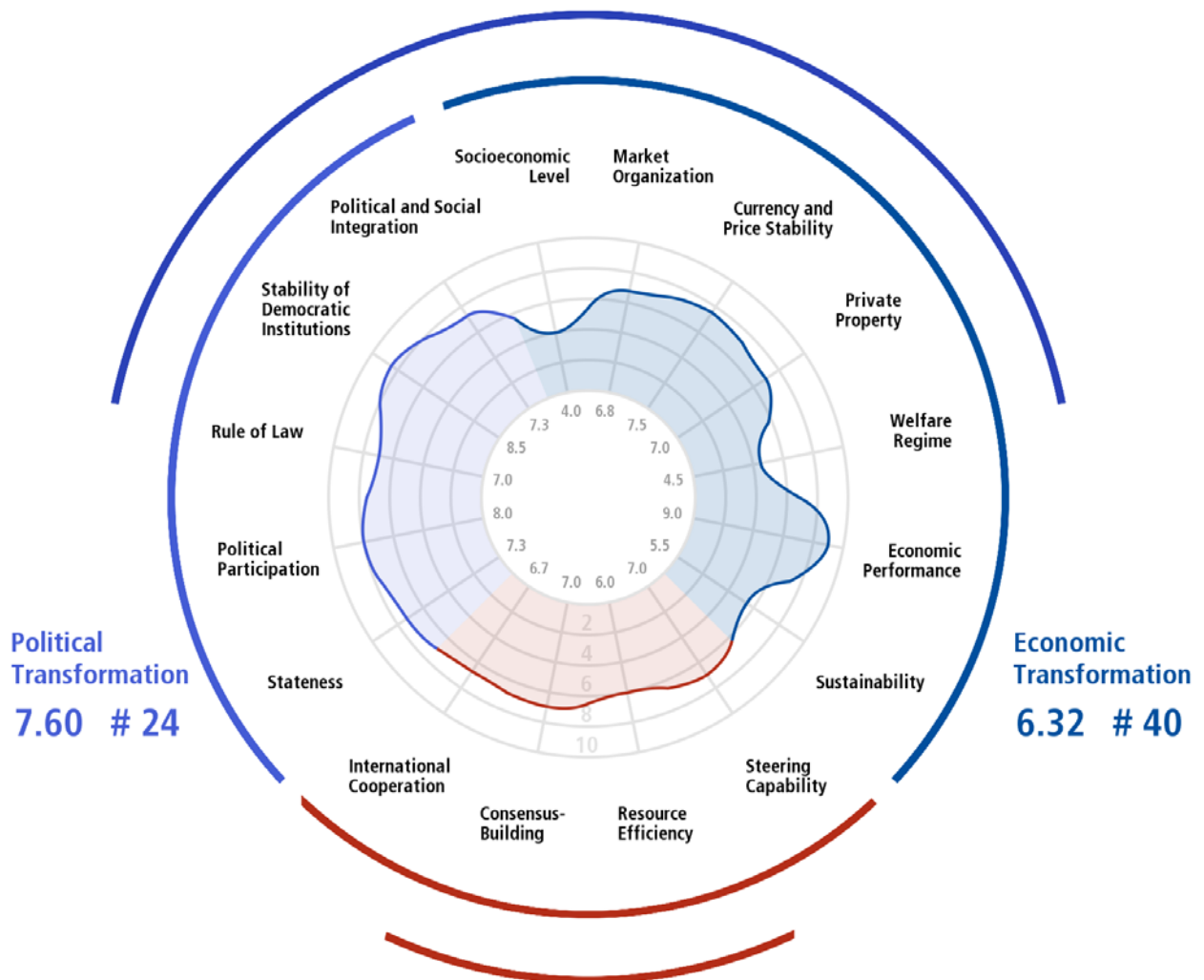


India

Status Index

6.96 # 26

on 1-10 scale out of 129



Political Transformation
7.60 # 24

Economic Transformation
6.32 # 40

Governance Index

6.02 # 24

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	1324.2	HDI	0.624	GDP p.c., PPP \$	6572
Pop. growth ¹	% p.a.	1.1	HDI rank of 188	131	Gini Index	35.2
Life expectancy	years	68.3	UN Education Index	0.565	Poverty ³	% 60.4
Urban population	%	33.1	Gender inequality ²	0.530	Aid per capita	\$ 2.4

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

India's record as a well-established democracy is excellent. Its elected representatives have the effective power to govern and there are no major veto players who undermine the democratic credentials of the state. The government of Prime Minister Narendra Modi, which was formed in 2014 after the Hindu-nationalist Bharatiya Janata Party (BJP) won an absolute majority in the general election, is stable and does not have to rely on coalition partners. Its electoral victory was a clear mandate for change, economic growth, development, and improved living standards, as Modi promised "good days" to everybody. Two and a half years after becoming prime minister, Modi is still extremely popular. This is due, on the one hand, to the positive development of the Indian economy, which has experienced high growth rates during the review period. On the other hand, Modi has been able to convey the impression that change is taking place: new schemes and programs keep mushrooming, and important issues such as sanitation or the creation of jobs in the manufacturing sector have been brought to the fore. While lacking a majority in the upper house of parliament, the government managed to get approval for a goods and services tax (GTS), which will finally make India a unified market. Moreover, the government continued to promote a range of programs such as a "Make in India" campaign to attract foreign direct investment in the manufacturing sector, or a "Digital India" campaign to make government services available online and promote internet connectivity. In its social programs, the government displayed a belief in the usefulness of digitalization and the introduction of direct cash transfers. However, in many cases, reforms remain piecemeal or their impact is unclear. For example, initiatives to reduce red tape and streamline bureaucratic procedures to attract investors have been extremely slow in producing results. A noteworthy further example of the government's activism (and of its potentially limited impact) is the so-called demonetization. On November 8, 2016, all 500 and 1,000 Rupee banknotes (86% of all currency in circulation) ceased to be legal tender. This was announced just a few hours in advance, with the declared objective of eliminating "black money" and fighting corruption. However, demonetization seems to have had only a limited impact on corruption, while it certainly has negatively affected the Indian economy – if only temporarily.

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

History and Characteristics of Transformation

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

regulations, a lack of sustained progress in privatization and the absorption of public resources by non-meritorious subsidies, wage and interest payments to the detriment of public investment in infrastructure and the improvement of health and education services. After 2004, when a minority government was backed from outside by leftist parties, hardly any progress could be made with regard to the more difficult second-generation reforms; however, a range of inclusive social policies were instituted (Education for All, National Rural Health Mission, National Rural Employment Guarantee Scheme, loan waiver for small- and medium-sized farmers) – some of a more populist character but all intended to make growth more inclusive. After the 2009 elections, the United Progressive Alliance government was nearly paralyzed in its reform efforts, due to its dependence on small coalition partners, and it was unable to convincingly address the increasingly pressing issue of corruption. Ultimately, the widespread dissatisfaction with the UPA government and the hope for change and economic reforms led to the electoral defeat of the Congress in the 2014 general election.

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

Transformation Status

I. Political Transformation

1 | Stateness

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

The Naxalites are running parallel administrations in some of the areas under their control. During the review period, the Naxalites were still active, and an increase in violence took place in 2016. In July 2016, for example, Naxalite rebels carried out an attack on Indian security forces in Bihar. In the northeast, several violent incidents took place. While the government reached a peace agreement with the National Socialist Council of Nagaland in August 2015, several rebel groups continued to exist and new splinter groups were founded (e.g., the Eastern Naga Independent Army in January 2016).

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.

In July 2016, a bill was tabled in Parliament proposing to simplify naturalization procedures for Hindus, Sikhs, Buddhists, Jains, Parsis and Christians fleeing from Afghanistan, Bangladesh and Pakistan. By not including Muslims (e.g., migrants and refugees from Bangladesh or Myanmar), the bill reflects the BJP's electoral promise to make India a home for persecuted Hindus – and a more general trend towards a Hindu majoritarian discourse on national identity.

Question
Score

Monopoly on the
use of force

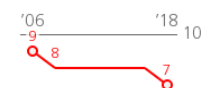
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1

State identity

7



1

Overall, the status and room for political participation of the Muslim communities in India has worsened during the period under review. A series of episodes of violence and the lack of a forceful response on the part of the Indian government are indicators of a worrying trend to try to reconfigure India's national identity as a Hindu nation on the part of Hindu nationalist groups.

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

However, the review period saw a further intensification of signals hinting at the establishment of a Hindu majoritarian culture on the part of the government under the leadership of Narendra Modi of the Hindu-nationalist Bharatiya Janata Party (BJP) as well as via episodes of religious intolerance and politically-tolerated violence against Muslims and Christian communities. The government did not explicitly condemn the mob lynching of a Muslim man in Dadri (September 2015) suspected of having killed a cow and eaten beef. After the murder and persecution of secular writers, several authors and artists returned their Sahitya Akademi awards to protest against the rising climate of intolerance in India.

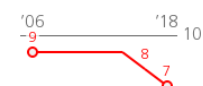
India's administrative and bureaucratic structure stems from the British colonial empire. The state has therefore a differentiated administrative structure, providing jurisdiction, tax authorities and law enforcement. Several difficulties are found in the provision of basic services, especially in rural and remote areas. Here, big deficiencies are apparent, especially in the fields of transport infrastructure and the provision of basic services such as water, education and health. The Modi government has put such issues on its agenda and has launched a series of highly visible campaigns such as Swachh Bharat ('clean India'). The issue of corruption is on the agenda as well, and several initiatives of the Modi government are aimed at reducing corruption and increasing bureaucratic efficiency. Yet, implementation is patchy and some initiatives such as the so-called demonetization campaign of late 2016, which aimed to fight 'black money', have had an extremely limited impact. Nevertheless, the issues of efficiency of public services and the fight against corruption are on the agenda as never before, thereby marking at least a substantial shift in the position of the government and in public discourse.

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

No interference of religious dogmas

7



1

Basic administration

7



1

Free and fair elections

9

exercise. The general election of 2014 was the largest democratic exercise in the world, with over 800 million people eligible to vote.

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. While polling procedures are generally considered to be conducted in a transparent, impartial and correct manner, buying votes and bribing voters are still widespread practices among political parties in India.

According to the Electoral Integrity Project, fair and equal media access during election campaigns is mainly hampered by the limited availability of financial resources of smaller parties.

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 other countries in the region. External actors are unable to manipulate domestic politics in India, given the state's strong performance and the high value it attaches to the principles of sovereignty and non-interference.

During the review period, however, a few episodes revealed that Hindu nationalist organizations in some instances are emerging as veto powers. For instance, the Maharashtra Navnirman Sena, a Hindu nationalist party in the state of Maharashtra, which only has one seat in the Maharashtra Legislative Assembly, put pressure on the film industry in 2016, threatening to disrupt screenings, and forced it stall the release of movies starring actors from Pakistan. The same party forced two Pakistani singers to cancel their concerts.

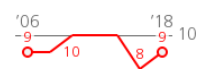
The Indian constitution guarantees the freedom to assemble peacefully, even though the state can impose restrictions in the interest of public order or to preserve the sovereignty and integrity of India. In practice, the right to demonstrate is mostly guaranteed. Given the low degree of internal democracy in political parties, demonstrations are frequently used by civil society as a tool to forward demands to the government. During the review period, however, some worrying instances of repression of protests took place. Most notably, in February 2016, a student activist at Jawaharlal Nehru University (JNU) in New Delhi, Kanhaiya Kumar, was arrested on charges of sedition because a student faction close to the BJP filed a complaint



1

Effective power to govern

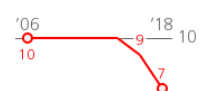
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1

Association / assembly rights

7



1

with the police accusing Kumar of using ‘anti-Indian slogans’ during a demonstration.

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 a thriving civil society. Over the past years, however, increasing numbers of NGOs have been denied permission to accept foreign funding under the Foreign Contribution Regulation Act (FCRA). In 2016, the government refused to renew foreign funding licenses for 25 NGOs. It further cancelled the FCRA licenses of over 11,000 NGOs, which had not applied for renewal of their licenses by a certain deadline. U.N. rapporteurs argued that (word) “are being used more and more to silence organizations.” Among the NGOs suffering from the government’s restrictive measures is Lawyers Collective, an organization that represents activists (e.g., from Greenpeace) in cases against the government.

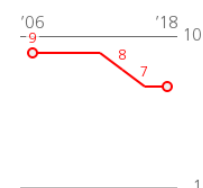
Freedom of expression in India is guaranteed by the constitution. A large number of national and local newspapers and television channels contribute to the dissemination of information and to the diffusion of a plurality of opinions on most issues. While, on domestic affairs, the press is outspoken, on matters related to foreign policy, 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. Generally speaking, the government often uses the sedition provisions contained in the penal code, laws on hate speech or the criminal defamation law to suppress dissent. For example, criminal defamation charges have often been used by the state government of Tamil Nadu to persecute critics.

An additional problem is the dominant role of few large media organizations, which operate as oligopolies, and have converging interests with large corporations (for example, Reliance Industries Ltd took over the media group Network 18). The phenomenon of “paid news” is also widespread. The Press Council of India has no powers to impose sanctions for violations of press freedom, and no control over radio, TV or internet news. For television broadcasting, the News Broadcasters’ Association similarly only issues self-regulated guidelines.

In a positive development for freedom of expression, in March 2015, the Supreme Court declared section 66A of the Information Technology Act unconstitutional, which prohibited content that was “grossly offensive,” had “menacing character,” or caused “annoyance or inconvenience,” and had been used to arrest critics for comments, for instance on social media. Nevertheless, according to Human Rights Watch, the inefficient criminal justice system and a lack of consistency in jurisprudence still contribute to limitations on free speech.

Freedom of expression

7



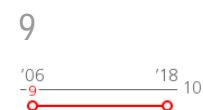
3 | Rule of Law

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. Among other things, the Supreme Court has done so by safeguarding free and fair elections; by limiting the central government's tendency to dismiss democratically-elected state governments and impose the "president's rule;" and by allowing citizens greater access to the judiciary through the introduction of Public-Interest Litigation. Over time, the Supreme Court has clearly expanded its powers, and it continues to play what Pratab Bhanu Mehta, the President of the think tank Centre for Policy Research, has termed "an unprecedented governing role."

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.

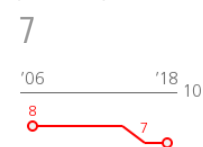
The Indian judiciary is institutionally differentiated and largely independent from the legislative and executive branches. The Supreme Court enjoys a high degree of recognition in India. Over the past years, it has played a major role in fields like the persecution of human rights violations, for example by declaring unconstitutional the Salwa Judum militia that had been created to fight Naxalite rebels in the state of Chhattisgarh in 2011. Nevertheless, since India's independence there has been continuous tension between the legislative and the judiciary. In 2015, a constitutional amendment and the National Judicial Appointment Commission (NJAC) Act entered into force, introducing new rules for the appointment of judges to the Supreme Court and high courts that give the executive greater influence. However, in October 2015, the Supreme Court declared the NJAC Bill unconstitutional. As far as judicial accountability is concerned, the Indian government is reportedly planning to revive the Judicial Standards and Accountability Bill, which had been proposed by the United Progressive Alliance government but lapsed with the dissolution of parliament with the 2014 elections. The main problem of the Indian judiciary is its limited functional operability, which is mainly due to understaffing. As a consequence, in 2017, the government proposed the creation of a search cum evaluation committee to support the appointment of judges. Understaffing leads to massive delays in the

Separation of powers



1

Independent judiciary



1

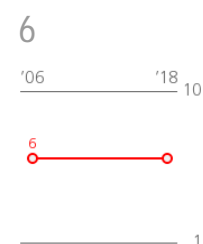
hearing of cases (the backlog currently amounts to over four million cases in the high courts and 25 million cases in subordinate courts; in the Supreme Court, over 60,000 cases are pending) and to extremely long periods of detention when awaiting trial. Over two thirds of India's prisoners are awaiting trial, and prisons are hopelessly overcrowded (the average occupancy rate was 114.4% in late 2015, with a peak of 276.7% in the Union Territory of Dadra & Nagar Haveli).

The rule of law in India is massively undermined by political corruption. Officeholders who engage in corruption often slip through political, legal or procedural loopholes and are not effectively persecuted. Corruption continues to be prevalent, particularly in sectors such as the police, the judiciary, public services and public procurement. Corruption is prevalent at all levels and continues to affect citizens in many of their interactions with institutions. 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 corruption cases. Prime Minister Modi has made the fight against corruption and "black money" one of the key topics on his agenda, thereby generating further support for his government among the population. However, there are some indications that existing provisions to hold public servants accountable are being diluted. For example, in 2016 both houses of parliament approved an amendment to the Lokpal and Lokayuktas Act, an anti-corruption law. The amendment dilutes provisions about public servants' declaration of assets and liabilities by extending deadlines and exempting family members from such declaration. This example reveals just one of the many existing loopholes in the system as well as the recalcitrance of the government (and of opposition parties, which have a majority in the Upper House of Parliament) when it comes to implementing anti-corruption measures.

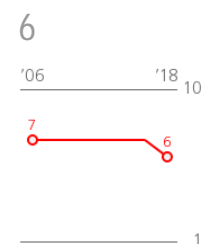
De jure, civil rights are guaranteed in India. A major exception is areas where emergency laws are in force. The Armed Forces (Special Powers) Act (AFSPA) is applied in so-called disturbed areas, among others in Jammu and Kashmir and in the northeastern states. The AFSPA allows for the arrest without 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 repeated abuses by the security forces. Protesters demanded the removal of the AFSPA during the violent protests that erupted in Jammu and Kashmir starting from July 2016. However, the government has explicitly refused this demand.

All over India, custodial killings and police abuse, including torture and rape during custody, are commonplace. In general, underprivileged groups are particularly affected by the limited enforcement of protection laws and by the extremely slow processes of the judicial system. De facto, disadvantaged social groups do not enjoy equal access to justice. Discrimination and violence against women remain major

Prosecution of office abuse



Civil rights



issues in India. In 2015, the Ministry of Home Affairs registered over 34,600 cases of rape and over 4,400 cases of attempted rape, but unreported figures are much higher. It must be noted, however, that the problem of violence against women has gained increasing awareness among the population since a rape case in Delhi in 2012. The growing number of registered rape cases (33,000 in 2013) might be a result of an increased readiness to report such crimes.

Also, ethnic discrimination remains widespread in India, despite protections for all minority groups. Religious discrimination is becoming an increasingly worrying trend as extremist Hindu groups close to the BJP consolidate their influence. Concerning discrimination based on sexual orientation, in 2013 the Supreme Court overthrew a decision by the Delhi High Court, which had decriminalized consensual homosexual activity. Same-sex sexual activity has thereby been made illegal and can be punished with up to life imprisonment. Several curative petitions are pending in the Supreme Court. The Indian government's approach to the issue of homosexuality and LGBT rights became evident when India abstained on a vote at the U.N. Human Rights Council on a resolution to establish an independent expert on the issue.

4 | Stability of Democratic Institutions

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

While vertical coordination between the national and the state level is often chaotic, the Modi government has tried to improve coordination between the center and the states under the label “cooperative federalism”, among others by including Chief Ministers of all states in the NITI Aayog (National Institution for Transforming India), the institution that replaced the Planning Commission.

A lack of incentives for officials and corruption are among the problems most seriously hampering the efficient working of the public administration. At the higher levels of bureaucracy, a culture of little accountability and politically motivated transfers continues to prevail.

Performance of democratic institutions

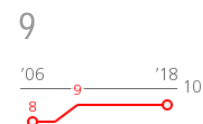
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Democracy is well-established in India. There are no actors able to effectively challenge the democratic nature of the state. The army has been effectively kept under civilian control since independence and only small armed groups, especially the Naxalites, 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 India's northeast and Kashmir.

Commitment to democratic institutions



5 | Political and Social Integration

The Indian party system is fairly stable and socially rooted. A huge number of parties expressing particular interests exist at the national and state levels. Social groups have relatively stable ties to political parties. Polarization is particularly high ahead of important state elections, as was revealed, for example, during the election campaign in Bihar in late 2015. Yet, party polarization does hinder nowhere coalition-building to gain political office.

Party system

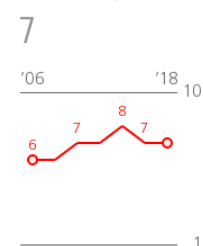


The 2014 general election, in which the BJP gained an absolute majority in the lower house of Parliament has reduced the importance of coalition politics. The electoral victory of the BJP was, among other factors, related to a rejection of “dynastic” politics as those pursued by the Indian National Congress, dominated by the Nehru-Gandhi family.

While the BJP has fairly strong internal structures, most parties are still rather weakly institutionalized. Informal procedures, factionalism and clientelism prevail. Regional parties are often focused on a strong leading personality. For example, the December 2016 death of Jayalalithaa, a Tamil politician and Chief Minister of Tamil Nadu, revealed her centrality in her party, the All India Anna Dravida Munnetra Kazhagam (AIADMK), as well as the extent to which a cult of personality plays a role in Indian (party) politics.

While a large number of interest groups exist in India, only a small share of the population belongs to or actively participates in the activities of associations. Labor unions and employers' federations are only partly autonomous due to the traditional role of the state in the Indian economy. They have arguably been further weakened against the backdrop of expanding informal employment. However, social movements of different kinds have become more and more assertive, and the number of NGOs has been steadily increasing. These organizations are frequently promoted by intellectuals and members of the middle class, but they often fight for the rights of marginalized social groups.

Interest groups



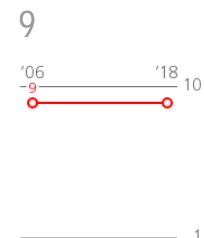
In 2015, there were more than three million NGOs in India, according to reports about data collection by the Central Bureau of Investigation. Some of these NGOs, however, are increasingly under pressure. Shortly after the BJP-led government took office in 2014, a report by the Intelligence Bureau was leaked which accused foreign-funded NGOs of hampering India's growth and threatening "national economic security." Instead of banning organizations, the government uses the FCRA to control and, at times, to block NGOs that receive foreign funding. The threat of a "foreign hand" is often used to delegitimize campaigns such as those against nuclear power plants or coal mining. According to a report by the Böll Foundation, "[t]here are some indications that the heyday of internationally-funded NGO work in India is over."

During the review period, an increasing mobilization of nationalist interests took place with the growing popularity and influence of Hindu-nationalist groups. The Rashtriya Swayamsevak Sangh (RSS), a paramilitary Hindu-nationalist organization with huge influence on the BJP and its policies, has been growing rapidly in the recent past. Between March 2015 and March 2016, it reportedly registered its highest growth since its foundation in 1925, with over 5,500 new "shakhas" (branches/daily meetings) in over 3,600 locations.

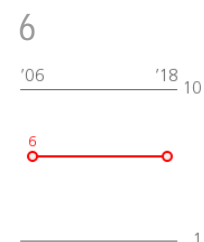
Both the Indian elite and the broader population, including its poorer segments, are proud of the country's achievements as the world's largest democracy and as one of the most stable democracies among post-colonial states. Democratic principles are firmly rooted in the Indian population, as confirmed, for example, by the World Values Survey. Even poorer segments 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.

The still extremely hierarchical character of Indian society contributes to hampering the formation of a sense of solidarity across different social groups. According to the survey Social Attitudes Research for India (SARI), untouchability is still widely practiced. Moreover, 40% of survey respondents in Delhi and 60% in the state of Uttar Pradesh believed there should be laws prohibiting marriages between members of upper and lower castes. Over the past years, things have improved thanks to 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 for vulnerable social groups.

Approval of
democracy



Social capital



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

Poverty and inequality in India are pronounced and partly structurally ingrained. India is still a country with the largest absolute number of poor worldwide. Poverty remains widespread among the rural population, as well as among the urban population active in the informal sector. Moreover, poverty has 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 Chhattisgarh, Bihar and Madhya Pradesh. Some positive development has taken place over the past years in states like Bihar, however, where living conditions have gradually improved thanks to decisive political leadership.

The definition of India's national poverty line has been a controversial issue over the past years. The Modi government has created a task force under the leadership of NITI Aayog Vice Chairman Arvind Panagariya with the aim of defining a new poverty line. However, the task force has failed to reach an agreement on the issue.

Applying a \$3.10-per-day poverty line (at 2011 international prices adjusted for purchasing power parity) as a point of reference, in 2011 some 58% of the Indian population could be considered poor. Using a poverty line of \$1.90 per day (at 2011 international prices adjusted for purchasing power parity), 21.2% of the Indian population counted as poor, according to World Bank data.

With an HDI score of 0.609 in 2014, India ranks 130 out of 187 countries worldwide in terms of human development. The HDI score, however, has been steadily improving over the past decade.

India's Gini index rose from 33.4 in 2005 to 33.9 in 2009 to 35.2 in 2011, reflecting a steady increase in inequality. According to the Global Wealth Databooks 2014 and

Question
Score

Socioeconomic
barriers

4

'06 '18 10

5 4

1

2016 published by Credit Suisse, the wealth share of the top decile of India's population rose from 65.9% in 2000 to 74% in 2014 and to 80.7% in 2016; the wealth share of the top percentile rose from 36.8% to 49% and 58.4% in the same years.

Inequalities are also evident across regions, across different social groups as well as between skilled and unskilled workers. Social exclusion continues to affect the traditionally marginalized lower castes (the so-called Scheduled Castes, SCs) as well as ethnic minorities (the so-called Scheduled Tribes, STs) and Muslims. Gender inequality is still a major problem in India. With a Gender Inequality Index of 0.563 (2014), India rates extremely low in international comparison, and only with slight improvements (2013: 0.563; 2012: 0.610; 2010: 0.619). 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. In a puzzling development, however, female labor force participation has declined over the past years, from 29.2% in 2004 to 24.2% in 2014.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	1856722.1	2035393.5	2111751.1	2263522.5
GDP growth	%	6.4	7.5	8.0	7.1
Inflation (CPI)	%	10.9	6.6	4.9	4.9
Unemployment	%	3.6	3.5	3.5	3.5
Foreign direct investment	% of GDP	1.5	1.7	2.1	2.0
Export growth	%	7.8	1.8	-5.3	4.5
Import growth	%	-8.1	0.9	-5.9	2.3
Current account balance	\$ M	-49122.7	-27314.3	-22456.8	-
Public debt	% of GDP	68.5	68.5	69.5	69.6
External debt	\$ M	427296.4	457552.6	478874.6	456139.9
Total debt service	\$ M	38716.5	92246.9	49745.1	77144.7

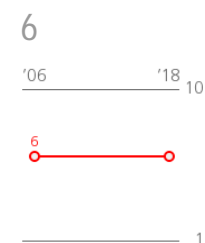
Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	-4.1	-	-	-
Tax revenue	% of GDP	11.0	-	-	-
Government consumption	% of GDP	10.3	10.4	10.3	11.7
Public education spending	% of GDP	3.8	-	-	-
Public health spending	% of GDP	1.3	1.4	-	-
R&D expenditure	% of GDP	-	-	0.6	-
Military expenditure	% of GDP	2.5	2.5	2.4	2.5

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

In India, market competition has an institutional framework, but in several areas state intervention is still in place. For example, there are forms of discrimination based on foreign versus local ownership, and some sectors of the economy are heavily protected. Foreign direct investment is still prohibited in a number of sectors, including agricultural activities. However, the Modi government has continued its reform efforts to attract foreign investment. During the review period, further sectors were opened to FDI. Among them are the defense sector (up to 100% with government approval), the pharmaceutical sector (up to 100%), and the civil aviation sector (up to 100% for new airlines founded in India, up to 49% for investments by foreign airlines). The government continued to promote its “Make in India” campaign aimed at attracting FDI in the industrial sector, with the declared goals of increasing this sector’s share of the GDP to 25% by 2022 and creating 100 million additional jobs. Over the past years, according to the UNCTAD World Investment Report India, FDI has indeed increased (2013: \$28.2 billion; 2014: \$34.5 billion; 2015: \$44.2 billion). 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. For the next few years, according to finance ministry officials, there are no plans for full capital account convertibility. The informal sector is still extremely large. According to a 2016 ILO report, the share of Indian workers in the unorganized sector was 82.2% in 2011-2012. The share of informal workers in the formal economy also grew due to the use of contract and different forms of casual labor (2011-2012: only 23.8% of non-agricultural wage workers eligible for social security). The overall share of informal workers in total employment was 92%.

Market-based competition



India has a statutory authority, the Competition Commission of India (CCI), which is in charge of implementing the 2002 Competition Act as amended by the 2007 Competition (Amendment) Act. The CCI, which was established in 2009, continued to be rather proactive during the review period. Between 2013/2014 and October 2016, the CCI has dealt with hundreds of cases of competitive practices (496 anti-trust cases and 313 combination cases). However, only a tiny share of the penalties imposed has been paid over the same period of time.

Among the major cases dealt with in 2015 were Bio-Med Private Limited vs. Union of India & Others, in which the pharmaceutical companies GlaxoSmithKline Pharmaceutical Ltd and Sanofi were found to have colluded in the supply of vaccines procured by the Indian government; or a case in which Coal India Ltd (CIL), was found to operate independently of market forces through its subsidiaries and to enjoy undisputed dominance in the relevant markets (since fines had already been imposed previously, no new fines were imposed in the latter case).

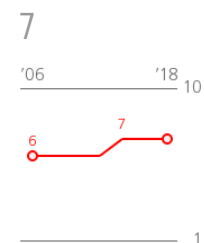
The CCI also engages regularly with other competition authorities as well as with multilateral bodies such as the OECD or UNCTAD. It has signed memorandums of understanding MoUs with bodies such as the Federal Trade Commission, U.S. Department of Justice and the EU Directorate-General for Competition.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

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 simple average MFN applied tariffs amounted to 13.4% in 2015. In particular, India has been unwilling to compromise by liberalizing its agricultural sector, which is heavily subsidized. During WTO negotiations held in Bali in 2014, India refused to support the Trade Facilitation Agreement. However, in bilateral negotiations with the U.S. in November 2014, it managed to induce the U.S. to agree to refrain indefinitely from challenging India's food security programs. At the Nairobi WTO ministerial in December 2015, however, India was less obstructionist, mainly because a work plan decoupling negotiations over food security from agriculture negotiations was established.

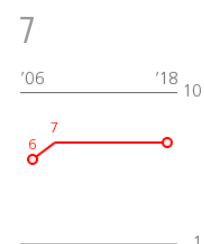
In an important recent development, the Indian government passed a bill in August 2016 to introduce a unified goods and services tax (GST). The GST, which is expected to be introduced in the first half of 2017, will eliminate levies that have so far been charged every time a good crosses borders between Indian union states. Thereby, the GST will finally create a countrywide common market.

Several further exceptions remain to full trade liberalization. India's import regime, particularly its licensing and permit system and tariff structure, are extremely

Anti-monopoly policy



Liberalization of foreign trade



complex. Besides the tariff rate, importers have to pay a range of additional duties. In many cases, imports are subject to non-tariff barriers such as prohibitions, licenses, restrictions or sanitary requirements, which hamper particularly trade with South Asian neighboring countries. Moreover, India has been actively using anti-dumping measures, especially in the chemical and textile sectors, and is generally still protectionist in an attempt to limit the deterioration of its balance of payments. According to the most recent trade statistics released by the Ministry of Commerce, in the period April to November of fiscal year 2016 to 2017, India's merchandise trade deficit amounted to over \$76 billion (as compared to around \$100 billion during the same period in the two previous fiscal years). As far as services are concerned, India enjoys a surplus – in November 2016, this amounted to \$5 billion (a decline from the \$6.2 billion surplus registered in 2014). The Modi government puts great emphasis on export promotion – among others by pushing for the development of the manufacturing sector, the formation of several new Special Economic Zones (SEZs), and by trying to improve the infrastructure through measures like the creation of industrial corridors and 21 “new nodal Industrial Cities.”

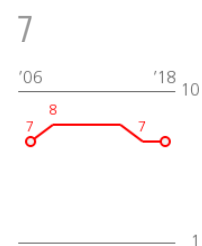
India's banking system has significantly evolved since the start of economic reforms in 1991 and was one of the few banking systems that was not seriously compromised by the global financial crisis. With the Banking Laws (Amendment) Bill 2012 entering into force in 2013, corporate houses were allowed to enter the banking sector. Overall, however, the system is still hybrid, being dominated by public sector banks, which in mid-2016 had a 70% share in the banking sector.

According to *The Economist*, Indian banks “are in grim shape.” In particular, state-owned banks have huge problems with bad loans, while private and international banks are in better shape. Overall, the share of bank nonperforming loans has risen to 5.9% in 2015 (4.3% in 2014, 4.0% in 2013), and the capital-to-assets ratio has remained stable at around 7% since 2006 (2015: 7.2%). The highly leveraged banks are reluctant to extend loans to the corporate sector, thereby contributing to low investment rates.

The Reserve Bank of India (RBI) has worked on the implementation of Basel III for several years, but a range of problems persist. According to Fitch Ratings, the increase in minimum capital requirements will reportedly lead to almost half of India's banks risking to breach capital triggers. In order to meet Basel III standards, Indian banks will need \$90 billion by fiscal year 2019. State banks are still highly dependent on capital injections by the government.

The most important development for the Indian banking sector in the review period is certainly the so-called demonetization of November 2016. One of the outcomes expected by the Indian government is greater financial inclusion, that is, the access of large sections of the population to banking services. A report by Moody's expects bank deposits to increase by 1% to 2%, a positive development that could reduce lending rates. In the short term, however, the disruption caused by demonetization is

Banking system



expected to reduce the ability of borrowers to repay loans, and thereby negatively impact the asset quality of banks.

8 | Currency and Price Stability

Inflation (consumer price index) sharply declined during the review period as compared to the previous period: in 2015, it declined to 5.9% from 6.4% in 2014 and from 10.9% in 2013. One of the main reasons for this decline was the fall of oil prices, which generally has a huge impact on inflation since India relies heavily on imports for its energy needs. According to an IMF report, moreover, the adoption of supply-side measures such as the release of surplus grain stocks, as well as appropriate monetary policies have contributed to the drop in inflation. In 2016, the RBI adjusted its inflation target to 4% for the following five years.

In institutional terms, an important reform took place in 2016 with the formation of the Monetary Policy Committee (MPC). The new body is composed of three members from the RBI and three external members (currently three professors) and makes decisions on interest rate changes. Previously, such decisions were made autonomously by the governor of the RBI. In October 2016, the new committee delivered a 25-basis-point cut in the repo rate to 6.25% (the lowest rate since November 2010).

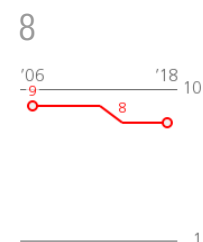
India has a managed floating exchange rate system.

According to RBI data, the real effective exchange rate for November 2016 (base 2004-2005 equals 100) was 127.17 (as compared to 119.92 in 2014-15).

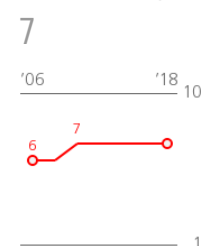
In general terms, the RBI has played an important role in dealing with the financial crisis and is one of the few institutions in India that has not been accused of corruption. In September 2016, the three-year mandate of RBI governor Raghuram Rajan was not renewed, and Urjit Patel took over. While the former had struggled for the independence of the central bank from government pressures, the new governor was criticized for his uncritical approach to the demonetization policy of the government.

In 2003, India introduced the Fiscal Responsibility and Budget Management (FRBM) Act, which mandated a phased reduction in the fiscal deficit to 2.5% of GDP as well as the elimination of revenue deficit. The law generally increased fiscal transparency and responsibility by mandating that the government regularly issue reports to be discussed in parliament. In fiscal year 2015 to 2016, India met its fiscal deficit target of 3.9% of GDP. The government is committed to fiscal consolidation. 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. The states' fiscal deficit was around

Anti-inflation /
forex policy



Macrostability



2.7% in the fiscal years 2014-15 to 2016-17 (HSBC Global Research estimates). Thereby the gross fiscal deficit in 2015-16 amounted to estimated 6.9% of GDP.

In 2014, India's current account deficit dropped to \$27 billion (2012: \$91 billion). Its cash deficit amounted to 3.8% of GDP in 2012. India's public debt is still massive; it declined steadily between 2005 and 2010, and now stagnates at around 70% (2015: 29.1%). Public debt is mostly owned by domestic creditors. India's total reserves have kept rising over the past decade to \$334 billion in 2015 (\$276 billion in 2013).

9 | Private Property

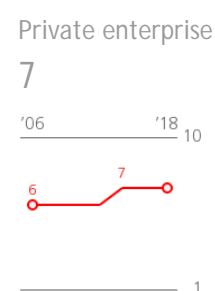
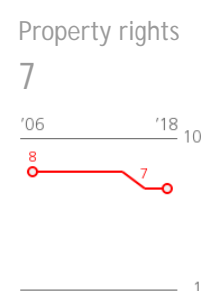
Property rights in India are, overall, adequately defined. Overall, the main political actors do not call into question the principles of private property, private initiative and the need for attracting foreign investment. However, there are still several limitations. In 2016, India ranked 59 out of 128 countries in the International Property Rights Index, and its score remained almost unchanged since 2010. The Physical Property Rights Subindex even saw a worsening of the situation with decreasing scores in the categories property rights, registering property and ease of access to loans. By contrast, the Intellectual Property Rights Subindex improved.

According to the World Bank's 2017 Doing Business Report, India ranks 138 out of 190 countries as far as the ease of registering property is concerned. Registering property in India takes 47 days and seven procedures. While the Modi government has recognized the problems and aims to simplify procedures and reduce bureaucratic constraints in order to attract foreign investors, improvements are extremely slow (registering property score 2015: 49.97; 2016: 50.00).

Private companies in India are viewed institutionally as important engines of economic production and are given legal safeguards. While the role of the private sector has been strengthened since the beginning of economic liberalization in the 1990s, India has a long tradition of state-owned enterprises, which still play an important role in the economy. According to the Department of Public Enterprises, as of end March 2015, there were 298 Central Public Sector Enterprises in India (235 in operation).

Since 1991, the government has pursued a policy of "disinvestment," selling government equity in public sector enterprises, but retaining majority control. This partial privatization has been used to raise funds to meet fiscal deficit targets. The budget for the fiscal year 2015 to 2016 envisaged disinvestments to raise \$6.7 billion. For the fiscal year 2016 to 2017, the government has envisaged further disinvestment, for the companies ONGC, Oil India, and Coal India, among others.

There are still substantial bureaucratic hurdles to private investment. Starting a business in India requires 26 days and 12.9 procedures, according to the World Bank



Doing Business 2016 data. This is a slight improvement as compared to 28 days and 14 procedures in 2014, and possibly a result of the Modi government's reform initiatives. Among the reforms introduced in the review period are a streamlining of the process for getting commercial electricity connections, and the introduction of an electronic system for the payment of state insurance contributions to employees. Nevertheless, progress is slow, and bureaucratic and legal hurdles remain high.

10 | Welfare Regime

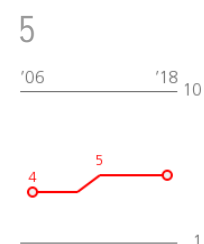
Traditionally, social safety nets in India were mainly based on family structures – and they largely continue to be so. However, a range of reforms initiated in the mid-2000s has improved the chances of marginalized sections of Indian society to receive at least some compensation for social risks. Programs like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) provide for the temporary employment of people living below the poverty line. 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 to the poor through “ration shops” or “fair price shops.” The Integrated Child Development Services (ICDS) aims to address malnutrition and health problems for children and their mothers. The National Rural Livelihoods Mission (NRLM), a program for the empowerment of the rural poor supported by the World Bank, was renamed Deendayal Antyodaya Yojana, or National Rural Livelihoods Mission (DAY – NRLM), in September 2015 and continues to operate with World Bank support. However, the effectiveness of many of these programs is dubious, mainly due to corruption and leakages.

During the review period, the Modi government did not come up with bold new initiatives in the field of social safety. The main development is a drive towards digitalization, cash-free transactions, and a connection between welfare programs and the “Aadhar” program of biometric data collection. For example, since late 2016, the government has started introducing measures for cashless transactions and biometric identification through Aadhar for the PDS. Moreover, the Union Food Minister in 2016 asked the states to start a pilot program to replace the PDS food ration system with cash transactions. On the one hand, these moves are expected to reduce costs and targeting errors, increase efficiency, and possibly limit leakages. On the other hand, the gradual reduction of direct transfers has potential downsides in terms of the marginalization of the weakest target groups or, for example, of women and girls, who frequently suffer intra-familial discrimination.

While health and education programs are in place, their main limitation is their very modest quality.

In 2014, public expenditure on health amounted to 1.4% of GDP, a slight increase compared to previous years. Life expectancy at birth has risen to 68 years in 2014

Social safety nets

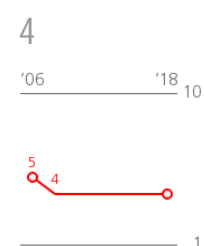


compared to 64.1 in 2004. However, health conditions remain poor, with a neonatal mortality rate of 27.7 per 1,000 live births and a maternal mortality ratio of 174 per 100,000 live births in 2015 (WHO data). As far as health insurance is concerned, there are several schemes sponsored by the central government that are targeted at employees in the formal sector or at civil servants. Some major improvements in terms of population coverage of health insurance were made over the past years with the Rashtriya Swasthya Bima Yojana (RSBY), a health insurance scheme for families living below the poverty line. After some speculation about a possible reduction of health insurance expenditures, the union budget of 2016 to 2017 envisaged an increase of allocations for health insurance. A particular focus is on the Rashtriya Swasthya Suraksha Yojana, or National Health Protection Scheme (NHPS), a new name for RSBY. The new scheme for families below the poverty line envisages a health insurance cover of up to 100,000 INR (ca. 1300 euro) per family, and an additional package for senior citizens.

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.

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 outset 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; also in tertiary education, the ratio of female-to-male enrollment (Gender Parity Index) is 0.9. However, India's female labor force participation rate has steadily declined over the past decade, from 29.2% in 2004 and 29.5% in 2005 to 24.2% in 2014. Women still play a subordinate role in politics – albeit with some notable exceptions. Only 11.69% of MPs in the Lok Sabha (lower house 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. A so-called Women's Reservation Bill, which provides for a 33% reservation of this kind, was introduced in 1996, passed by parliament's Rajya Sabha, or upper house, in 2010, but has been pending since then. The Modi government has not made any notable efforts to revive the bill.

Equal opportunity



However, the more general topics of the role of women in society and women's rights came center stage after a rape case in 2012 sparked public outrage, and it has remained in the media since then. While it will take many years to achieve a change in the general attitude towards women, at least a new awareness is in place. India's ranking in the Global Gender Gap Index is still low, but improved from rank 108 out of 145 countries in 2015 to rank 87 out of 144 countries in 2016.

11 | Economic Performance

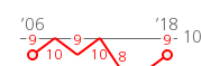
The upward trend of the Indian economy continued during the review period. In 2015, GDP growth reached 7.6% (2014: 7.2%; 2013: 6.6%). The October 2016 IMF World Economic Outlook projects a growth of 7.6% for both 2016 and 2017. These projections will have to be adjusted as a consequence of demonetization, which has reportedly had, and is likely to continue to have, an impact on India's GDP growth. However, in general terms, the Indian economy is in a good shape. According to the World Economic Outlook report, India's continued economic recovery is due, among other factors, to an improvement in the terms of trade and to effective policy actions, which "have helped boost sentiments." Indeed, confidence in the Modi government remains high two and a half years after elections, and surprisingly even despite the extremely chaotic implementation of demonetization.

In 2014, India's current account deficit fell to \$27 billion – a sharp decline as compared to the previous review period. Inflation fell to 5.9% in 2015. The government's efforts to attract foreign direct investment displayed some results, with an increase of FDI to 2.1% of GDP in 2015 (2014: 1.7%; 2013: 1.5%). In absolute terms, FDI rose from \$28.2 billion in 2013 to 34.5 billion in 2014 and 44.2 billion in 2015. However, FDI still mostly benefited the services sector, while the government hopes to boost investment in the manufacturing sector, among other things through its "Make in India" campaign. The unemployment rate in 2014 was 3.6%. The Indian government has the declared goal of creating 100 million jobs by 2022 for its growing population, and to that end aims to increase the share of manufacturing to 25% of GDP.

An important reform that can be expected to foster economic development is the adoption of the goods and services tax (GST). The corresponding constitutional amendment was passed in both houses of parliament in August 2016 and has been approved by the president of India. The implementation is scheduled to take place in April 2017. So far, India's tax revenue has been very low (10.8% of GDP in 2012). It remains to be seen how large the impact of the GST (as well as the impact of demonetization, which the Finance Minister argues has had a huge positive impact on tax revenues) will be.

Output strength

9



1

12 | Sustainability

India faces massive environmental problems, including air pollution, water pollution and water scarcity, waste management issues, soil degradation and biodiversity loss. India is also one of the largest emitters of greenhouse gases. In 2016, India ranked 141 out of 180 countries (score: 53.58) on the Environmental Performance Index of the Yale Center for Environmental Law and Policy (2014: rank 125 out of 132). In terms of air quality, only Bangladesh and China ranked lower than India (rank 178 out of 180). Especially in major cities, air pollution is a major problem. In November 2016, the government declared air pollution in New Delhi an emergency, as pollutants reached levels 16 times higher than the safe limit.

The Indian government has taken measures to address pollution, for example by aiming to reduce households using solid fuel for cooking by 50%, by eliminating subsidies for polluting cooking gas, or by launching a ‘clean Ganga’ action plan. Generally, however, the government’s attitude on the topic of environmental protection has been ambivalent given its strong focus on growth and investment. Among the population, awareness of the environment remains extremely low.

Concerning climate change mitigation, India took a more proactive stance at the Paris United Nations Climate Change Conference of December 2015 compared, for example, to its approach during the 2009 Copenhagen conference. While still opposing binding emission targets, the Indian government committed that at least 40% of the country’s electricity would be generated from non-fossil sources by 2030. Moreover, in Paris, together with French President Hollande, Prime Minister Modi announced the formation of an International Solar Alliance, whose framework agreement opened for signatures at the November 2016 Marrakesh Climate Change Conference.

India’s education policy contributes to a system of education and training that is mostly sub-standard, with some notable exceptions. In comparison to the previous reference period, the literacy rate has risen to 72.2%, the gross enrolment ratio in secondary education has slightly increased to 68.9%, while in tertiary education is has slightly declined to 23.9%. Overall, there are still massive deficits in access to education, even with signs of improvement. The parallel systems of private and government schools contribute to deepening the gaps in education among social groups. However, according to the Annual Status of Education Report (2016), the proportion of children aged 6 to 14 enrolled in private schools slightly declined (2014: 30.8%; 2016: 30.5%).

The Right to Education Act, effective in 2010, made education a right for the first time and started to address the goal of providing better-quality education. As far as tertiary education is concerned, there are a number of high-class colleges and universities, especially in the natural sciences. However, in the academic field, India

Environmental
policy

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'06 _____ '18 10

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Education policy /
R&D

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suffers from a massive brain drain. With expenditures for education amounting to 3.8% of GDP in 2012 and expenditures for research and development settling at unchanged rate of 0.8% of GDP over the past years, India still ranks low in international comparisons. For fiscal year 2016 to 2017, the Economic Survey of the Ministry of Finance estimates much lower expenditures for education (only 2.9% of GDP). A range of politically motivated, clearly not merit-based, appointments to leading positions in universities and research institutions carried out by the Modi government during the review period do not bode well for the further development of high-quality academic research.

Governance

I. Level of Difficulty

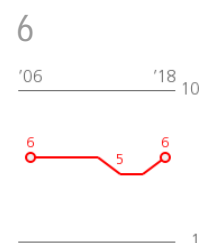
The management performance of the Indian government is limited by a range of structural constraints. Among them, 21.9% of the population still lives under the national poverty line (and the share is much greater if we use alternative measurements), and child malnutrition is still extremely widespread. 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. 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 persistent extremely poor infrastructure. The government has recognized the problem, and in 2016 the Finance Minister announced that India would need over \$1.5 trillion over the next ten years to address its infrastructure deficit.

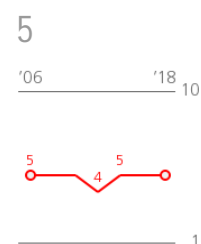
India has a long tradition of civic engagement and a range of role models in that regard – first of all Mahatma Gandhi. Millions of NGOs are operating in a range of issue areas, including environmental issues, the protection of human rights, or the struggle for gender equality. A civic culture of participation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

A range of cleavages exist in Indian society. They concern caste and social status, ethnicity, religion (especially tensions between Hindus and Muslims), and gender. Since these cleavages rarely overlap and reinforce each other, however, no major nationwide armed conflict has taken place in recent decades, and episodes of violence have remained relatively limited. However, a range of conflicts continue to exist in different parts of the country. The insurgency in Kashmir dramatically escalated during the review period after a popular rebel leader was killed by Indian government

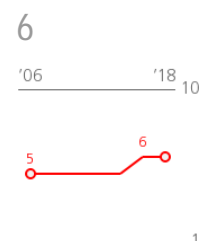
Structural constraints



Civil society traditions



Conflict intensity



forces in July 2016. What followed was a wave of protests and massive repression by Indian security forces. 17,000 civilians were injured, many of them blinded by pellet guns. By November 2016, 90 civilians had been killed. The Naxalite conflict in central India saw a renewed intensification of violence in 2016 as compared to previous years (January-November 2016: 411 victims; 2015: 251; 2014: 314, from South Asia Terrorism Portal data). In the northeastern states, violence by armed groups continued. While the government reached a peace agreement with the Nationalist Socialist Council of Nagaland-IM (NSCN-IM), a range of other groups remained active in the region.

Tensions between Hindus and Muslims grew during the review period, as the BJP-led government did not oppose, and actually promoted the establishment of a majoritarian Hindu discourse. This has contributed to further polarization of the population along religious cleavages.

II. Governance Performance

14 | Steering Capability

The government of Prime Minister Modi has the majority and political support to take on a longer-term perspective to address important reforms. Moreover, the prime minister has clearly displayed a will to carry out reforms, addressing a broad range of issues from the problem of “open defecation” to infrastructure deficits. A number of new programs and initiatives keep mushrooming. However, in many cases the government’s initiatives seem to amount to blind activism, and implementation is rather poor. Among many examples, the construction of toilets to address the problem of open defecation has proceeded at a high speed, but the new toilets are often dysfunctional and are not used by the target groups. In many cases, the government does not seem to have a coherent strategy nor a clear ability to prioritize and organize its policy measures. The abysmal implementation of demonetization in late 2016, as well as the shifting justification for the policy (from an initiative against “black money” and corruption to a tool of “financial inclusion” for the poor) reveals the limits of prioritization and strategic planning by the Modi government (but also its remarkable ability to frame policies and maintain popular support). Generally speaking, however, the government has put a clear strategic priority on the issue of economic growth, and is pursuing this overarching goal in a rather systematic manner. The government itself should therefore be considered a reform driver, at least on matters of economic development and liberalization. On other issues such as environmental protection or social justice, civil society actors are the forces pushing for reform, while the government is less proactive due to different priorities.

Question
Score

Prioritization

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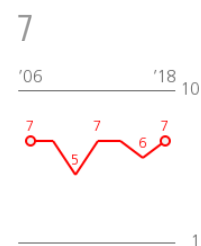
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The main defender of the status quo is the bureaucracy. Additionally, hardline Hindu-nationalist groups close to the government (the RSS and several other groups such as the party Maharashtra Navnirman Sena) constitute a regressive force as they follow a particularistic agenda that might create social unrest and thereby undermine the government's developmental agenda. Interestingly, opposition parties have been marginalized to such an extent that they cannot unequivocally be considered reform drivers or defenders of the status quo.

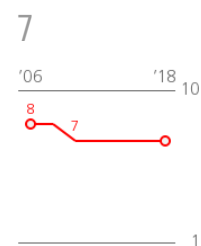
The Modi government was elected with a clear mandate for change and economic development. So far, it has been remarkably successful in achieving this objective, even though fortunate circumstances, such as low oil prices, have played a major role in its success. When it comes to more specific issues, however, the picture is mixed. For example, the government has managed to attract growing FDI, but mostly in the services sector, whereas its priority is the manufacturing sector. Similarly, initiatives such as the "clean India" campaign launched by Prime Minister Modi are certainly useful in generating a greater awareness among the population, but their impact is far from clear. Since the government does not enjoy a majority in the upper house of parliament, it has faced obstructionism by opposition parties on several of its initiatives. However, the adoption of the goods and services tax in 2016, which had been blocked by the opposition for a long time, is a positive development. Overall, given its huge popular support and its independence from coalition partners, the Modi government is much better placed than previous coalition governments regarding successful implementation of its policy measures.

The Modi government has been flexible and dynamic when it comes to the introduction of new policies, even though the sheer magnitude of government programs and the recalcitrance of the bureaucracy remain major obstacles to flexible policy learning and adaptation. By introducing measures such as the cut of several subsidies, the government has displayed a clear willingness to introduce change. At the same time, its room to manoeuvre is limited when it comes to issues such as loss-making state enterprises. Moreover, it has to be noted that some of the reforms introduced by the government are often rather cosmetic in nature. A typical tool employed by the Modi government is the renaming or rebranding of existing schemes and programs, with little change in substance. The willingness to learn from international partners seems to have decreased, if one keeps in mind the widespread suspicion vis-à-vis foreign NGOs, which are often perceived as meddling in internal affairs and possibly even hampering India's growth prospects.

Implementation



Policy learning



15 | Resource Efficiency

The government of Narendra Modi has made the more efficient use of assets and the reduction of red tape and bureaucratic hurdles a main topic of its reform agenda.

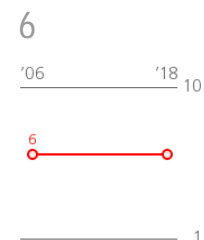
In general terms, government policies have led to a further increase in popular awareness of the problems related to an often overburdened and corrupt bureaucracy. However, changes are slow to implement, and several measures introduced by the government (among others, an online tool to prevent absenteeism of bureaucrats) are rather piecemeal. The use of budget resources continues to be inefficient in many cases. In 2015 to 2016, however, the government achieved its fiscal deficit target of 3.9% of GDP. For the 2016 to 2017 budget, the government set a fiscal deficit target of 3.6%.

The Indian state inherited an efficiently organized bureaucratic system based on recruitment and promotion on merit from the British colonial government. While formal 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. Under the BJP-led government, a range of politically motivated appointments of unqualified persons, especially for academic positions, have seriously called into question the transparency of recruitment procedures.

When it comes to “responsible” decentralization, some progress has been made. The Modi government aims to further empower the states under the principle of “cooperative federalism.” Representatives from the states are part of the National Institution for Transforming India (NITI) Aayog, a body that replaced the former National Planning Commission in 2015. Moreover, the Modi government’s first budget allocated 42% of Union tax revenues to the states for the years 2015 to 2020 – a much larger share than any previous budget. This is a reform that will definitely increase the states; ability to manoeuvre. Moreover, the devolution of rule-making to the states on issue areas of joint center-state competence has allowed the government to push reforms in fields such as labor and land acquisition, where reforms were stalled at the national level. The states have also been encouraged to play a more prominent role in foreign policy through para-diplomacy. This is reflected, for example, in the creation of a States Division in the Ministry of External Affairs.

The Indian government tries to coordinate conflicting objectives, but frictions and redundancies among different government agencies remain significant. Nevertheless, it has to be acknowledged that the Modi government has made explicit efforts at improving coordination, for instance between national and state governments through the creation of the NITI Aayog. The introduction of the goods and services tax will mark a major improvement in terms of efficiency and policy coordination. A new body, the GST Council, which includes representatives from the central and the state

Efficient use of assets



Policy coordination

7

governments, is working on the modalities of GST implementation, which is expected to start with the new fiscal year in April 2017. The introduction of GST is expected to finally transform India from a collection of states with border controls and distinct tax systems, in which the same products are taxed at different rates, into a single market.

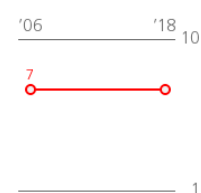
However, a range of overlapping and often ad hoc, populist programs continue to exist, especially at state level. The frequent relabeling of programs and the constant mushrooming of new initiatives by the central government are also detrimental for policy coordination.

Corruption is well-entrenched at every level of the polity and administration and is a fact of life in India. This does not mean that there is a dearth of legislative actions to curb corruption or 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.

One of the central topics in Narendra Modi's election campaign of 2014 was the fight against corruption. By presenting himself as a clean alternative to the corrupt Indian National Congress, Modi managed to ride a wave of popular discontent with corruption, which had started with a large anti-corruption movement led by social activist Anna Hazare in 2011.

Until 2016, however, Modi has not taken any substantial initiatives to fight corruption. In an effort to show how serious he is about the issue, on November 8, 2016, Modi unexpectedly announced that all 500 and 1,000 rupee banknotes (86% of all currency in circulation) would cease to be legal tender from midnight. The declared objective of the so-called demonetization was the elimination of "black money" supposedly accumulated in cash, and the fight against corruption. Ultimately, however, the impact of demonetization on corruption is unclear. According to The Economist, of the nearly 15.4 trillion rupees that were taken out of circulation on November 8, 2016, 15 trillion rupees were accounted for by early January 2017. This implies that apparently there were no huge amounts of 'black money' in circulation, or that such money has been laundered. Besides huge hardship for the poorer segments of the population and a reduction of economic growth, Modi's anti-corruption initiative does not seem to have had any substantial impact.

Ahead of elections in several states, in early January 2017, Modi announced that he would promote political finance transparency, and that the BJP would be proactive by disclosing information about its own funding sources. It remains to be seen to what extent these measures will be implemented. Importantly, they reflect a need to react to the growing popular dissatisfaction with corruption.



16 | Consensus-Building

The democratic principles of the Indian state are not seriously called into question by any relevant political actor.

The clear electoral victory of the BJP in 2014 and the huge popularity of Prime Minister Modi have led to a marginalization of forces opposed to economic liberalization. Critical voices in the media or from some leftist parties are still opposed to many of the reforms introduced by the government and to issues, such as the abolition of subventions or the creation of special economic zones. But in general terms the consensus on goals has increased further.

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. They still control portions of territory and have increased violence during the review period, but their influence remains weak.

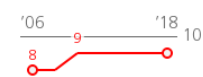
The influence of hardline Hindu-nationalist groups, by contrast, has increased during the review period. While these groups do not explicitly call into question the democratic nature of the Indian state, they certainly seek to undermine its fundamental principles by calling into question its secular credentials and seeking to make India a Hindu nation.

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. However, the willingness of the political leadership to depolarize these structural conflicts and to prevent society from falling apart along these cleavages has clearly declined since the 2014 and during the review period. The BJP-led government has not explicitly condemned episodes like the mob lynching of a Muslim man in Dadri in 2015, who was suspected of having killed a cow and eaten and stored beef. By tabling a bill in Parliament, which proposes to simplify naturalization procedures for Hindus, Sikhs, Buddhists, Jains, Parsis and Christians fleeing from Afghanistan, Bangladesh and Pakistan, the government further reshapes the discourse on national identity in Hindu majoritarian terms.

Besides religious tensions, regional-based or caste-based conflicts have long existed in India. One example of a regional-based conflict during the review period was a

Consensus on goals

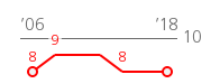
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Anti-democratic actors

8



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Cleavage / conflict management

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water dispute between the union states of Karnataka and Tamil Nadu, which led to violent protests in Karnataka's capital city, Bangalore, in 2016. When it comes to caste-based conflicts, massive protests by members of the Patidar caste broke out in Gujarat in 2015. Members of this relatively influential and well-off caste took to the street because they felt discriminated against by the government's affirmative action programs, which only envisage quotas in education and employment for members of the lower castes.

The fact that no major violent conflicts have broken out in India is not so much 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.

A large number of nongovernmental organizations of all kinds exist in India. Civil society is extremely active and has been increasingly able to compensate for a lack of formal access to policy-making by mobilizing large numbers of supporters in huge nationwide demonstrations. While the anti-corruption movement of 2011 and the protests against rape and violence against women of 2012 were short-lived, they contributed to change the awareness of the broader population on these topics. However, while the political leadership allows for civil society participation in some areas, in most cases, policy-making is still quite centralized. Under Prime Minister Modi, we can observe a further centralization of power in the hands of the executive and particularly the prime minister. In this regard, the space for civil society participation has rather shrunk.

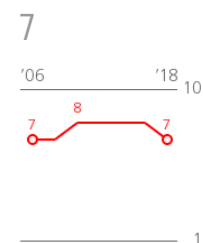
While India has not experienced major civil wars calling for the establishment of mechanisms to promote reconciliation, smaller instances of conflict and acts of injustice abound. While the government has displayed its readiness to rehabilitate victims of past injustices, rehabilitation is often not 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.

17 | International Cooperation

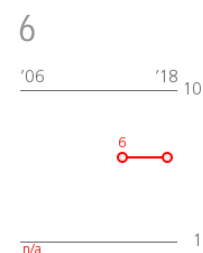
Indian governments have long had clear aims for political and economic development, which have traditionally been enshrined in five-year plans (the 12th five-year plan covers 2012-17). Under the Modi government, the Planning Commission has been replaced by the NITI Aayog, which aims to design "strategic and long-term policies and programs for the Government of India."

Modi's BJP-led government has a clear focus on economic growth but has also continued to address the development agenda. In terms of economic growth and

Civil society participation



Reconciliation



Effective use of support

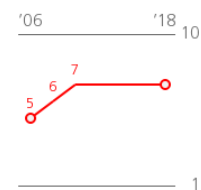
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development the Indian government has achieved substantial successes, in part due to positive circumstances. When it comes to social indicators, these have been steadily improving thanks to a range of schemes developed by successive Indian governments - even though the quality of such schemes, particularly in health and education, remains poor.

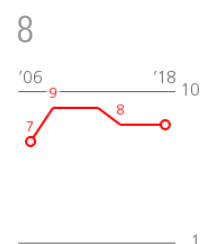
Like previous Indian governments, the current central government puts emphasis on its self-sufficiency and autonomy. In 2003, India declared that it would accept bilateral development assistance only from a limited number of states: Germany, Japan, Russia, the United Kingdom and the United States. The Modi government sticks to this policy and has sharpened monitoring and restrictions of foreign NGOs perceived as meddling with internal affairs. 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, for example the World Bank.

Over the past years, India has become an increasingly influential international actor. The negotiating position of the Indian government has often been uncompromising on issues seen as endangering domestic needs or undermining the principles of sovereignty and non-interference. Among many examples are India’s position in trade negotiations, its refusal to accept binding targets for greenhouse gas emissions, its ambivalent approach to norms such as the principle of the Responsibility to Protect and its refusal to sign the Non-Proliferation Treaty (NPT). Yet, India is perceived as a responsible international actor and a reliable partner. For example, despite refusing to sign the NPT, India has an excellent record in terms of non-proliferation. This has not only led to a lifting of U.S. sanctions, but also to the signing of an agreement on civilian nuclear cooperation with the United States in 2008, which de facto acknowledges India’s status as a nuclear power. Recently, India has displayed a more compromising attitude on issues like climate change negotiations at the 2015 Paris Conference, and it has taken on a leadership role by promoting the International Solar Alliance together with France. Moreover, India has a long history of engagement in U.N. peacekeeping operations. Its bid for a permanent seat in the U.N. Security Council has received the support of several countries, including the U.S., U.K. and France.

When it comes to the international business community, India’s credibility as an investment destination has certainly increased, but bureaucratic hurdles and poor infrastructure continue to deter investors (especially in the manufacturing sector).



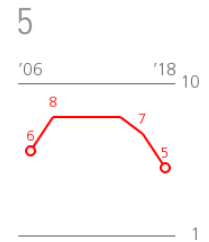
Credibility



India's relations with its neighbors in the South Asian region have been difficult for decades. The longstanding conflict with Pakistan substantially hampers any meaningful forms of multilateral regional cooperation. The charter of the South Asian Association for Regional Cooperation explicitly excludes the discussion of "contentious and political issues." India itself pushed for the inclusion of this clause in the charter, thereby undermining regional cooperation. With smaller neighboring countries, India has long had difficult relationships shaped by extreme power asymmetry, by small states' fears of being "absorbed" by India, and by India's own (often inconsistent) meddling with their internal affairs. Despite its successes in global politics, India has completely failed in its regional policy: it has not developed a "vision" for its region, provided leadership, or made concessions to neighboring countries, and it has not been able to limit the growth of China's influence in what has traditionally been India's sphere of influence.

Prime Minister Modi seemed poised to revolutionize India's relations with its South Asian neighbors as he invited all heads of state and government to his inauguration as prime minister (the fact that this was a big gesture is also revealing). However, what followed was an inconsistent policy course. On the one hand, the Modi government introduced the slogan "neighborhood first" to indicate that it intends to make South Asia a foreign policy priority. On the other hand, India took an ambivalent stance when massive protests broke out in southern Nepal (the closing of the border was interpreted as an Indian blockade). During the review period, relations with Pakistan reached the lowest point in many years. While on Christmas 2015 Modi made a surprise birthday visit to Pakistan's prime minister, during the second half of 2016 a harder approach took shape. During his Independence Day speech, Modi mentioned the hardship suffered by the population of several areas of Pakistan where separatist groups operate. In September 2016, an attack on an Indian military base in Uri, which left 19 Indian soldiers dead, led to a new stage of escalation. The Indian government for the first time declared to have carried out surgical strikes against militant groups on Pakistan's territory (a claim that Islamabad denied). Since then, the anti-Pakistan rhetoric has further escalated. Quite obviously, hardline groups are putting pressure on Modi to induce him to take a tougher stance on Pakistan. In the case of a major terrorist attack on Indian civilians, this could have deleterious consequences.

Regional
cooperation



Strategic Outlook

India has been rather successful in promoting transformation in recent decades. Its democracy has proven to be stable and political participation by previously marginalized groups has increased. Economic liberalization has led to a growth success story. However, the relatively jobless character of India's growth, the continued poor performance of agriculture and growing regional disparities qualify India's development success story. Overall, disparities among social groups have increased, and this trend might contribute to a deterioration of the country's social fabric in the longer term. India is still facing challenges when it comes to the working of key institutions or continued widespread corruption. The Modi government has recognized the need to tackle these problems and is better placed to do so as compared to previous governments, which had to rely on coalition partners with particularistic interests. Modi's own popularity is huge and has even increased since the 2014 election. His ability to generate public support for his government's policies, even for chaotically implemented ones such as demonetization, is remarkable. For all these reasons, the current government has the best possible preconditions in decades to address the numerous challenges that India faces.

While the streamlining of bureaucratic procedures and structures as well as the fight against corruption are high on the government's agenda, few results have been achieved so far. To fight corruption, the government needs a more systematic approach, instead of relying on highly publicized one-time measures such as demonetization. A decisive anti-corruption campaign would have positive implications in several issue areas, from an increase in confidence of foreign investors to improved implementation of infrastructure projects and an increase in the effectiveness of social programs.

In economic terms, the Indian government will need to keep the momentum of great economic dynamism and make use of the opportunities offered by the situation. Importantly, it will need to pay attention to the inclusiveness of growth, which so far does not seem to be a high priority beyond rhetoric. Similarly, the government should put greater emphasis on the sustainability of growth. While initiatives such as the promotion of renewable sources of energy are commendable, much more is required to address the issue of pollution.

To successfully proceed on the path of democratic transformation, India will 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, existing tendencies to restrict the dissemination of information through the internet and social media need to be stopped to guarantee freedom of expression. A strengthening of the hopelessly understaffed judicial system and a thorough reform of the police would increase citizens' confidence in institutions.

Last, but certainly not least, the trend towards the establishment of a majoritarian Hindu discourse is worrying as it bears the risk of polarizing Indian society along religious lines in the medium to

longer term. This will continue to be the main challenge for the government in the coming years: finding a balance between the pressures of hardline Hindu-nationalist groups that have contributed to the electoral victory of the BJP, and are gaining strength, and abiding by the principle of secularism enshrined in the Indian Constitution.