India

Status Index

5.84  # 51
on 1-10 scale  out of 137

Political Transformation
6.10  # 50

Economic Transformation
5.57  # 60

Governance Index

5.03  # 53
on 1-10 scale  out of 137
This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at https://www.bti-project.org.

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Executive Summary

India traditionally has a strong track record as an established democracy, with elected representatives possessing effective governing power and no major veto players undermining the state’s democratic credentials. Even among poor and illiterate social groups, voter participation has been remarkably high. However, during the review period, Prime Minister Narendra Modi’s government of the Hindu nationalist Bharatiya Janata Party (BJP) continued to undermine democratic institutions and pursue the objective of transforming India into a Hindu-majoritarian state. Building upon previous accomplishments (such as revoking the autonomy of Jammu and Kashmir and passing the Citizenship Amendment Act), the government continued its agenda. In various states, laws were enacted to prohibit what are referred to as forced conversions, specifically targeting religious minorities. Hindu nationalist organizations placed members in key leadership positions in relevant institutions, significantly curbing dissent. In addition, the operation of foreign NGOs was effectively banned in India.

In spring 2021, India experienced an exceptionally severe pandemic wave, which led to an unknown number of deaths – according to some estimates, the death toll might have reached the millions. The government failed to prevent this wave, which was largely driven by politically motivated mass gatherings in several states, as well as religious festivals such as the Kumbh Mela, where millions of pilgrims gathered at the holy river Ganges in Haridwar in early 2021. Moreover, the government failed to follow the recommendations of existing advisory bodies, indicating a growing trend toward centralized and personalized decision-making.

Still, in economic terms, India managed to recover much better from the pandemic than most other countries. Its uncritical approach toward Russia after the war of aggression against Ukraine allowed India to buy cheap energy, which helped keep inflation at moderate levels. India’s record in attracting FDI and promoting industrialization, however, remained mixed. The creation of jobs for the growing young workforce is a major issue for the Indian government. Poor infrastructure remains a significant obstacle. Moreover, the government has been promoting the notion of “self-
reliance,” essentially pursuing an increasingly protectionist agenda in line with Hindu nationalist ideology. Despite a reduction in poverty over the past decades, inequalities within Indian society have grown. The government has been zealous in launching new social programs — or in many cases, relabeling old ones. Those social programs emphasize digitalization and direct cash transfers but often do not reach the weakest groups in society.

History and Characteristics of Transformation

India’s process of democratic political transformation 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 during 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 parliament. Elections are free and fair, extra-constitutional veto powers are nonexistent, and the military is under strict civilian control. Civil rights are guaranteed in principle, but with major exceptions in conflict-prone regions such as Kashmir and the northeast.

India has undergone a dramatic democratic upsurge since the 1990s, with the economic empowerment of lower castes following the green revolution and their later integration into the high command of traditional parties and government agencies and/or the launching of new (regional) parties. A necessary byproduct of this development has been the emergence of unstable coalition governments on the national level and in some states, and a growing tendency to dispense patronage along caste lines. State governments became increasingly autonomous, and other institutional veto players, such as 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-substituting and state-led industrialization for decades, leaving considerable space for private enterprises as junior partners to the state. A first, hesitant liberalization came into effect in 1985, and a market-friendly turnaround was propelled by a severe balance of payments crisis in 1990/1991. The reforms since the crisis have transformed India into a vibrant, dynamic market economy. 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 a recent massive increase in the savings and investment rate. Considerable reform deficits remain, however, most notably regarding outdated labor regulations, a lack of sustained progress in privatization, 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.

A range of inclusive social policies were instituted (Education for All, the National Rural Health Mission, the National Rural Employment Guarantee Scheme, loan waivers for small and medium-sized farmers), which aimed to make growth more inclusive by supporting those possibly excluded from the economy’s dynamism. After the 2009 elections, the United Progressive Alliance (UPA) government was nearly paralyzed in its reform efforts due to its dependence on small coalition
partners and unable to convincingly address the increasingly pressing issue of corruption. Ultimately, widespread dissatisfaction with the UPA government and the hope for change and economic reforms led to its electoral defeat in Congress in the 2014 general election and to a clear victory for the BJP.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

India has only minor problems regarding the state’s monopoly on the use of force on its territory. Among the exceptions are some areas in central India under the control of Naxalites, a group of Maoist-inspired rebels who run parallel government administrations. Yet, popularly elected state governments in these areas have diminished the rebels’ control. In recent years, the number of casualties from this conflict has steadily declined to 237 in 2021 and 136 in 2022. In some regions in India’s northeast, several smaller rebel groups still operate, but the virulence of these conflicts has substantially decreased compared to previous years (72 fatalities in 2021, 19 in 2022). The decline in the number of victims in the northeast is due to an extensive ceasefire campaign driven by the BJP government. In Kashmir, the special status of which was revoked in 2019, tight control by the central government remained high during the review period.

Among the Indian population, the vast majority accepts the Indian nation-state as legitimate. Only in some areas, especially in central India, the northeast and Kashmir Valley, is the legitimacy of the nation-state called into question by rebel organizations. The state maintains control in these regions with the help of laws that give special powers to the armed forces in conflict regions, as well as those enacted to curb unlawful activities and ban unlawful and terrorist organizations.

However, the dominant concept of the Indian state as a secular one has been increasingly undermined by Hindu nationalist groups. In 2019, the government introduced the contentious Citizenship Amendment Act (CAA), which simplifies naturalization procedures for Hindus, Sikhs, Buddhists, Jains, Parsis and Christians (but not Muslims) who fled from Afghanistan, Bangladesh and Pakistan and entered India before December 31, 2014. This law and the equally contentious introduction of a National Register for Citizens (NRC) reflect the general adoption of a Hindu majoritarian discourse on national identity, as propagated by the BJP-led government. While the rules under the CAA are yet to be defined and the NRC has been updated
only in Assam, these provisions could potentially render stateless individuals unable to produce documents that count as evidence under the law. In the case of Assam, this amounted to presenting documents to show their families lived in India before 1971. It is feared that under a Hindu majoritarian government, these changes in the citizenship law will especially disadvantage the Muslim minority community.

The Indian constitution stipulates that the state is secular. Formally, 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 provisions.

However, the review period saw a consolidation of the Hindu majoritarian culture promoted by the government under the leadership of the BJP, constituting a form of interference of religious principles. The Supreme Court, which traditionally played an important role in protecting minority rights, repeatedly bowed to the government’s wishes at the expense of fair trials for minorities. For instance, during the review period, it postponed the hearing of hundreds of petitions against the Citizenship Amendment Act.

The criminalization of religious conversions continued to be a major issue. Under BJP rule, new laws prohibiting forced religious conversions were introduced in several states. During the review period, Haryana introduced a law providing, among other things, a penalty of up to five years imprisonment for converting or attempting to convert another person from one religion to another. Only “willful conversions duly certified by the District Magistrate” are allowed. The Karnataka Protection of Right to Freedom of Religion Act, 2021 prohibits “forced” conversions and nullifies inter-religious marriages involving a religious conversion of one of the spouses. The legislation on religious conversions was heavily criticized by religious minority groups, which have been increasingly harassed by Hindu nationalist organizations.

The Indian state has an extensive administrative structure with diverse fields of expertise, providing jurisdiction, tax authorities and law enforcement. Huge difficulties remain in the supply of basic services, especially in rural and remote areas, in transportation infrastructure and the provision of basic services, such as water, education and health. Prime Minister Modi puts great emphasis on social schemes of various kinds, which he has personally promoted. Yet, the government’s numerous programs have produced mixed results. Access to sanitation, water and electricity has improved: 90.5% of households have access to a basic water source, 71.3% have access to basic sanitation and 99% have access to electricity. At the same time, India’s performance on a range of other indicators worsened during the review period. For example, India’s score in the Global Hunger Index worsened in 2021 after having improved for several years (2014: 28.2; 2021: 29.1). The fight against corruption and bureaucratic inefficiency has long been on Modi’s agenda, but the Corruption Perception Index of Transparency International has stagnated since 2016 after steady improvement in prior years.
2 | Political Participation

India has had free and fair elections for nearly seven decades since independence, with only one minor interruption in the 1970s. Universal suffrage by secret ballot is ensured, many political parties are able to run and public offices and political positions are filled according to the election outcomes. Parliamentary elections in India are difficult for the administration to carry out, mainly due to the country’s sheer size and population. The general election of 2019 was the largest democratic exercise in the world, with over 900 million people eligible to vote and a voter turnout of over 67% (including the highest participation of women voters in Indian history). The next general election will take place in 2024.

Elections are managed by an independent Election Commission of India (ECI), whose members are appointed by the president and can be removed from office by parliament. Since the late 1990s, the ECI has undertaken several efforts to improve the electoral process, including the introduction of electronic voting machines (EVMs) and the digitalization of electoral rolls. Overall, this has improved the transparency of voter registration procedures. 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. Since the 2019 general election, 43% of members of parliament have declared criminal cases against themselves. This is an increase of 44% since 2009.

In spring 2021, the government allowed for huge political gatherings to take place ahead of state-level and local elections, which contributed to the deadly second wave of the COVID-19 pandemic. In recent years, the impartiality of the Election Commission of India has come under scrutiny with what is seen as an uneven implementation of the Model Code of Conduct and the inability of the ECI to restrain BJP candidates from using election speeches to garner votes. The sanctity of electoral competition has also been vitiated by the persistence of anonymous electoral bonds as a way to donate to political parties, which generally favor the ruling party. While doubts have occasionally arisen as to how tamper-proof EVMs are, there is no conclusive evidence that they are unreliable. Lastly, the use of social media in election campaigns has also been a matter of concern.
Democrats elected political representatives have the effective power to govern in India. However, Hindu nationalist organizations have come to play an important role as potential veto powers. Members of the RSS have been placed in leadership positions in most relevant institutional bodies, de facto impeding any kind of dissent or debate. Another significant player, the Indian military, has never exceeded its competencies and has always remained under strict civilian control. This is a major difference from other countries in the region. However, the government has announced plans to reform recruitment procedures for the Indian military and tried to influence the army, mainly through select appointments.

External actors are unable to manipulate domestic politics in India, given the state’s strong performance and the high value in which it holds the principles of sovereignty and noninterference.

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 territorial 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. Yet, during the review period, the government made use of a range of tools to limit the assembly rights of critics or opposition actors, and Hindu nationalist groups further aggravated the general climate of intimidation all over the country. In its review of India’s human rights record, the UNHRC recommended that the country should release people arrested under the draconian Unlawful Activities (Prevention) Act (UAPA), an anti-terrorism law. A case that attracted attention during the review period was the death in July 2021 of 84-year-old Father Stan Swamy, a human rights activist who had been arrested in 2020 under the UAPA on charges of terrorism and been held in pre-trial detention without bail since. Cases like this are emblematic of the deterioration of assembly rights for civil society actors critical of the government.

The formation of interest groups is legally unrestricted. 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, weakly institutionalized and often dependent on political parties, they actively contribute to a thriving civil society, for which they are indispensable. Over the past years, however, increasing numbers of NGOs have been denied permission to accept foreign funding under the Foreign Contribution Regulation Act (FCRA).
The Indian constitution contains provisions guaranteeing freedom of expression. A large number of national and local newspapers, as well as television channels, contribute to the dissemination of information and to the diffusion of a plurality of opinions on many issues. However, press freedom is increasingly constrained. The concentration of media outlets among few large corporations leads to an increasing monopolization of the media sector. Additionally, the owners of media companies pressure editors and journalists not to publish stories critical of the government. Journalists who are critical have been systematically harassed by Hindu nationalist supporters of the Modi government, who vilify them as “anti-national.” Female journalists in particular have become victims of troll armies that promote the Hindutva doctrine in online hate campaigns. Critical journalists endure arrests and arbitrary detentions, as well as physical violence perpetrated by the police, criminal groups or corrupt officials. In February 2023, the offices of the BBC in Delhi were raided by the Income Tax Department. During the devastating second wave of the pandemic in 2021, media outlets critical of the government’s policies were sued for contradicting the official government narrative. The government also targeted social media outlets, requesting Facebook, Instagram and Twitter to delete social media posts about the pandemic and censoring other social media posts on the grounds of preventing the spread of “rumors.” Lastly, every year, journalists are murdered.

The situation in Kashmir remained worrying during the review period. In January 2022, the Kashmir Press Club was dissolved by the government. Moreover, the region was still affected by internet shutdowns. The site internetshutdowns.in counts 79 shutdowns in 2021 and 43 in 2022. Overall, the deteriorating state of press freedom was reflected in a report by Reporters without Borders, which further degraded India from rank 142 out of 180 countries in 2021 to rank 150 out of 180 countries in 2022.

3 | Rule of Law

The horizontal separation of powers is constitutionally guaranteed through a system of checks and balances, which is mostly implemented in practice. However, the executive has clear dominance – which has increased under the Modi government. The judiciary has historically played a major role in the consolidation of Indian democracy. Yet, during the review period, this traditional role clashed with pressure from the Hindu nationalist government. For example, it postponed hearing hundreds of petitions against the Citizenship Amendment Act, which can be seen as a politically motivated effort on the part of the executive. In 2022, the Supreme Court stated that forced religious conversions are a dangerous phenomenon, thereby replicating Hindu nationalist positions voiced in public discourse on this issue. Also, it dismissed a number of petitions that sought to investigate and prosecute government agencies and Hindu nationalist groups involved in the anti-Muslim Gujarat pogrom of 2002. Despite these negative examples of uncertain independence from the executive, the judiciary pursued other cases concerning the prosecution of Hindu religious leaders for inciting violence against Muslims. Thus, a bias toward favoring Hindus in their verdicts is not generalizable across all court decisions.
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 work of the parliament is hampered by frequent interruptions and opposition party walkouts. These make it difficult for the parliament to pursue its constitutional role in the checks-and-balances system. Additionally, the speaker of the Lok Sabha (the lower house of parliament) and the chairperson of the Rajya Sabha (upper house) are prone to enter parliamentary debates as members of their parties, which constitutes a bias. While parliamentary systems have relatively weak separation of powers, it is expected that the legislative exercises control and elicit accountability from the executive. Yet, the dominance of the executive, in particular the personal influence of the prime minister, has marginalized the parliament. Legislative procedures have been weakened by the diminished role of the parliament as a deliberative body and an undermined committee system. As far as the vertical separation of powers is concerned, the autonomy of state governments in the federal system is guaranteed as envisaged by the constitution. However, the fact that governors are central government appointees has come under increasing scrutiny, creating conflict between governors and state governments. Fiscal federalism strengthens the autonomy of the union state governments by guaranteeing transfers from the central government. Moreover, representative bodies at the local level have a certain degree of administrative autonomy with political representation down to the village level.

Formally, the Indian judiciary is institutionally differentiated and largely independent from the legislative and executive branches. Yet, during the review period, there was a high number of instances in which the Supreme Court ruled in line with the positions of the BJP-led government or Hindu nationalist organizations close to it. These included statements regarding the danger of religious conversions and dismissing petitions seeking investigations of hate speech against Muslims by Hindu nationalist leaders. The judiciary is often also under attack by the executive, as are the appointment procedures through the collegium system. These attacks intensified with the appointment of D. Y. Chandrachud as chief justice of India, largely considered to be liberal and progressive and thus disliked by conservative actors. A huge problem in the Indian judiciary is its limited functional operability, which is mainly due to understaffing. This leads to massive delays in hearing cases. Worldwide, India is the country with the sixth highest share of pre-trial detainees, who mostly belong to marginalized communities. The backlog caused by the COVID-19 pandemic has further worsened the situation. Accordingly, 77% of prisoners in India are awaiting trial. Prisons are hopelessly overcrowded, and the living conditions of inmates, especially female prisoners, are poor.
The rule of law in India is undermined by political corruption. Officeholders who engage in corruption often slip through political, legal or procedural loopholes and are not effectively persecuted. Corruption is prevalent at all levels and continues to affect citizens in many of their interactions with institutions such as the police, public services and public procurement. In 2011, a massive anti-corruption movement raised entirely new awareness among the population, openly challenging the widespread culture of corruption for the first time and leading to increasingly adverse publicity for politicians involved in corruption cases. Prime Minister Modi made the fight against corruption and “black money” key topics of his campaign, especially during his first term in office. His image as an honest politician has guaranteed him huge popular support, while the weakened INC still has to shake off its image as a corrupt party.

An anti-corruption authority called Lokpal was formed in 2019 (delayed by six years after the introduction of the Lokpal and Lokayuktas Acts). Critics note that it has proven to be a toothless organization. The Lokpal has not taken up any prominent cases, and many posts within its organization remain vacant. The number of cases presented to the body is limited, revealing a low degree of trust in the institution. In addition, the Right to Information Act 2005, which was the outcome of a popular movement for transparency that empowered citizens to seek information from the government, has been consistently undermined.

De jure, civil rights are guaranteed in India. A major exception is areas where emergency laws are in force, such as the northeast. There, the Armed Forces (Special Powers) Act (AFSPA) allows Indian security forces to search homes and arrest suspects without a warrant, to shoot suspects on sight, and to destroy buildings believed to house militants or weapons – all of this granting the forces de facto immunity from arrest and prosecution since the union government has to approve any criminal charges. The AFSPA has caused much controversy in India in the light of repeated abuses by the security forces. In December 2021, the army killed 14 civilians in Nagaland, leading to renewed criticism of the AFSPA because the soldiers were not prosecuted. The AFSPA remains in force in Jammu and Kashmir, as well as in parts of Assam, Nagaland, Manipur and Arunachal Pradesh.

All over India, custodial killings and police abuse, including torture and rape in custody, are common practice. In general, underprivileged groups are particularly affected by the limited enforcement of protection laws and the slow, inefficient judicial system. Disadvantaged social groups possess access to equal justice in theory, but not in reality.

Women are the social group that most visibly suffers from discrimination and violence. India’s performance in the Global Gender Gap Index decreased considerably in 2022, with India ranked 135th out of 146 states. In 2020, it ranked 112th out of 153 states. Sexual violence continues to be an endemic problem. In the field of LGBTQ+ rights, same-sex relationships were decriminalized in 2018 as a result of a Supreme Court verdict, and subsequent judgments support queer struggles. However, discrimination against homosexuals continues.
Domestic violence and dowry deaths remain widespread, as does ethnic
discrimination in defiance of legal protections for all minority groups. Religious
discrimination has become worrying as extremist Hindu groups close to the BJP
consolidate their influence.

4 | Stability of Democratic Institutions

Overall, democratic institutions in India perform their functions in a reasonably
effective manner. However, the BJP-led government has increasingly weakened their
independence and shrunk their competencies. In some cases, the judiciary has proven
to be subservient to the government, while in others, prominent figures such as
Supreme Court Chief Justice D.Y. Chandrachud have been under attack by the
government. On a more positive note, after the interruptions related to the COVID-
19 pandemic, parliament has resumed its functions. Yet, the deliberations in
parliament and robustness of the committee system have increasingly been
undermined. Vertical coordination between the central government and the states
remains underdeveloped and chaotic, despite Modi’s efforts to improve coordination
under the paradoxical label of competitive cooperative federalism.

Among the problems further hampering the efficiency of the public administration
are corruption and a lack of incentives for officials.

While electoral contestation and participation remain in place, democratic checks and
balances have been increasingly weakened under the BJP-led government. The BJP
has sought to erode constitutional bodies such as the Election Commission of India
and mounted criticism against the Supreme Court of India, in order to undermine its
independence.

The army has been effectively kept under civilian control since independence and
only small, non-state armed groups, like the Naxalites, aim to overturn the democratic
institutions of the Indian state. Some further exceptions, but only minor ones, can be
found among insurgent groups in the state’s periphery, including Maoist rebel groups
and ethno-nationalist armed groups in the northeast and in Kashmir.

5 | Political and Social Integration

The Indian party system is fairly stable and socially rooted. A large number of parties
exists at the national and state levels, representing specific ideologies and particular
groups or regional interests and identities. Social groups have relatively stable ties to
political parties. Polarization, particularly along religious lines, usually increases
ahead of important (state and general) elections. However, polarization is increasing
in India’s political system. The BJP’s landslide victories and its high share of seats
enabled the party to consolidate power at the expense of its ideological rivals. There
is also increasing party polarization due to the cleavages along religious lines and the
role that Hinduism is supposed to play in society.
The landslide victories of the BJP in the 2014 and 2019 general elections have reduced the importance of coalition politics, especially since it gained an absolute majority in the lower house of parliament. During the review period, no credible opposition emerged. The once-strong Indian National Congress, despite its presence across the whole country, has come to play only a marginal role as a national opposition party. Still, regional parties remain important players in state-level elections. In many cases, their authority accumulates around the figure of a strong regional leader.

While the BJP has fairly strong internal structures, most parties are still rather weakly institutionalized. Informal procedures, factionalism and clientelism prevail.

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. Associations engage in low levels of cooperation among themselves. Labor unions and employers’ federations are only partly autonomous due to the traditionally extensive role of the state in the Indian economy. However, India has a large number of NGOs (more than three million in 2015), frequently promoted by intellectuals and members of the middle class, fighting for the rights of marginalized social groups. During the review period, NGOs in India continued to face crackdowns on their activity. In April 2022, the Supreme Court ruled that nonprofit organizations do not have the right to receive foreign funding and upheld a number of cumbersome provisions regarding administrative expenses, banking and subgrants, which make the work of NGOs extremely difficult. After the verdict by the Supreme Court, the Central Bureau of Investigation (CBI) raided a number of NGOs on the grounds of alleged bribery, and in September 2022, the Income Tax Department raided the offices of the Centre for Policy Research and Oxfam India. The hostile climate for NGOs forced Amnesty International to close its India operations in 2020.

Further mobilization of nationalist interests took place parallel to the growing popularity and influence of Hindu nationalist groups. The domination of such groups implies an increasing risk of polarization along political and religious lines. The Rashtriya Swayamsevak Sangh (RSS), a paramilitary Hindu nationalist organization that has huge influence on the BJP and its policies, has grown and expanded its presence throughout the country. It is estimated to have seven million members and controls a large number of other organizations, such as India’s largest trade union, the Bharatiya Mazdoor Sangh, with over 10 million members. Other institutions under RSS control include 12,000 schools and nearly 1,000 NGOs. The activities of such organizations undermine democracy and contribute to an increasing risk of polarization.
India’s population, including its poorer sections, is proud of the country’s achievements as one of the most stable democracies among post-colonial states. Approval of the democratic system is high, as democratic principles are firmly rooted in the Indian population and have a long history. Even poor segments of society believe in the value of their vote and participate in elections. In 2018, 67% of citizens expressed confidence in the national elections. Voter turnout at the general election of 2019 was at an all-time high of over 67%. However, members of the growing middle class increasingly express their disaffection with politics and with the “political class” in general – a factor that might partially explain the success of the populist Prime Minister Modi. Survey results confirm this discrepancy. When it comes to democratic performance, according to PEW survey data, in 2019 70% of Indian respondents were satisfied with the way democracy was working in their country. However, in 2019/2020, only 46% indicated a preference for democracy, while 48% mentioned that they would prefer “a leader with a strong hand.” Attitudes toward democracy are also subject to considerable regional variation, with support being strongest in the northeast (61%), south (53%), and north (51%) of the country, and much weaker in the central regions (33%).

According to a 2017 PEW survey, 68% and 66% of respondents, respectively, considered the legal system and the police a good or very good influence. The military enjoyed high approval rates, with 86% of respondents considering it a good or very good influence. Approval of institutions varies depending on the respective institution and is generally moderate to high. An IPSOS-conducted survey in 2022 suggests that among public institutions, the Defense Forces enjoy the most approval among citizens (65%), followed by the Reserve Bank of India (50%) and the prime minister (49%).

The still extremely hierarchical character of Indian society hampers the formation of solidarity and social capital. Particularly, tensions between religious communities have negatively impacted trust among citizens. In 2020, India’s score on the Social Hostilities Index involving religion was the highest among 198 countries from all over the world. This high ranking was in part related to increased violence in connection with the Citizenship Amendment Act. A PEW survey conducted in 2019/20 revealed that a large majority of Indians support tolerance for other religions but also has a strong preference for maintaining segregation between religious communities. The survey also confirms the continued divisive potential of castes in Hinduism, with 64% of respondents declaring that it is very important to stop women from marrying into other castes. Discrimination against Dalits and other low-caste-affiliated social groups remains a major issue.

However, many associations have contributed to creating some degree of social protection for vulnerable social groups. Many initiatives 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 dating back to the colonial period.
Moreover, local communities have become vocal about resisting mining projects and land acquisitions. There are self-help organizations at the grassroots level, which are sometimes exploited for political purposes but mostly act in an autonomous manner to promote the interests of their communities.

II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and socioeconomic inequality are pronounced and partly structurally ingrained in India. It is the country with the highest absolute number of people living in absolute poverty (i.e., on less than $1.90 per day) worldwide. Poverty is still widespread among the rural population, as well as among urban populations employed in the informal sector. Moreover, poverty has increasingly affected a range of states largely left untouched by the economic boom and plagued by bad governance in the past, such as Chhattisgarh, Bihar and Madhya Pradesh. Despite these exceptions, the share of the Indian population that could be considered poor (living on $3.65 per day at 2017 international prices adjusted for purchasing power parity poverty line as a point of reference) has declined substantially in the past years. In 2019, 44.8% of the Indian population was poor, compared to 61.7% in 2011. During the review period, however, India’s HDI score and ranking declined for the first time after steadily improving for a decade. With an HDI score of 0.633 in 2021, India ranks 132nd out of 191 countries worldwide in terms of human development – compared to its score of 0.642 in 2020 and 0.645 in 2019 and ranked 129th out of 191 countries in 2019 and 130th out of 191 countries in 2020. India’s Gini index has zigzagged over the past years, from 34.8 in 2016 to 35.9 in 2017, to 34.6 in 2018 and to 35.7 in 2019, without any long-term improvement. In 2011, the Gini index was also 35.7, suggesting that the country’s economic growth has a neutral effect on wealth distribution.

According to the World Inequality Database, income inequality has steadily risen since the 1990s. In 2021, the top 1% of the population had an income share of 21.7%, compared to 13.1% among the bottom 50%.

Inequalities also exist across regions and different social groups, as well as between skilled and unskilled workers. Social exclusion continues to affect the traditionally marginalized lower castes (the Scheduled Castes, or SCs), such as Dalits, as well as ethnic minorities (the Scheduled Tribes, or STs) and Muslims. Gender inequality is still a major problem in India. With a Gender Inequality Index of 0.490 (2021), India rates extremely low internationally. There was no significant improvement during the review period (2019: 0.486; 2020: 0.493). While women’s rights and gender equality are officially recognized, women are de facto still largely discriminated against.
Discrimination ranges from the abortion of female fetuses (and corresponding numeric gender disparities) to intra-familial discrimination against women’s access to food and sanitation. This is mainly related to the persistence of patriarchal family structures, particularly in northern India. Inequality is the reason behind a 25% loss in the HDI in 2021.

The Indian economy was undergoing a crisis before COVID-19, but the World Bank reports that it contracted by 7.3% in FY 2021. It is anticipated to experience an annual growth of approximately 7% following the pandemic. The pandemic significantly impacted the informal sector, which employs a significant portion of the population (approximately 88%, as stated in a 2019 ILO report).

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<td>29.3</td>
<td>11.5</td>
</tr>
<tr>
<td>Import growth (%)</td>
<td>-0.8</td>
<td>-13.7</td>
<td>21.8</td>
<td>18.8</td>
</tr>
<tr>
<td>Current account balance</td>
<td>US$ M</td>
<td>-29762.9</td>
<td>32730.0</td>
<td>-33422.4</td>
</tr>
<tr>
<td>Public debt (% of GDP)</td>
<td>75.0</td>
<td>88.5</td>
<td>83.8</td>
<td>81.0</td>
</tr>
<tr>
<td>External debt (US$ M)</td>
<td>560870.6</td>
<td>565052.7</td>
<td>612865.9</td>
<td>-</td>
</tr>
<tr>
<td>Total debt service (US$ M)</td>
<td>51257.1</td>
<td>77063.8</td>
<td>48748.8</td>
<td>-</td>
</tr>
<tr>
<td>Net lending/borrowing (%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax revenue (% of GDP)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Government consumption (% of GDP)</td>
<td>11.0</td>
<td>11.6</td>
<td>11.2</td>
<td>10.5</td>
</tr>
<tr>
<td>Public education spending (% of GDP)</td>
<td>-</td>
<td>4.3</td>
<td>4.6</td>
<td>-</td>
</tr>
<tr>
<td>Public health spending (% of GDP)</td>
<td>-</td>
<td>1.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure (% of GDP)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure (% of GDP)</td>
<td>2.5</td>
<td>2.8</td>
<td>2.5</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Sources (as of December 2023): 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 is integrated within an institutional framework, but in several policy areas, state intervention remains in place. For instance, there are forms of discrimination based on foreign versus local ownership, and certain sectors of the economy are still protected regardless of the circumstances. Market entry barriers for new businesses, particularly administrative barriers, remain intact. Meanwhile, the Modi government has persisted in its efforts to attract foreign investors in recent years. In the first quarter of FY 2022/23, foreign direct investment (FDI) inflows accounted for approximately 1.6% of GDP, representing an increase compared to the average of 1.2% during FY 2021/22. However, in absolute terms, FDI inflows had declined to $45 billion in 2021 (down from $64 billion in 2020 and $50 billion in 2019) according to the World Investment Report 2022. The report also highlighted the announcement of more than 100 new international project finance deals (a significant increase compared to an average of 20 new projects per year over the past decade), many of which are related to investments in the renewable energy sector. Although India implemented restrictions on FDI from neighboring countries, seemingly aimed at China, these restrictions remained in effect. Around 80 Chinese investment proposals were reportedly approved between April 2020 and August 2022 despite these restrictions.

The Indian rupee is not pegged to any foreign currency and is fully convertible on the current account, but only partially convertible on the capital account. As the Reserve Bank of India (RBI) intervenes in the currency market to influence effective exchange rates, the currency regime can be seen as a de facto controlled exchange rate.

The informal sector is still extremely large, comprising 88% of the Indian workforce as of 2019.

India has a statutory authority – the Competition Commission of India (CCI) – that is responsible for implementing the Competition Act of 2002, as amended by the Competition (Amendment) Act of 2007 and the Competition (Amendment) Act of 2009. Established in 2009, the CCI has been proactive during the review period. For example, in 2021, it revoked approval of Amazon’s investment in a company belonging to Future Group and ordered an investigation into Apple Inc.’s business practices. In 2022, it imposed a penalty of $170 million on Google for abusing its market dominance and a $120 million penalty for its Play Store policies. The Securities and Exchange Bureau of India (SEBI), a well-regarded institution, is responsible for enforcing corporate governance standards. More recently, the failure of these agencies to control the monopoly of the Adani group in specific sectors and to enforce governance standards has come under scrutiny.

The CCI regularly engages with other competition authorities, as well as multilateral bodies such as the OECD or UNCTAD. It is a member of the International Competition Network and has signed memorandums of understanding with bodies such as the U.S. Federal Trade Commission and Department of Justice, and the European Union’s Directorate-General Competition.
At the same time, the Indian government has subsidized entire sectors of the economy, such as agriculture, by providing subsidies on prices, seeds, fertilizers, energy, and water for irrigation. Additionally, high tariffs have been introduced to prevent the import of agricultural products. For FY 2023/24, the government has announced cuts in spending for food and fertilizer subsidies totaling over $44 billion, which represents a 26% reduction compared to the previous year.

India, a founding member of the WTO, advocates for multilateral trade and offers most-favored-nation treatment to WTO members and other partners. Since opening its economy in 1991, India has progressively liberalized trade. However, during the review period, the Indian government pursued a mixed approach to trade openness. On one hand, it made efforts to promote free trade by streamlining trade procedures at borders, upgrading port infrastructure and improving electronic document submission. On the other hand, the government has maintained its protectionist stance, which has been in place since around 2017. As a result, the BJP-led government implemented several protectionist policies under the slogan “Atma Nirbhar Bharat” or “self-reliant India.” These policies align with Hindu nationalist ideology. In the budget for FY 2021/22, higher tariffs were proposed for sectors such as cotton, various chemicals, plastics, and gems and jewelry. The FY 2022/23 budget introduced higher tariffs for sectors including various electronic items, chemicals and imitation jewelry. Consequently, the average rate of customs duties increased from 14% to 15% to 18%. As a result, India’s share of total trade as a percentage of GDP stands at nearly 45%, which is lower than that of other emerging economies. Among all G-20 countries, India has the highest average applied tariffs. Internally, India has always heavily protected certain sectors of its economy, particularly its heavily subsidized agricultural sector. In 2020, India’s simple average MFN tariff rate was 14.6% (2018: 13.8%).

Several further implementations need to be made in order to achieve full trade liberalization. India’s import regime, specifically its licensing and permit system, remains highly complex. Importers are required to pay various additional duties in addition to the tariff rate. In many instances, imports are subject to nontariff barriers such as prohibitions, licenses, restrictions, or sanitary requirements, which hinder trade, particularly with neighboring South Asian countries. Additionally, India has actively employed anti-dumping measures, particularly in the chemical and textile sectors. The elevated energy prices resulting from Russia’s conflict with Ukraine contributed to an expansion of the merchandise trade deficit to 8.2% of GDP in the first quarter of FY 2022/23. In terms of services, India has maintained a strong surplus, amounting to $87 billion from April to November 2022.

In a significant development in July 2017, a unified goods and services tax (GST) was introduced, replacing the previous state-implemented indirect taxation system that had resulted in fragmented tax rates across India’s states. The introduction of GST has had positive effects by reducing trade barriers within the country. Tax
evasion has become more difficult with payments made through the Unified Payments Interface (UPI), resulting in an increase in receipts from the generalized system of preferences (GSP) to up to 8% of monthly GDP in April 2022.

The Reserve Bank of India (RBI) is responsible for regulating the Indian banking system, which has significantly evolved since the start of economic reforms in 1991 and was one of the few banking systems that were not seriously compromised by the global financial crisis. In 2009, the RBI implemented the Basel II standardized norms.

With the enactment of the Banking Laws (Amendment) Bill 2012 in 2013, corporate houses were granted permission to enter the banking sector. However, public-sector banks continue to heavily dominate the system, holding a 72% market share and accounting for 84% of all bank branches. Foreign banks face several restrictions, including a limit of 5% ownership in an Indian private bank without approval from the Reserve Bank of India and a maximum foreign ownership threshold of 74% for an Indian private bank. Foreign banks own only 0.5% of all bank branches in India.

In 2020, the share of nonperforming loans at banks declined to 7.9% from 9.2% in 2019, following a peak of 10% in 2017. While the share of nonperforming loans is higher than it was a decade ago, it is important to consider that the regulatory framework has become more stringent and transparency has increased after an asset quality review conducted by the Reserve Bank of India in 2015/2016. According to World Bank data, the capital-to-assets ratio in 2020 was 7.8%, down from 8.1% in 2019.

The Indian government has acknowledged the prevailing issues in the banking sector. Progress is being made in the identification and resolution of nonperforming assets, thanks to the new Insolvency and Bankruptcy Code (IBC) in 2016. The World Bank India Development Update states that a revised regulatory framework for nonbanking financial companies has been in effect since October 2022. Under this framework, these companies will need to align their nonperforming loan rules with those of banks and bolster their capital. Furthermore, the India Development Update anticipates that the establishment of the National Asset Reconstruction Company Limited (NARCL) will contribute to improving the banking sector’s nonperforming loan levels.
Monetary and fiscal stability

Russia’s war of aggression against Ukraine fueled inflation worldwide, and India was not spared. In 2021, inflation based on the consumer price index was 5.1%, marking a decline compared to previous years. Headline CPI inflation averaged 7.2% year-on-year in the first half of FY 2022/23 and reached 7.8% in April 2022. It subsequently decelerated, also as a consequence of the government’s cut of excise duties on fuel. The Indian government also implemented supply-side measures to reduce inflation, including a reduction of disruptions to supplies of fertilizers and export restrictions on wheat and rice.

The Reserve Bank of India (RBI) implemented monetary and liquidity measures to control inflation and stimulate growth. In May 2022, the repo rate was increased by 190 basis points through several consecutive meetings of the Monetary Policy Committee. These interventions helped bolster the Indian rupee, which experienced a depreciation of roughly 10% against the USD in 2022 but fared relatively well compared to the currencies of other emerging economies.

Generally speaking, the RBI has lost much of its independence in recent years. RBI Governor Shaktikanta Das, a career civil servant with close ties to Prime Minister Modi, was appointed in 2018 and remained in charge during the review period. Loss of independence did not result in poor monetary performance. The policies adopted by the RBI contributed to maintaining the Indian economy in comparably good shape, despite the global crisis caused by Russia’s war in Ukraine.

In 2003, India introduced the Fiscal Responsibility and Budget Management (FRBM) Act, which mandated a phased reduction of the fiscal deficit to 2.5% of GDP, as well as the elimination of the revenue deficit. The law generally increased fiscal transparency and responsibility by obliging the government to regularly issue reports, which are then discussed in parliament. The executive is, in principle, committed to fiscal consolidation, and the fiscal deficit has decreased over the past decade. However, spending has exceeded budget estimates in recent years. Due to the crisis unleashed by the COVID-19 pandemic and the Russian war against Ukraine, government spending increased, for example, to fund fuel and fertilizer subsidies. At the same time, however, there was also a remarkable increase in gross tax revenues, by 17.6% year-on-year. According to a report by the World Bank, the Indian government is on track to reach its FY 2022/23 fiscal deficit target of 6.4% of GDP. This is obviously much higher than in previous years, but the specific global context has to be considered.

Indian states, which have a certain degree of fiscal autonomy but are dependent on transfers from the central government, traditionally pursue irresponsible fiscal policies, essentially waiting for bailouts from the center.
In 2021, India’s current account deficit amounted to $34 billion (2020: $32 billion; 2019: $29 billion; 2018: $65 billion). This was primarily driven by a widening trade deficit. India’s public debt, which is already very high, has sharply increased due to the pandemic. Until 2018, it was around 70%; however, it rose to 89% in 2020 before decreasing to 84% in 2021. Domestic creditors mostly own the country’s public debt. Similar to the preceding two decades, India’s total reserves continued to rise during the review period. In 2021, they reached $594 billion, compared to $432 billion in 2019. This places India among the countries with the largest holdings of international reserves and reduces pressure on the Indian rupee. The Reserve Bank of India’s inflation targeting has played a role in keeping inflation under control and promoting price stability.

9 | Private Property

Overall, property rights in India are adequately defined. The main political actors do not question the principles of private property, private initiative or the need to attract foreign investment. However, there are still several limitations in these policy fields. In 2022, India ranked 58 out of 129 countries (2020: 56 of 129) in the International Property Rights Index, and the score is further declining. A particular weakness is intellectual property rights (IPR). Despite government efforts, India’s IPR regime does not meet international standards. For many years, IPR protection was very weak in India, with piracy, copying and plagiarism widespread phenomena. In 2016, India released a National IPR Policy and established its first intellectual property crime unit in the state of Telangana. In Maharashtra, a Cyber Digital Crime Unit was set up in 2017 as a public-private partnership, aiming to facilitate collaboration between private companies and the state police in the fight against digital piracy. India’s score in the Intellectual Property Rights Subindex declined from 2020 to 2021 and stagnated in 2022.

Private companies in India are considered crucial drivers of economic production and are provided with legal protections. Although the private sector’s role has been bolstered since the start of economic liberalization in the 1990s, India has a longstanding tradition of state-owned enterprises that continue to occupy a significant position in the economy.

Since 1991, the government has pursued a policy of “disinvestment,” selling government equity in public sector enterprises while still retaining majority control. This partial privatization has been used to raise funds, attempting to meet fiscal deficit targets. However, due to adverse financial market conditions, the government did not manage to meet its goals for disinvestment. For FY 2022/23, it had set a goal of ₹650 billion, but it only managed to raise ₹350 billion. Overall, disinvestment is expected to proceed more slowly than planned.
10 | Welfare Regime

Traditionally, social safety nets in India have been based on family structures – and they largely continue to be so. However, a range of reforms initiated in the mid-2000s have substantially 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 state level that address 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 so-called “ration shops” or “fair price shops.” In June 2022, India had the second-largest grain reserves worldwide after China. The Integrated Child Development Services (ICDS) is India’s flagship program aimed at addressing malnutrition and health problems for children and their mothers. The Pradhan Mantri Aawas Yojana is a program to provide affordable houses to poor people in rural and urban areas. Another initiative for this target group is the Deen Dayal Antyodaya Yojana, a skill development scheme that also provides other forms of support to the poor rural and urban populations. However, the effectiveness of many of these programs is questioned, mainly due to corruption and leakages.

The government’s social protection program of cash and food transfers to the poor contributed substantially to the victory of the BJP in state assembly elections held after the pandemic. Government employees benefit from pensions and other forms of support, like subsidized housing.

In 2019, public expenditure on health amounted to 1.0% of GDP, as it did in 2017. Life expectancy at birth has steadily risen over the past decade, from 65 years in 2006 to 69.9 years in 2020. India also showed improvement in other health indicators in recent years, but health conditions remain comparably poor, with a neonatal mortality rate of 20 per 1,000 live births and a maternal mortality ratio of 145 per 100,000 live births in 2020 (according to WHO data).

There are several health insurance schemes sponsored by the central government targeted at employees in the formal sector and at civil servants. During his first term in office, Modi introduced the Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (Prime Minister JAY), a health insurance scheme for the poor called “Modicare.” In recent years, the scheme has faced criticism for not actually providing “free” health care. This is because it operates with fixed reimbursements to hospitals and doctors for specific categories of treatment but does not cover unexpected, higher costs related to comorbidities, among other factors. Other health insurance schemes include the Aam Aadmi Bima Yojana, the Employees’ State Insurance Scheme, and the Pradhan Mantri Suraksha Bima Yojana (PMSBY).
Another main feature of Modi’s reforms in the social sector has been a drive toward digitalization, cash-free transactions and connecting welfare programs with the Aadhaar program of biometric data collection. The latter involves a unique 12-digit number, as well as fingerprint and retina scans, which serve as proof of identity and residence. Virtually all of India’s 1.4 billion inhabitants now have an Aadhaar number, but the system also comes with disadvantages. In particular, the most marginalized groups in society suffer when the cards malfunction or from a lack of (digital) literacy.

Equality of opportunity is enshrined in India’s constitution but 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 programs of affirmative action aimed at promoting their participation. Among them are reserved places for members of Scheduled Castes (SCs), Scheduled Tribes (STs) and Other Backward Classes (OBCs) in the public sector and at universities. The Indian constitution 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 fostering the political empowerment of members of marginalized groups. In some cases, SC members have managed to attain leading political positions.

Discrimination against Muslims and STs has significantly worsened in recent years. Muslims have long been a marginalized community, and their intergenerational upward social mobility has markedly decreased over the past two decades. Under the Modi government, Muslims, along with Dalits, have become victims of an escalating number of mob attacks by Hindu nationalist groups.

Discrimination against women likewise remains a significant problem in India. Particularly in the deeply patriarchal northern regions, women often face discrimination within their own families from the earliest stages of life. For impoverished families, this translates to limited access to food and sanitation. In terms of education, there has been notable progress in primary and secondary schooling, as evidenced by the female-to-male enrollment ratio (Gender Parity Index), now at 1.0. In tertiary education, this ratio is even higher at 1.1. However, India’s female labor force participation rate has steadily decreased over the past few decades, dropping from 27.7% in 2007 to 20.3% in 2021. Although there was a slight increase from 20.0% in 2020, likely influenced by the pandemic, the decline remains significant. Women also occupy a subordinate role in politics, though there are some notable exceptions. In 2021, women constituted 14% of members of parliament in the Lok Sabha, demonstrating a gradual increase over the years. However, the Women’s Reservation Bill, advocating for a 33% quota for women in the national parliament and state legislative assemblies, lapsed after pending in the Lok Sabha for decades. Despite a series of high-profile rape cases since 2012 leading to overdue
amendments to rape laws and heightened societal awareness of the status of women in India, considerable time will be required to bring about substantial changes in general attitudes. India’s performance in the Global Gender Gap Index markedly declined in 2022, to a ranking of 135th out of 146 countries, compared to 2020, when it was 112th out of 153 countries.

11 | Economic Performance

Despite the disastrous second wave of the pandemic that hit India in spring 2021, leading to millions of deaths, according to some estimates, the economy recovered rapidly. According to the October 2022 IMF World Economic Outlook, India displayed a remarkable growth rate of 8.7% in 2021. For 2022 and 2023, the IMF projects growth rates of 6.8% and 6.1%, respectively. This makes India one of the fastest-growing economies in the world. Its nominal GDP in absolute terms in 2021 amounted to $3.17 trillion, and its real GDP per capita to $7,334. India’s GDP per capita growth amounted to 7.9% in 2021.

In 2021, India’s current account deficit rose to $34.6 billion from $32.7 billion in 2020 and $29.7 billion in 2019.

Government efforts to attract foreign direct investment yielded mixed results, with an increase to 2.4% of GDP in 2020 from 1.8% in 2019. In absolute terms, however, FDI inflows declined to $45 billion in 2021 (from $64 billion in 2020 and $50 billion in 2019), according to the World Investment Report 2022. Most investments continued to be directed toward the services sector. A huge challenge for the government remains the creation of as many as one million jobs each month to accommodate India’s growing young workforce. However, the “Make in India” campaign promoted by the Modi government has failed to deliver. The unemployment rate rose to as much as 8% due to the pandemic in 2020 and sank to 6% in 2021 – higher than the 5.4% at which it had stagnated for many years. The introduction of the GST, one of the biggest reforms during Modi’s first term in office, simplified intra-Indian trade and increased transparency. Tax revenues amounted to 12.0% of GDP in 2018 and remained at that level through 2022.
12 | Sustainability

India faces massive environmental problems, ranging from water pollution and water scarcity to waste management issues, soil degradation and biodiversity loss. Globally, the country is also one of the largest emitters of greenhouse gases. The government focuses on growth and investment, leaving environmental issues aside. Among the population, awareness of the environment remains extremely low.

The issue of air pollution has become one of the most pressing environmental problems in India. In 2021, India’s annual average PM2.5 levels reached 58.1 micrograms per cubic meter, reversing a pandemic-induced trend of improvement in air quality and returning to levels similar to those in 2019. According to IQAir, no Indian cities met the goals set by the World Health Organization air quality guideline of 5 micrograms per cubic meter. In fact, in 2021, almost half of India’s cities displayed levels that were more than 10 times higher. In 2019, the government announced the National Clean Air Program (NCAP), which aims to reduce pollution levels across cities. In that context, data collection and availability of data about air pollution have increased. But it is impossible to assess the actual effect of the measures introduced with NCAP because they overlapped with lockdowns and the pandemic. Concerning climate change mitigation, the Modi government has taken a surprisingly proactive stance. While still opposing binding emission targets, the Indian government committed at the Paris climate conference of 2015 that at least 40% of the country’s electricity would be generated from non-fossil sources by 2030. For his engagement in the formation of the International Solar Alliance, Modi was awarded the United Nations’ highest environmental award in 2018, UNEP Champion of the Earth.

However, the government’s rhetoric is not matched by concrete achievements, and its approach to environmental issues has largely been ambivalent. Despite commitments to renewable sources of energy, the Indian economy still relies heavily on coal. According to the Ministry of Coal, coal accounts for 55% of India’s energy production.

To establish or expand any significant project related to the environment, clearance from the Ministry of Environment, Forest and Climate Change (MoEFCC) is required, after an environmental impact assessment (EIA). This includes evaluating environmental and social consequences, as well as a public consultation with affected stakeholders. In 2020, the government introduced a new EIA Draft, which received widespread criticism for weakening previously existing provisions. Critics argue that the new regulations make it considerably easier for industries to avoid environmental responsibility. For instance, projects deemed “strategic” by the government will no longer require clearance, and information about such projects will not be made public.
This would undoubtedly give the government significant flexibility to rapidly approve projects. Waterway projects and the expansion of national highways are among the projects exempted from prior clearance. Furthermore, the 2020 draft permits retrospective clearance of projects that violate the rules.

India’s education policy contributes to a system of education and training that is mostly substandard, with some notable exceptions. The literacy rate in 2018 was 74.4% (2011: 69.3%). India’s score on the U.N. Education Index has stagnated in recent years and was 0.552 in 2021.

There are still significant deficits in access to education, despite signs of improvement. The parallel systems of private and government schools contribute to widening education gaps among different social groups. Interestingly, however, according to the Annual Status of Education Report 2022, the proportion of children (aged 6 to 14) enrolled in government schools in rural areas increased notably from 65.6% in 2018 to 72.9% in 2022. In 2022, enrollment of girls aged 11 to 14 in schools reached 98% – a noteworthy advancement compared to the past two decades.

The Right to Education Act, enacted in 2010, declared education a right for the first time and began addressing the goal of improving the quality of education. In terms of tertiary education, there are numerous private colleges and universities, particularly in the natural sciences. Expenditures for education amounted to 4.5% of GDP in 2020 (no more recent data is available), while expenditures for research and development remained stagnant at 0.7% of GDP between 2012 and 2018. The Modi government continues to make politically motivated, non-merit-based appointments to key positions at universities and research institutions. These hinder the advancement of high-quality academic research. Massive limitations on academic freedom and widespread self-censorship are observed among academics.
Governance

I. Level of Difficulty

The management performance of the Indian government is limited by a range of structural constraints. While poverty has been declining, 44.8% of the Indian population could still be considered poor in 2019, taking a $3.20-per-day poverty line as a point of reference, in 2011 international prices adjusted for purchasing power parity.

India has a growing share of young, well-trained and English-proficient workers, but 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 support for Nepal after the 2015 earthquake has shown. At the same time, the fatal second COVID-19 wave of spring 2021 revealed how utterly poorly India reacted to the pandemic.

One of the main structural obstacles limiting the management performance of the government is the country’s still extremely poor infrastructure. The government has recognized the problem, and improving infrastructure has been one of the main reform goals of the Modi administration. Among the many infrastructure projects are the Delhi-Mumbai Expressway, completion of which is expected in the first quarter of 2023, and the Navi Mumbai International Airport. However, progress has been slow, and the challenges are huge. According to a World Bank report, India will need to invest $840 billion over the next 15 years just to meet the infrastructure needs of its urban population, in addition to the investments needed for railway, road and port infrastructure.

India has a long tradition of civic engagement and a range of national role models in that regard, the best example being Mahatma Gandhi. Millions of NGOs work on a range of issues, including the environment, protecting human rights and 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 shows that people from marginalized social groups also take to the streets and organize to make their voices heard, regardless of the motivation to demonstrate. In 2020/21, massive farmers’ protests forced the government to repeal its contentious farms bills. Unions and employer associations remain relatively fragmented and are often affiliated with political parties.
Despite the strength of civil society, social trust is still rather low, and the situation is worsening due to increased social tensions, particularly among religious groups. According to the social capital subindex of the Legatum Prosperity Index 2021, India ranked 68th out of 167 countries, with some improvement compared to 2019 (78/167).

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. The greatest danger to peace in India is the transformation of the religious cleavage between Hindus and Muslims into a dominant conflict. The increased room to maneuver for Hindu nationalist groups under the Modi government has led to an increase in violence against and intimidation of the Muslim minority, and to the establishment of a majoritarian Hindu discourse.

However, a range of violent conflicts continue to exist in different parts of the country. During the review period, the situation in Jammu and Kashmir, the world’s most intensely militarized region, remained tense after the abolition of the special status of the state and its dissolution in 2019 into two union territories controlled by the central government. Due to repression, violence did not flare up afterwards, but there is significant dissatisfaction among the local population. The Naxalite conflict in central India saw a further decline in violence during the review period (136 casualties in 2022; 237 in 2021 according to the South Asia Terrorism Portal). In the northeastern states, violence by armed groups substantially decreased (only 19 casualties in 2022, 72 in 2021, according to the South Asia Terrorism Portal, SATP).

II. Governance Performance

14 | Steering Capability

Prime Minister Modi’s BJP won an absolute majority in the 2019 elections and thus does not depend on coalition partners to govern. Despite its dismal performance in the management of the pandemic, it still enjoys a substantial amount of support among the population. It therefore has room to maneuver to carry out important reforms. COVID-19 has obviously impacted the government’s long-term reform plans – be it on matters of infrastructure development or promotion of the manufacturing sector. So far, no particular mechanisms have been established to enhance strategic capacities within the government. As in recent years, Modi’s programs and schemes have in many cases amounted to blind activism, and implementation has been rather poor. This seems to correspond to a typically populist
desire to keep popular support alive while stylizing the prime minister as a charismatic savior, solving the problems of the nation in a highly personalized fashion. The limitations of Modicare reveal the limits of prioritization and strategic planning by the Modi government. Hindu nationalist ideology has also led to increasingly protectionist attitudes and to the reintroduction of old notions of self-reliance for the Indian economy. At the same time, ambitious projects like the countrywide introduction of online payments and the financial inclusion of the poor segments of society have been quite successful.

The Modi government has in many ways failed to achieve its own declared priorities. In 2014, Modi was elected on a development platform, promising “good days” and development for everybody. While India’s economy performed well in the aftermath of the COVID-19 pandemic and the government has benefited from cheap energy imports from Russia since Russia’s full-scale invasion of Ukraine, government performance has been poor on many indicators. In particular, mismanagement of the pandemic led to hundreds of thousands of deaths during the second wave. The government also faced problems implementing its “Make in India” campaign and achieving its goal of increasing self-reliance through industrialization.

When it comes to the government’s Hindu nationalist goals, these were pursued more successfully by far. Under Modi, India has been implementing a range of longstanding demands of Hindu nationalists, including the termination of special autonomy for Jammu and Kashmir and the introduction of the Citizenship Amendment Act. The weakening of press freedom and democratic institutions is another indication that the government is successful at realizing its own understanding of India as a majoritarian state.

The BJP-led government of Prime Minister Modi has been flexible and dynamic in 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. However, initial reforms, for example, related to economic liberalization, fell victim to Hindu nationalist ideology, leading to renewed protectionism. At the same time, the government’s flexibility is limited when it comes to issues such as unprofitable state enterprises. Most of the reforms it introduced are rather cosmetic in nature. The Modi government keeps renaming or rebranding existing schemes and programs, with little change in substance. The willingness to learn from international partners seems to have decreased given the growing suspicion of NGOs, especially foreign ones, which are often perceived as meddling with internal affairs and possibly even hampering India’s growth prospects. The government certainly attempted to mitigate the severity of the pandemic, but with rather limited flexibility, which has led to dismal crisis management. Further centralization and personalization of decision-making likewise occurred.
When it comes to the efficient use of available resources, the performance of Narendra Modi’s government is ambiguous and partly contradictory. On the one hand, Modi came to power with the explicit aim of reducing bureaucracy and governing more efficiently according to the motto “minimum government, maximum governance.” However, several of the measures introduced by the government are piecemeal, and changes are slow to implement. The Ministry of External Affairs has been clearly marginalized from decision-making on foreign policy in an ever-more centralized, personalized decision-making system. The use of budget resources continues to be inefficient, but increased tax revenues have proved helpful. The government is expected to meet its FY 2022/23 fiscal deficit target of 6.4% of GDP, and the general government deficit is expected to fall to 9.6% from 10.3% in FY 2021/22. Resource efficiency, however, is hampered by politically motivated appointments of unqualified people, who are often members of the Hindu nationalist RSS.

The Indian state inherited an entrenched, organized bureaucratic system from the British colonial government. Formally, recruiting procedures, regulated by the Union Public Service Commission, are transparent. Recruitments to the bureaucracy happen along with affirmative action provisions through reservations for disadvantaged social groups as per constitutional requirements. Reservations have generated debates on quota vs. merit and the impact of such a system on the bureaucracy’s efficiency. The BJP government has made provisions to allow lateral entry into the bureaucracy, creating recruitment opportunities that may be politically motivated. Politically motivated dismissals and appointments have seriously impacted the system’s efficiency.

When it comes to “responsible” decentralization, progress has also been only cosmetic. Modi has claimed to further empower the states under the principles of “cooperative” and “competitive” federalism. De facto, the states’ competencies in the Indian Union have been eroded, and several state governments have criticized the central government for trying to undermine them on purpose. For example, a scheme called “One nation, one registration” was presented in the 2022 budget. It envisages all registrations (e.g., for vehicles, land, etc.) to take place in a centralized procedure instead of at the state level.

The Indian government tries to coordinate conflicting objectives, but frictions and redundancies among different government agencies remain significant. The Modi government has made explicit efforts at improving coordination, for instance, by unifying the Indian market through the introduction of the Goods and Services Tax. Yet, during the review period, personalization and centralization continued, as the main modes of coordination focused on the prime minister and a small circle of his advisers. Before the deadly second COVID-19 wave of spring 2021, for example, the government failed to take into account the recommendations of the Indian SARS-CoV-2-Genetics Consortium of scientists, which warned that new deadly variants of
the virus were spreading, and of the Indian Parliamentary Committee on Health and Family Welfare, which stated in November 2020 that India should prepare to fight a second wave of the pandemic. Ignoring these suggestions, several members of the Modi government claimed in early 2021 that India had “defeated” the virus. Moreover, the National Task Force for COVID-19, an expert group created to give advice to the Ministry of Health and Family Welfare, did not meet between February and March 2021, which would have been the most crucial moment to prevent a second wave. Beyond this, the government failed to prohibit large political and religious gatherings, such as the Hindu festival Kumbh Mela, which is believed to have launched in great part the second wave of infections.

Fighting corruption was the main plank of the BJP’s electoral campaign in 2014 and has remained an important issue since. Prime Minister Modi himself is considered clean and pays great attention to promoting an image of himself as a servant of the nation, dedicated only to the welfare of his people. When it comes to actually fighting corruption, however, Modi’s approach has been mostly based on highly visible, publicized, but barely effective initiatives, such as the effort to fight “black money” through “demonetization” in 2016. More serious institutional initiatives, such as the formation of an anti-corruption body called Lokpal, were only implemented with much delay and as half-hearted measures. India also has a Central Vigilance Commission, which was created to address government corruption, and a Central Bureau of Investigation, which targets corruption more generally. The latter, however, has expanded its activities in recent years, provoking considerable criticism for being used as a tool to persecute critics of the government.

In 2017, the government changed the rules for party financing. Among other things, it removed the cap on corporate donations to political parties, allowed companies with partial foreign ownership to make donations and removed disclosure obligations for companies concerning their financial support of political parties. Most importantly, “electoral bonds” were introduced, which allow individuals and companies to deposit money in the bank accounts of political parties with the State Bank of India in a completely anonymous fashion. The BJP was the party that benefited most from the new regulations, with inflows of INR 2.1 billion in 2017/18 and a remarkable INR 25.6 billion in 2019/20. The government can access data at the State Bank of India, thus undermining the anonymity of donations – which helps explain the overwhelming prevalence of funding for the BJP.

Vote buying remains a widespread practice: ahead of the 2019 general election, liquor, drugs and other goods worth over $400 million were seized that were intended for distribution to buy support from voters.
16 | Consensus-Building

The democratic principles of the Indian state are not openly called into question by any relevant political actor, even though, in recent years, there have been increasingly authoritarian tendencies and a weakening of democratic institutions by the BJP-led government. What has been increasingly openly called into question, though, is the secular nature of the Indian state. Rahul Gandhi of the Indian National Congress (INC) tried to revive the constitutional commitment to secularism with his “Bharat Jodo Yatra” (“Unite India March”) in early 2023, but the INC continues to be weak ahead of the 2024 elections.

Narendra Modi’s government has clearly pursued economic liberalization, but it has also faced increased influence from radical Hindu nationalist forces that oppose what they perceive as a “Western-style” economy. As a result, protectionist policies promoting “self-reliance” have been implemented. Some critical voices in the media and certain leftist parties continue to oppose the government’s economic reforms, including the abolition of subsidies and the establishment of special economic zones.

The BJP-led government has increasingly become an actor that challenges the democratic foundations and institutions of the Indian state. Additionally, the influence of hard-line Hindu nationalist groups has further increased. These groups seek to undermine the fundamental principles of the Indian state by calling its secular credentials into question and seeking to make India a Hindu nation. Their polarizing attitude reinforces the religious cleavage within India’s society and gives them strong potential to disrupt current reform processes. The space for reformers to co-opt and exclude anti-democratic actors became increasingly narrow during the review period.

Other actors challenging the Indian state and its democratic foundations have become much less influential and relevant during the period under review. Among them are the Naxalites, Maoist-inspired rebels fighting for the rights of the landless and the tribal population in central India, with the declared goal of subverting the Indian state. Yet, they do not represent a political force with any means to challenge the state, and they have been further weakened during the review period, as is demonstrated by the decreasing number of fatalities related to their activities.
Indian society is characterized by the existence of multiple cleavages related to caste, religion and ethnicity. The constitution provides for the mitigation of potential conflicts through the principle of secularism, the federal structure of the state and provisions for the political representation of otherwise marginalized social groups. However, the willingness of the political leadership to depolarize society and prevent further division along these lines declined further during the review period. Of all the cleavages, the religious one has been the most substantially exacerbated.

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, as the result of the multiplicity of cross-cutting cleavages, which mostly do not overlap. This has prevented the formation of large opposition coalitions. The biggest danger appears to be the strengthening of the Hindu-Muslim religious cleavage and the risk that it might supersede the others, thereby breaking the current fragile equilibrium.

A large number of non-governmental organizations of all kinds exist in India. Civil society is increasingly active and has been able to compensate for a lack of formal access to policymaking by mobilizing large numbers of supporters in huge nationwide demonstrations. However, civil society participation and consultation during policy formulation and implementation, or in agenda-setting and monitoring, is rather limited. Prime Minister Modi, in truly populist fashion, claims to speak in the name of the “people,” for example, by asking citizens to directly send him their requests and then addressing some of those issues in his monthly radio speeches. But when it comes to actual decision-making, processes have become ever more centralized and less participatory. Most notably, in the management of the COVID-19 pandemic, no meaningful civil society participation occurred.

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 to the overburdened justice system on the one hand and delays (and sometimes major flaws) in police investigations on the other. The response to the atrocities committed in Kashmir and against Muslims and members of Scheduled Castes (SCs) has been extremely poor.
The BJP-led government of Prime Minister Modi has a clear focus on economic growth, but it has also continued to address the development agenda, placing great emphasis on self-sufficiency and autonomy. In 2003, India declared that it would accept bilateral development assistance only from a limited number of states, namely Germany, Japan, Russia, the United Kingdom and the United States (the British Department for International Development ended traditional financial aid to India in 2015). The BJP-led government sticks to this policy and has massively curtailed the activities of foreign NGOs in the country, which are perceived as meddling with internal affairs. Indian institutions are often perceived by international donors as “difficult” partners to deal with in a bilateral setting. However, India’s focus on sovereignty and noninterference does not imply a general unwillingness to cooperate with international partners, particularly with multilateral institutions, or to seek support in the field of development. Several social programs promoted by the Indian government were developed with international assistance, for example from the World Bank. During the second wave of the pandemic, the government accepted assistance from abroad. In 2022, it also took out loans totaling $1 billion from the World Bank to support its health sector in pandemic preparedness.

In recent years, India has come to be perceived as an increasingly influential international actor. The negotiating position of the Indian government has often been uncompromising on issues seen as endangering its domestic needs or as undermining the principles of sovereignty and noninterference. Among many examples are India’s position in trade negotiations, its long refusal to accept binding targets for greenhouse gas emissions, its ambivalent approach to norms such as the principle of the Responsibility to Protect, and its refusal to sign the Non-Proliferation Treaty (NPT) or the Rome Statute on the International Criminal Court. India is a founding member of the International Labor Organization (ILO). However, the labor rights of religious or ethnic minorities are often undermined. Concerning climate change targets, India has pledged to become a carbon-neutral economy in 2070, which is not in line with the requirements of the Paris Climate Accord it has signed. Also, despite the goals set by the government, studies suggest that India’s carbon dioxide emissions may not peak until 2040. Other goals worth mentioning are the country’s plan to produce 50% electricity from renewable sources by 2030. India is not on the pathway to 1.5° warming yet, but international observers and rankings such as the Climate Change Performance Index (2023) attest to its efforts to meet its climate goals. It ranks eighth out of all countries monitored in the study. Given this high ranking, India appears to be a significantly more reliable partner in combating climate change than China (51st) or the United States (52nd). While international awareness of democratic backsliding under the BJP-led government has increased, India is still largely perceived as a responsible international actor and a reliable partner.
India’s relations with its South Asian neighbors have been difficult for decades. The long-standing conflict with Pakistan substantially hampers any meaningful forms of multilateral regional cooperation. The charter of the South Asian Association for Regional Cooperation (SAARC) explicitly excludes the discussion of “contentious and political issues.” India itself pushed for the inclusion of this clause in the charter, thereby undermining regional cooperation. With smaller neighboring countries, India has long had difficult relationships shaped by the extreme power asymmetry, small states’ fears of being “absorbed” by India, and India’s (often inconsistent) meddling in their internal affairs. Despite its successes in global politics, India has largely failed in its regional policy; it has neither developed a “vision” for its region nor provided leadership or made concessions to neighboring countries. Additionally, it has not been able to limit China’s influence in what has traditionally been its sphere of influence.

During the review period, the Indian government pursued an approach toward its neighbors that did not differ significantly from previous phases. While no new major violent encounters took place with the armies of Pakistan and China, relations with both neighbors were quite tense. For example, in December 2022, hundreds of Indian and Chinese soldiers were involved in skirmishes in the Tawang region. No deaths were reported, and no firearms were used.

When it comes to relations with the smaller countries in the neighborhood, the Indian government has not made substantial progress, despite its wish to be seen as a “first responder” during emergencies. Instead, it had to face growing Chinese influence in countries like Nepal. The Taliban takeover of Afghanistan in August 2021 was a further blow to India’s influence in the region.
Strategic Outlook

In recent decades, India has achieved notable success in driving transformation. Its democracy has demonstrated stability and resilience in the face of external crises. However, the ruling Bharatiya Janata Party (BJP), a Hindu nationalist party, and affiliated organizations have increasingly propagated a majoritarian narrative that could potentially undermine the country’s social cohesion.

Economic liberalization has propelled India into a story of growth success, positioning it among the ranks of prominent “emerging powers.” The economy also exhibited a swift recovery after the worst phases of the COVID-19 pandemic. Nonetheless, growth has been relatively “jobless,” although the country must create up to a million jobs per month to employ its growing workforce. Agricultural performance has lagged, and stark regional disparities persist, which temper India’s developmental achievements. While economic growth has contributed somewhat to poverty reduction, it has concurrently exacerbated inequalities among social groups.

For the Indian government to maintain economic momentum and successfully drive transformation, it is crucial to steer clear of protectionist policies catering to hard-line Hindu nationalist factions. Continuous investment in infrastructure development is essential, given that subpar infrastructure deters foreign investors. Similarly, international companies express concerns about the opacity of the operational processes of Indian institutions and bureaucracy. While the ease of doing business in India has improved in recent years, endemic corruption remains a significant issue. Prime Minister Modi’s anti-corruption rhetoric aligns with his populist goals, but it should be coupled with substantive policy measures aimed at bolstering anti-corruption institutions and ensuring transparency.

Unfortunately, the likelihood of achieving this kind of development is diminishing due to the erosion of democratic institutions under the BJP-led government. Addressing this situation involves strengthening the understaffed judicial system and undertaking comprehensive police reform, which would bolster citizens’ trust in institutions.

Over the review period, the most concerning trend has been the further consolidation of what some scholars term a “majoritarian state” in India. Hardline Hindu nationalist groups have become more vocal and are witnessing the implementation of key aspects of their agenda. The Muslim minority has faced growing marginalization and discrimination. Suppression of dissent and censorship of criticism have escalated, leading to increased limitations on press freedom. Resistance in Jammu and Kashmir has been quelled. The Rashtriya Swayamsevak Sangh (RSS) members have assumed influential roles in various institutions, including academia, resulting in unprecedented self-censorship and pervasive control. Critical foreign NGOs have, in practice, been barred from operating in the country.
Several observers suggest that Indian democracy is at a critical juncture. The country’s robust civil society traditions and the widespread support for democracy among the populace might prevent further democratic erosion. However, the opposition remains feeble, and its prospects for success in the 2024 elections are dwindling. Despite his mishandling of the second wave of COVID-19 in 2021, Modi’s popularity remains high. Rahul Gandhi of the Indian National Congress is a relatively weak counterpart and has been disqualified from running in 2024. No other charismatic opposition leaders have emerged. While other parties thrive at the state or regional level, they lack nationwide appeal. The Aam Aadmi Party, which has been part of the Delhi government for years, is not exclusively regional but has struggled to garner national support. A coalition of opposition parties seems to be the only way to prevent the BJP from further undermining Indian democracy. However, forming such a coalition is becoming increasingly challenging, considering the hostile institutional environment.