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A YEAR OF NARENDRA MODI: India and the world remain expectant

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Narendra Modi completes a year as head of the Indian government with his balance sheet in credit, but the prevailing mood is one of slight disappointment. The macroeconomic picture –lynchpin of Modi’s victory– has substantially improved: India grew 7.5% in the first quarter of 2015 (displacing China as the world’s fastest growing economy), with inflation falling from double-digits to below five percent; the rupee has stabilised; and deficits in both current accounts and fiscal terms are moving in the right direction and remain under control. But Modi is judged less in terms of these results than the enormous expectations raised during his electoral campaign. And the aspirational India that brought him to power, demanding, above all, prosperity, consumption, efficiency and transparency in public administration, has shown its dissatisfaction with the gradualist pace of change and the prudence shown in the government’s domestic policy. The *achhe din*, the “good days” Modi promised during the campaign, have yet to arrive. The country

remains expectant given Modi’s promise and conviction that this is to be India’s century. This is intrinsically linked with the foreign policy agenda where, in stark contrast to the domestic front, the prime minister has made a powerful impression.

Modi seems determined to redefine India’s regional and global role, although New Delhi faces dilemmas and international challenges that are at least as complex as those on the domestic agenda.

A bittersweet balance sheet

Narendra Modi won a sweeping victory in the May 2014 general elections. Under his leadership, the Bharatiya Janata Party (BJP) surpassed all expectations and obtained an absolute majority that is unprecedented in the last thirty years. The landscape is radically different from that of the previous decade when the Congress Party (Indian National Congress) led administrations supported by broad, complex parliamentary coalitions. The BJP’s electoral triumph opened the door to a

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However, the aspirational India that brought Modi to power, demanding, above all, prosperity, consumption, efficiency and transparency in public administration has shown its dissatisfaction with the gradualist pace of change and the prudence shown in the government’s domestic policy.

The impatience of those who fear that Modi’s focus is on consolidating his own power and that of the BJP is intensifying. They say he is avoiding making unpopular structural reforms and thereby squandering the unique opportunity that his parliamentary majority provides.

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strong government with the capacity to address structural reforms.

In the year since the elections, the economic situation has improved. Nevertheless, those who expected a Big Bang that would unleash India's massive economic potential (especially following a victory that freed the government from pacts and parliamentary servitude) have been disappointed by the gradualist line taken and, in part, the continuity maintained with the preceding (much discredited) Manmohan Singh government. In fact, the main criticism regarding the budgets presented by the finance minister, Arun Jaitley, is precisely that of being more of the same. Jaitley claims that these budgets lay the foundations for a decade of sustained, robust growth in India and that the good economic performance of recent months confirms his hypothesis.

However, this boom, and particularly when it comes to the current account deficit and inflation, is inseparable from the fall in oil prices from approximately \$100 to \$60 a barrel between May 2014 and May 2015. The favourable international climate intensifies rather than dissipates the impatience of those who fear that Modi's focus is on consolidating his own power and that of the BJP. They say he is avoiding making unpopular structural reforms and thereby squandering the unique opportunity that his parliamentary majority provi-

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des. Euphoria and excessive and unrealistic expectations raised during the electoral campaign have given way to doubts that are, in turn, premature. Modi still has four years ahead of him and it is too soon to rule out further-reaching measures over the coming months.

For now, the government has adopted a combination of measures, some of which are symbolic while others are more meaningful. In the first category, the abolition of the Planning Commission, a relic of the days of Nehruvian socialism, should be mentioned. In the second are the deregulation of diesel prices and their subsidisation. This measure has long been requested for the sustainability of the public coffers, but socially it is a delicate issue and its impact will only really be visible when oil prices rise. The **Jan-Dhan Yojana**, a plan that envisages all Indian families being included in the banking system, is another of the initiatives that is worth mentioning. Its implementation has led to the opening of 125 million new bank accounts in just four months, many with no initial funds and which are owned by citizens with few resources. This access to the banking system will allow, among other things, subsidies to be paid directly from the Government to the recipients, eliminating a system of intermediaries that is riddled with small-scale corruption and which has had particularly damaging effects on this segment of society. Another initiative focussed on the most vulnerable sectors is the creation of the **Mudra bank** to provide micro credits, from which it is hoped some 60 million small businesses may benefit.

The government's two most ambitious legislative initiatives -the creation of a unified consumption tax for the whole of India and reform of the acquisition and expropriation of lands- have been suspended. The first, the Goods and Services Tax (GST), is an attempt to create a genuine Indian national market with a tax similar to European VAT which would mean eliminating taxes at state level. It is hoped that this measure will add a point or a point and a half to GDP. This proposal generates broad consensus, but the possibility of it going ahead will depend on the central government's capacity to get the agreement of a sufficient number of states (India's federal units).

The second initiative, relating to the acquisition and expropriation of land, is more controversial and has already raised enough controversy to put the government on the defensive. Delhi intends to reform what was one of the Singh government's flagship laws, which, fundamentally, strengthened the capacity of rural communities in the face of expropriations.¹ The current government wants to eliminate at least two of the main clauses from this law -one relating to "informed consent" and the other to the "social impact assessment"- when projects are related to national security, strategic infrastructure and industrial corridors. Both clauses, particularly that relating to informed consent, which requires acceptance by 80% of the community involved, can slow or indefinitely block all kind of projects.

The government's determination to facilitate the development of infrastructure (which India urgently needs) is as understandable as the fears held by peasants who are frequently the victims of abuses and deception in expropria-

tion processes. The government's initiative also coincides with a year of poor harvests due to bad weather, which has led to protests and a tragic wave of peasant suicides. Rahul Gandhi, leader of a weakened Congress Party and heir to the Nehru-Gandhi dynasty has not missed the opportunity to attack Modi with serious accusations on this issue. According to him, Modi was loaned money for his campaign by large Indian corporations and now intends to pay off the debt by allowing them to appropriate the terrains of small landowners.

Nevertheless, Rahul Gandhi has presented no evidence or proof to back the accusation up and neither does he have any alternative proposals for improving the poverty-stricken situation of the peasants while at the same time developing infrastructure. These issues -alleviating poverty and developing infrastructure- are not incompatible but complementary. Agriculture employs more than 50% of India's workers, but provides no more than 15% of its GDP. This low productivity is the result of multiple factors, among which are the lack of irrigation and transport infrastructure (it is estimated, for example, that 30-40% of harvests are lost before reaching market) and the lack of financial services. For this reason it is envisaged that, between now and 2050, some 400 million people will emigrate from the

1. The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.

countryside to the cities. Sticking to the same policies as previous decades does not seem likely to produce any result other than the perpetuation of a poverty that is endemic and structural. But Rahul Gandhi's Congress Party capacity and desire to agitate protests on this issue will greatly complicate the government's action in the second year of its term.

Assessing Modi's first year leaves him in credit but less spectacularly so than expected. Two recent surveys published by *Live Mint* and *The Times of India* reveal that, though Modi's popularity has suffered, it remains high (around 70%) and the Indian people's evaluation of the first year of his government is mainly positive. India, then, still believes in the "Modi effect".

Laying the foundations for lasting Modi and BJP hegemony?

The BJP's historic victory in May 2014 has raised doubts about whether parliamentary coalitions are still a sine qua non condition for forming governments in India. Modi's victory shows that large majorities are still possible, but it is premature to speak of the end of the "age of coalitions". Modi and the BJP won their victory on their own merits; that they were so overwhelming was the result of an environment characterised by a set of **difficult-to-repeat circumstances** which invite caution when making medium- and long-term projections.

Modi's victory (282 seats, 171 million votes, 31% support) surpassed all expectations, including even the BJP's most optimistic. The win was also accompanied by a historic (and heavy) defeat for the Congress Party, the traditionally dominant force in Indian politics since independence in 1947, which received a paltry 44 seats (although it still received nearly 107 million votes, 19% of the total). The Congress Party and the BJP are the only political forces with genuinely national reach and between them they represent around 50% of the votes and 326 seats. These figures are in no way negligible, but they should be placed in the context of a country that is plural and complex. The 217 seats (and some 276 million votes) remaining are shared between an amalgam of 33 political parties that are by nature highly diverse (regional, communist, populist and caste-based).

The consolidation of Modi's personal power and that of the BJP as hegemonic in India has been one of the (implicit) priorities of the first year of his government and explains, in part, Modi's reluctance to adopt potentially unpopular measures. A first essential step for this consolidation is to increase the BJP's power at state level (regional) and, consequently, in the Rajya Sabha or Council of States (the upper house of the Indian parliament). In this second chamber, the BJP remains a long way from being the leading force (as of **June 2015** it holds 47 seats compared with 68 for the Congress Party). Add in its allies and the BJP reaches 63 seats, a figure that is still insufficient in a body with 245 members and the capacity to block the laws emerging from the Lok Sabha. Hence, Modi's first points of attention were the elections in the states of Haryana, Maharashtra, Jharkhand and

Kashmir (between October and December 2014). In the first three states, the BJP won the elections by a large majority (snatching the first two away from a collapsed Congress Party) and in Kashmir it climbed to second place.

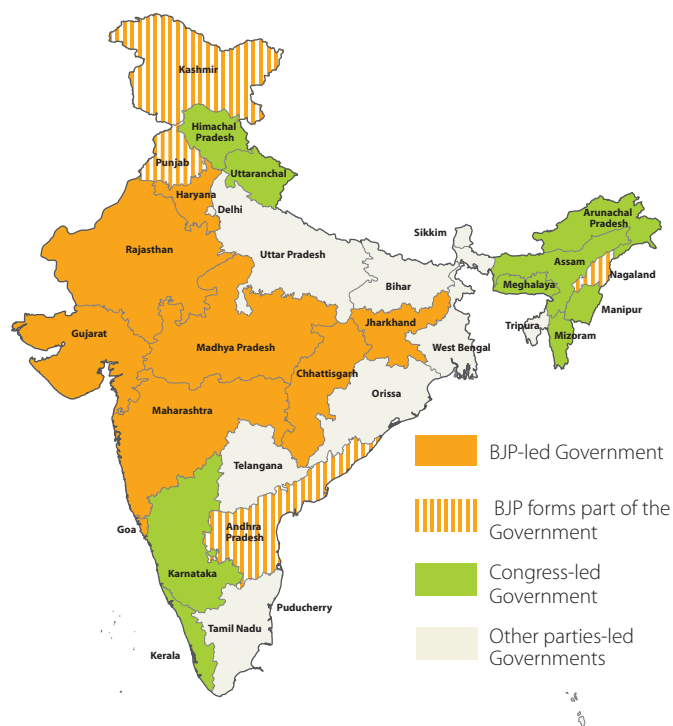
After this series of victories, the BJP now governs in eight states (Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Madhya Pradesh, Maharashtra and Rajasthan) and forms part of the government in another four (Andhra Pradesh, Kashmir, Nagaland and Punjab) of the 29 that make up India. It is the greatest accumulation of power in the hands of the BJP in its history, but some important states remain outside, such as Uttar Pradesh and Bihar (where the BJP may have a chance) and others such as West Bengal and Tamil Nadu (where its options seem to be fewer). The upcoming autumn 2015 elections in Bihar will be crucial for the Modi administration. In the elections held in 2016 -Tamil Nadu, West Bengal, Kerala, Puducherry and Assam- except in this last north-eastern state, the BJP has, in principle, only a small chance, which could encourage the central government to take a more decisive line in its reforms.

Modi's aura of invincibility evaporated with an unexpected first heavy defeat in the New Delhi (Indian Union territory) elections in February 2015 at the hands of the returning Arvind Kejriwal at the head of the Aam Aadmi Party (AAP). The AAP, or the Common Man's Party, is a

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recent creation that has arisen out of the social movements of anti-corruption protest, has similarities to the anti-establishment "indignados" movements in Europe and aspires to ensuring "**political power is returned to the hands of the people**". The AAP made a flying start to the Delhi elections in December 2013 with Kejriwal becoming leader of the government with the support of the Congress Party, despite the BJP being the most voted force. Nevertheless, after 49 chaotic days, Kejriwal surprisingly resigned. In the May 2014 general elections, the BJP got the seven seats allocated to Delhi in the Lok Sabha. That made the February 2015 defeat even more painful for the BJP. The AAP was empowered by winning 67 of the 70 seats available. The three remaining went to the BJP (who lost 29 compared to 2013) and the Congress Party disappeared from the political scene in the capital.

Of the many readings that can be made of these results at least two stand out: on the one hand, the volatility of the urban vote and on the other the impatience of this same section of voters who seem to have punished not only the BJP candidate (Kiran Bedi), but also Modi himself, who participated actively in the campaign. Modi's chances of leading India for the next decade -which means renewing his mandate in the 2019 elections - remains strong, but it is foreseeable that over the course of the term the impatience and the level of pressure coming from the Indian electorate will continue to grow.



The growth in China’s push towards South Asia worries New Delhi, while Pakistan remains India’s main source of preoccupation.

Redesigning India’s regional and global role

The international dimension has played a central role in the first year of the Narendra Modi government. The new prime minister has visited 19 countries, spent 52 days outside the country, met with the major world leaders and breathed new life into India’s foreign policy, giving it a more clearly economic profile and better strategic projection. On the agenda two main objectives appear: on the one hand, transforming the adverse regional context – which, fundamentally, refers to Pakistan and China’s growing projection into South Asia; and, on the other, laying the foundations for India to act as a leader with global influence – which means strengthening the domestic economy, attracting foreign investors, consolidating a strategic link with the USA and redefining relations with China and New Delhi’s role in the Indo-Pacific basin. Those were the objectives underlying the intense diplomatic activity rolled out by Modi in the first year of his mandate (see attached table).

India must, first of all, deal with its complicated and adverse neighbourhood. All its neighbours except Bhutan and the Maldives figure in the top 35 of the **ranking of fragile states** produced by the Fund for Peace and, again with the exception of Bhutan and the Maldives, all harbour serious resentments towards New Delhi. The reasons are fundamentally political and have serious implications for Indian security, as well as hindering its economic opportunities and global aspirations. Turning this situation around is one of the priorities on Modi’s

agenda, and his inauguration ceremony in May 2014 was the perfect demonstration of the importance given to its immediate neighbours. The **leaders** of all neighbouring countries (including the Pakistani prime minister) attended, marking a milestone in the history of South Asia, a region that is prone to conflict and poorly integrated. So it is that despite the fact that the eight countries have established the South Asian Association for Regional Cooperation (SAARC),² economic and trade relations between them are scant, not to say non-existent, and communication is profoundly deficient.

In these twelve months of Modi’s government, relations have notably improved with Sri Lanka, Nepal (where Indian collaboration was key following the devastating earthquake in 2015) and Bangladesh (with the signing of a historical agreement in June 2015 to overcome border disputes). The improvement in the links with these neighbours has the implicit objective of counteracting their growing relations with Beijing. The growth in China’s outreach towards South Asia worries New Delhi, particularly when it comes to the close relationship between Pakistan and China, traditionally defined by Chinese diplomacy as “higher than the Himalayas and deeper than the oceans” and, more recently, by the prime minister of Pakistan, Nawaz Sharif, as “sweeter than honey”.

Pakistan, despite the seven decades that have passed since partition, remains India’s main source of preoccupation. It is no accident that there have been four wars between them (1947-8, 1965, 1971 and 1999) and that even in recent years another has been close on two occasions (2001-2002 and 2008). Both came after serious terrorist attacks masterminded in Pakistan. The first was on the parliaments of Srinagar and New Delhi and the second on the city of Mumbai. For decades, India has sought functional accommodation with its problematic neighbour. The strength of the sectors of the Pakistani army and intelligence services (ISI), who have no strategic interest in a lasting peace with India, is the main obstacle to this. The protection they give to a significant part of the jihadist terrorism based in the country is New Delhi’s main concern. The still insufficient capacity to project military power and, above all, the uncertainty generated by a hypothetical passing of the nuclear threshold in an escalation with Islamabad makes it an exceptionally adverse and complex setting for India to respond to and its development will depend, in large part, on the role of China. That is to say, on Beijing’s influence over Islamabad.

The relationship between China and India is ambivalent to say the least. In the past year, New Delhi has attempted to broaden the scope of this relationship, which is greatly constrained by the unresolved border disputes and strategic mistrust. In Indian thinking, it is important not to lose sight of the significance of the traumatic defeat in the 1962 war. President Xi Jinping’s vi-

2. Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka.

Modi's international schedule in his first year as prime minister

	Modi trip to	Visit to India by
2014		
June	Bhutan	
July	BRICS summit in Fortaleza (Brazil)	
August	Nepal	
	Japan	
September		Prime Minister Tony Abbott (Australia)
	USA (UN Assembly and White House visit)	President Xi Jinping (China)
October		Prime Minister Nguyen Tan Dung (Vietnam)
November	ASEAN meeting in Naypyidaw (Myanmar)	
	G20 summit in Sydney (Australia)	
	Australia	
	Fiji	
December	SAARC summit in Kathmandu (Nepal)	President Vladimir Putin (Russia)
2015		
January		Presidente Barack Obama (EEUU)
February		Presidente Maithripala Sirisena (Sri Lanka)
March	Sri Lanka	
	Mauritius	
	Seychelles	
April	France	
	Germany	
	Canada	President Ashraf Ghani (Afghanistan)
May	China	
	Mongolia	
	South Korea	
June	Bangladesh	

Fuente: Table is author's own using information from Gateway House (Indian Council on Global Relations): <http://www.gatewayhouse.in/modi-one-year-the-busy-diplomat/>

sits to India (September 2014) and the subsequent one made by Modi to China (May 2015) were full of symbolic gestures and economic and trade agreements. Modi hopes China will invest massively in infrastructure and industrial corridors in India (\$100 billion according to the memorandums signed). But this economic dimension, which is key to Modi's domestic agenda, clashes with the geostrategic issues. Thus, for example, after visiting India, Xi Jinping travelled to Sri Lanka and the Maldives and, despite the fact that this kind of tour is traditional in Chinese diplomacy, it was not well-received by New Delhi; nearly as badly, in fact, as the quick visit made by Xi Jinping to Islamabad in April, one month after receiving Modi in China. "We should be sensitive to each other's interests" was one of the comments made by Modi during his joint press conference with Li Keqiang in Beijing.

After his trip to China, Modi visited Mongolia and South Korea. In part, this was to replicate the previous tour made by Xi Jinping to India's neighbours. In the case of South Korea, as with Japan -one of the first countries visited by Modi given his fluid relationship with Shinzo Abe, the Japanese prime minister- India, as well as strengthening its geopolitical weight, is seeking to attract investment and technology transfer. As with every major initiative launched by Modi, attracting foreign investment benefits from an impeccable marketing plan. *Make in India*, whose slogan is "sell anywhere, but manufacture here",

is the frame of reference. Through this initiative, Modi believes he will attract sufficient foreign investment to allow him to fund the development of the infrastructure and productive industrial fabric required to absorb a growing workforce. The Make in India plan was launched in September 2014 and lavishly presented in April 2015 at the **Hamburg Messe** trade fair in the presence both of Modi and the German chancellor, Angela Merkel. On Modi's tour of Europe, France -India's other strategic ally in the European Union- finalised the sale to India of 36 Rafale jet fighters. The EU itself, like the other member states, continues to have only a modest place on New Delhi's list of priorities.³

The USA is the other large vector on India's foreign policy agenda and expectations facing this new phase are, on both sides, very high. Modi and Obama have given significant signs of mutual interest. Coinciding with Modi's visit to the United States in September 2014 - which included a spectacular meeting in Madison Square Garden in front of 18,000 people,

3. A visit to Spain by Modi to celebrate the 60th anniversary of diplomatic relations between the two countries is envisaged in 2016. This, along with the visits of the then prince and princess of Asturias to India in November 2009, of King Juan Carlos in October 2012, and the most recent of minister García-Margallo in April 2015 may lay the foundations for a significant reinforcement of bilateral relations, particularly given the economic and strategic complementarities between the two countries.

many of them of Indian origin – the two leaders published a joint article, titled “A renewed US-India partnership for the 21st century”, in the *Washington Post*. And Obama himself wrote Modi’s profile in *Time* magazine’s special edition on the 100 most influential people. In January of this year, Obama met and embraced by Modi in the airport itself, a practise that is by no means habitual – was the first US president to participate as a guest of honour in Republic Day (January 26th). Modi considers that New Delhi and Washington are “natural allies” and, without doubt, the idea of developing a robust Indo-Pacific corridor that in part counteracts the “Silk Road” launched by China will be impossible without US assistance and, probably, that of Japan and Australia.

In this scheme of redefining India’s international role, Russia continues to play an important role, although less so than in previous eras. Despite the mutual historical sympathy between the two, this link is currently being mitigated. The nature of the bilateral relationship, with its good and bad points, has particular impact in Central Asia. Thus, on the one hand, Moscow has blocked New Delhi’s attempt to establish a modest but permanent military presence in Tajikistan, while on the other, Russia supports India’s incorporation as a member with full rights into the Shanghai Cooperation Organisation (SCO) New Delhi acceded to the SCO this summer, at the summit hold in Ufa from July 8th to 10th, which Moscow performed as a great demonstration of diplomatic strength by virtue of its coinciding

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with the BRICS summit. The incorporation of India into the SCO represents a new era for the organisation and will multiply its Indian projection towards Central Asia. To being with, after the conclusion of the Ufa summit, Modi made a tour of the five central Asian republics; once again, in the style of that made by Xi Jinping in September 2013 on which he announced the initiative of a new Silk Road.

In the first year of his term, in the opinion of C. Raja Mohan, a distinguished fellow at the Observer Research Foundation in New Delhi and an associate at the Carnegie Endowment, Modi’s most significant contribution on foreign policy “has been the decision to discard the baggage of “strategic autonomy” and initiate the idea of India as a “**leading power**”. While this new framework needs to be fleshed out, the proposition could help India imagine a different future for itself on the global stage”. New Delhi, along with Japan, Germany and Brazil, is calling for a permanent seat on the UN Security Council. For this it has the theoretical support of the US and Russia (and the opposition of China) but its aspiration is surrounded by the same uncertainty affecting the package of UN reforms. In 2022, India will commemorate the 75th anniversary of its independence and, as Modi has declared, there will still be no doubt that this is to be “India’s century”.