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## DAUNTING CHALLENGES AND HIGH OPPORTUNITIES: INDIA AFTER THE ELECTIONS 2014

What the New Government Needs to Focus On

- Narendra Modi's foreign policy priorities make a clear connection between his domestic and international agenda. A majority in the Lok Sabha gives him greater liberty to launch initiatives and, perhaps, even deliver on agreements that have been stalled in Parliament.
- Women's voices and their social contributions have to be acknowledged and valued. The new government needs to optimise empowerment schemes, pass critical pending legislation and, above all, ensure an unbiased implementation of the law.
- Prime Minister Narendra Modi has been voted to power on the promise of a strong economic revival and sustainable development. But as the new government takes on the task of reviving a sluggish economy, the challenges before it are daunting.

## FOREWORD

In May 2014, Time magazine termed the successful completion of the 16<sup>th</sup> Lok Sabha elections as the largest human management project in the world. While some have described these elections as a ‘celebration of democracy’ others have dubbed them as the ‘world’s biggest carnival of democracy’.

After the great Indian elections, it is now time to take stock of the major challenges that emerged during the previous United Progressive Alliance (UPA) government’s term and discuss the priorities that the new National Democratic Alliance (NDA) government should focus on to get India back on track – either by implementing necessary reforms or by continuing some of the successful measures already in place.

The new government has its work cut out: the economy is sluggish, the state of women is so dismal that it keeps making headlines all over the world, and foreign and regional policy has taken a back seat for too long.

In the following three articles, three eminent experts focus on their perceived top priorities for India today: foreign policy, gender politics and economic policy. The experts analyse the setbacks experienced under the former UPA government - and how they have been dealt with - and draw attention to the potential challenges before the NDA government.

While **Dr. W.P.S. Sidhu** helps the reader to understand Modi’s foreign policy approach, **Balaji Pandey** talks about the need to focus on gender politics, and **K. Gayithri** spells out the challenges before the Narendra Modi government in terms of financing India’s development.

## UNDERSTANDING MODI'S FOREIGN POLICY

by DR. W.P.S. SIDHU

Today, there is broad consensus among India's political leadership across party lines that the country has the potential to establish itself as the world's third largest economy by 2025 and, consequently, become a key player in an emerging multi-polar world. To achieve these objectives, two conditions are essential to create the right external environment: first, a no-war climate in the region, and second, developing the ability to shape the rules in global institutions, which will have a direct bearing on the country's economic well-being.

In all likelihood, there will be continuity between the previous government and the new administration's desire to secure these twin conditions. Additionally, even their broad foreign policy approaches are expected to remain the same. The key difference, however, is that given Prime Minister Narendra Modi's majority in the Lok Sabha, he will have greater liberty to take up initiatives - such as inviting South Asian leaders to his swearing-in ceremony - and, perhaps, deliver on agreements that have so far been blocked in Parliament.

There are two crucial challenges in fulfilling this vision. While on the one hand is the limited capacity of the Indian foreign policy establishment, which ranks amongst the smallest in the Group of 20 (G-20) nations, on the other is the inherent disconnect between the country's development objectives and its foreign policy.

***Manmohan Singh's flawed legacy:*** Ironically, though former Prime Minister Manmohan Singh's government was somewhat better at creating a no-war condition (with the exception of the 2008 Mumbai terror attacks that were traced back to Pakistan and marred initiatives to improve relations) it abysmally failed in its efforts to shape rules in areas critical to India's future.

Moreover, the fact that Singh wasn't able to build on the 2008 India-US nuclear deal, which he described as the singular "best moment" of his two terms in office, only exemplifies his flawed legacy. Singh may have felt that the deal had led to India's de-facto recognition as a nuclear weapon state and an emerging power, but he failed to convince the Opposition, the public at large and even his own party members of the merits of his case.

Then, though India had vociferously coveted a permanent United Nations Security Council seat, not a single minister, let alone Singh, showed up during its two presidencies in the 2011-12 term.

There was also reluctance evident in his engagement with the G20 countries although his command of economic issues would have put him in a dominating position. This was particularly unfortunate given that Singh clearly understood the

vital connection between external factors and the domestic economy. In one of his last speeches, in November 2013, he had unveiled a new Panchsheel (five principles). The first principle asserted that India's development priorities would determine its engagement with the world. The second explicitly recognised that its development prospects are now and for the future inexorably linked to the world economy. The third principle argued that India could hope to create a beneficial global economic and security environment for itself by working with all major powers. The fourth principle recognised that if the country was to play a greater role at the global platform it would have to build and ensure greater regional cooperation. Finally, the new Panchsheel underlined the significance of India's values "of a plural, secular and liberal democracy" as an inspiration to countries across the globe. Singh, unfortunately, was unsuccessful in operationalising these principles.

***Modi's robust and pragmatic engagement:***

If the early signs are any indication, then the Modi era may turn out to be very different from Singh's. The new Prime Minister's foreign policy priorities, articulated in his party, the Bharatiya Janata Party's manifesto, make a clear connection between his domestic and international agenda. In many ways it is a continuation of Singh's new Panchsheel policy. It notes that India's global strategic engagement will have to include the country's economic, scientific, cultural, political and security interests, asserts "political stability, progress and peace in the region are essential for South

Asia's growth and development" and avows that the government will pursue friendly relations in the neighbourhood to strengthen "regional forums like SAARC [South Asian Association of Regional Cooperation] and ASEAN [Association of South East Asian Nations]".

Other key bilateral relations that Modi is likely to prioritise are Japan, China, the U.S. and the European Union (possibly in that order). On the Indo-US front, following early moves to paper over the visa issue, efforts to revitalise the partnership from merely a transactional one to a strategic one are expected. By using transactions to attract investment, build infrastructure and create jobs, India might be able to convert them into real strategic relations. Similarly, while the new dispensation will seek to improve relations with China, these moves are expected to be tempered by the growing trade deficit on one hand, and the frequent border incidents on the other.

Modi's robust engagement is likely to be evident in India's approach towards the BRICS (Brazil, Russia, India, China and South Africa) and G-20 nations as well. Though India has been a regular participant, it has done the bare minimum to leverage these crucial fora for its investment and development objectives. The forthcoming BRICS summit in Brazil and the G-20 summit in Australia will provide early opportunities for the government to put its investment, infrastructure and jobs priorities up front.

***Three hurdles:*** Though Modi's foreign policy initiatives are likely to be bold he will

face three distinct hurdles – one external and two internal.

External obstacles will be in the form of attacks, like the one on the Indian consulate in Herat in Afghanistan in May 2014 by forces keen to perpetuate hostility among the SAARC neighbours. Additionally, actions by other States might also stymie initiatives of the new government. These could range from growing tensions in the South China Sea to U.S. trade sanctions.

Internally, the present set-up of the foreign policy establishment – both in terms of capacity and approach – will limit follow-ups to the initiatives that Modi might launch. In fact, fundamental changes are also needed in the way the establishment approaches the creation and implementation of foreign policy.

***Cautious optimism:*** To build on his initiatives with key states and prioritise India's contribution to developing international regimes, the new Prime Minister could consider two short-term measures. First, appointment of special envoys to develop multilateral norms related to climate, water (rivers and oceans), energy, food, trade, information technology and outer space. Second, these envoys, not necessarily from the foreign service, could leverage the expertise of the specialised ministries, bridging the capacity gap in the short-term. This would allow time for long-term capacity building.

The government would do well to expand the size of the foreign policy establishment

– qualitatively and quantitatively. At the same time, its functioning of the foreign service will have to be changed so that it develops the ability to sustain peace efforts and engage effectively in the multilateral arena.

These changes will enable the present government to sustain India's ambitious twin foreign policy agenda.

## INDIA'S GENDER POLITICS: CHALLENGES FOR THE NEW GOVERNMENT

by BALAJI PANDEY

Even after 66 years of Independence, Indian women suffer from discrimination and inequality. Now more than ever, there is a pressing need to focus on gender politics, which effectively means looking at whether the government's policies are women-friendly and do, in fact, promote their development and empowerment. There are several critical concerns that need the attention of the Narendra Modi government.

**Poor record of social development:** Though India is on to its Twelfth Five Year Plan, social indicators related to women present an abysmal picture. A look at the state of education will reveal that millions of children, girls in particular, do not attend school or drop out soon after initial enrolment. According to Census 2011, women's literacy rate (age seven and above) is 65.50 per cent. The percentage of female population, aged 15-19 years, that has completed eight years of schooling is even lower at 55.90 per cent (2007-08). By comparison, the male literacy rate is 82 per cent (Census 2011).

Apart from a strong stereotyping of gender roles, which prevents families from allowing girls to step out of home especially after they come of age, one of the key factors for this wide disparity is the lack of toilets in educational institutions – only 55 per cent

of government schools have the facility (2009-10). Clearly, there is a pressing need for proper enforcement of the Right to Education Act 2009, which makes education the fundamental right of every child and specifies minimum norms for schools.

The dismal maternal health care services also need to be addressed right away. Statistics indicate that only 46.60 per cent of women were assisted in child birth by a skilled health worker in 2005-06. During the same period, 76.40 per cent had the benefit of at least one antenatal check-up, while 41.20 per cent were given postnatal check-up. This unfortunate reality gets further highlighted by the national maternal mortality ratio, recorded at 212 per 100,000 live births between 2007 and 2009.

**A stake in the workforce:** If women's health and education indicators are not encouraging, then their workforce participation is no better. The National Sample Survey (NSS) employment data shows that the number of working women in India has come down by 21 million between 2004-05 and 2009-10, a period during which the economy grew at its fastest rate. The agriculture sector has seen the sharpest decline at around 20 million. While the share of this sector is India's Gross Domestic Product (GDP) is only 14 per cent,

it employs 69 per cent of the country's total female workforce. Clearly, the unemployment crisis is most evident in the agriculture sector. The number of persons reporting cultivators' status dropped from 103 million to 95.8 million between 2001 and 2011 owing to the struggles involved in farming. Yet, women who have managed to hang on stand to gain considerably from the Women Farmers' Entitlements Bill that was introduced in Parliament in May 2011. The Bill, which is pending till date, seeks to address the specific needs of women farmers and entitles them with equal rights to land, water, credit and other agricultural inputs. It also proposes necessary certification of women farmers and makes available a fund for support services.

Coming to the rights of the female health workers, the backbone of India's rural healthcare delivery system, their contribution has thus far been seen as an extension of the unpaid care-giving work that is done by women within the family. By refusing to give the Anganwadi workers in the ICDS (Integrated Child Development Scheme) and ASHAs (Accredited Social Health Activists) in the NRHM (National Rural Health Mission) minimum wages and benefits such as paid leave and pension, the government has been responsible for exploiting more than 10 million dedicated workers across the country.

So far, it's the domestic work segment that has witnessed the fastest growth. The 2004-05 NSS data estimates that there are 4.2 million domestic workers in India, representing one per cent of total employment. But in

spite of greater visibility and struggles, not much progress has been made in terms of the enactment of a protective legislation. Although domestic workers are included in the Unorganized Workers' Social Security Act of 2008, the Act itself is limited to BPL (Below Poverty Line) workers. The outgoing government had discussed a draft National Policy for Domestic Workers that sought to regulate their working conditions in line with the International Labour Organization (ILO) conventions but a draft policy could not be finalised. There is, however, a silver lining here. Thanks to the efforts of several women's organisations, domestic workers, who are extremely vulnerable to workplace harassment, are protected under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013.

***Living in the shadow of violence:*** Of course, whether they are domestic workers, homemakers or students, hailing from urban India or the rural heartland, from the upper castes or belonging to the socially backward communities, women across the spectrum are vulnerable to abuse and violence. According to the National Crimes Record Bureau (NCRB), there has been a steady rise in the number of reported crimes against women in India - in 2012, a total of 244,290 cases were registered, showing a 6.80 per cent increase from 2011. A chilling feature of the last three years has been the escalation of violence against Dalit women. The 2012 NCRB data reports a total of 1,576 cases of rape of Dalit women as compared to 1,349 in 2010.

There are several reasons for this growing violence. The most obvious is the breakdown of the criminal justice system. Weak and insufficient laws, a corrupt and insensitive police, patriarchal mindsets of the judiciary, political patronage extended to criminals or acts of violence by politicians themselves and poor support systems for victims of violence have combined to create a scenario where the law has ceased to become a deterrent.

The Justice J.S. Verma Committee constituted by the previous government, following the gruesome December 16 rape and murder incident in 2012, has made comprehensive recommendations regarding legal changes and police and judicial reforms, which can play a pivotal role in delivering justice to women victims of sexual violence. Popularly referred to as a Bill of Rights for women, it even suggests reforms in the political system to deal with the criminalisation of politics. It is imperative that the new government ensures its effective implementation.

**Looking for a political platform:** Electoral politics in India, which is presently reeling under money and muscle power, will undergo a definite change if women are able to make their presence felt beyond token symbolism. At the grassroots, this transformation is already evident, as 50 per cent reservation in Panchayati Raj Institutions (PRIs) has given many female leaders decision-making powers. However, efforts for the capacity building of elected Dalit women are required as most of them continue to suffer oppressive cast discrimination. Similarly, women in the

Panchayat Extension to the Scheduled Areas (PESA) also need specialised orientation, in tune with the tribal ethos, to enable them to effectively participate in Gram Sabha meetings.

At the national level, however, the challenges are greater. Despite sustained campaigning, the Women's Reservation Bill has not yet been passed in the Lower House of Parliament. Incidentally, both the Lower and Upper House have never had more than 10 per cent women members.

**Budgeting for women:** What can truly make a difference to women's lives is the proper implementation of government development programs aimed at their welfare. For this, effective gender budgeting is as essential as the appropriate utilisation of funds allocated. The 11<sup>th</sup> Five Year Plan included women targeted schemes, however, the money budgeted for the schemes was not commensurate with the number of beneficiaries envisaged. Moreover, the last three years of the 5 year plan highlights the achievements which differ from the ground reality. The Comptroller and Auditor General (CAG) report tabled in Parliament in August 2013 has sharply criticised the Women and Child Development Department for the lapses in expenditure between 2009 and 2012.

Women's voices and their social contributions need to be acknowledged and valued. The new government needs to optimise empowerment schemes, pass critical pending legislation and, above all, ensure an unbiased implementation of the law.

## FINANCING INDIA'S DEVELOPMENT: CHALLENGES BEFORE THE NARENDRA MODI GOVERNMENT

by K. GAYITHRI

Over the last two decades, the Indian economy has undergone many significant changes. In 1991, the government had launched the Structural Adjustment Program in addition to 'stabilisation' measures to enable the country to become part of the changing global economic scenario. Efforts at opening up the markets and privatising several commercial activities previously under government control helped to accelerate the economy and cross a 'Hindu rate of growth' of 3.5 per cent. During 2003-09, India grew at an average of nine per cent and, based on these trends, there was great expectation that the country would soon register a growth rate in double digits. In fact, international comparative growth prospects pegged India as one of the economic super powers by 2050.

However, following a global recession there has been a sharp reversal in these trends. Fiscal stimulus measures by the Centre and state governments to deal with this reality have only resulted in increasing the deficit levels. The economy currently has large Current Account Deficits and is reeling under the effects of a downgraded credit rating and severe inflationary pressures.

Are these problems largely the result of external forces, as is often claimed by political

leaders? Or have they been caused by fiscal (mis)management? How can the new government deal with these challenges? Let's enumerate some of the fundamental issues that need to be addressed.

**Fiscal consolidation:** At the turn of century (2001-02), the combined fiscal deficit of the Central and state governments stood at 9.94 per cent. Rule based fiscal correction mechanism, initiated in the form of the Fiscal Responsibility and Budget Management (FRBM) Act, 2004, aimed at reducing the deficit to three per cent by 2009. A steady progress was achieved till 2007-08, after which the slump began. The sitting United Progressive Alliance (UPA) government claimed that the stimulus measures had led to a hike in public expenditure and revenue loss disturbing the fiscal targets. In 2009-10, the deficit was recorded at 6.48 per cent of the Gross Domestic Product (GDP) prompting the government to revise the deadline to 2016-17. By 2013, at 8.4 per cent, India's fiscal deficit was higher than that of other BRICS nations (IMF 2013) – Brazil at 1.7 per cent, Russia at 1 per cent and China and South Africa at 1.8 and 4.2 per cent, respectively.

The growing fiscal deficit has largely been responsible for dragging the performance

of macroeconomic indicators. Empirical evidences suggest significant links between fiscal deficit and trade deficit (Bernheim, NBER). Fiscal profligacy has contributed to increasing inflationary pressures. Aggregate demand that gets boosted due to an extravagant fiscal policy, not adequately backed by enhanced supply, leads to price hikes. Moderate levels of inflation of four to five per cent help sustain economic growth.

The key concerns in the fiscal consolidation should not be confined to the mere reduction in fiscal deficit as made out in the policy circles. It's what comprises fiscal deficit that needs careful analysis to understand its potential impact on development.

**Revenue deficit:** Fiscal deficit can augment growth if the net borrowings of the government are used for promoting socio-economic infrastructure. A robust infrastructure helps attract private investment, which further boosts growth. Fiscal deficit becomes problematic when the borrowed funds are used to meet the current expenditure resulting in 'revenue deficit'. In India, revenue deficit accounts for nearly 70 per cent of the total fiscal deficit. The revenue expenditure has become downward rigid due to the huge non-plan commitments made by the government over many years. The immediate task of the new government, therefore, is to review the composition of this deficit and use net borrowings for productive purposes.

**Relevance of three per cent fiscal deficit:** Given its prevailing infrastructural inadequacies, India needs to re-examine the suitability of the three per cent fiscal deficit

norm to step up growth. A developing country needs to make infrastructure creation its top priority to facilitate greater investments by the private sector. The enhancement of the fiscal deficit targets, however, has to be based on a scientific estimation of investment requirements.

Importantly, policy should ensure that the total fiscal deficit is earmarked for building infrastructure instead of providing increased subsidy and transfers. An uncontained subsidy bill and transfer payments have led to increased revenue deficits. Subsidy accounts for about 2.5 per cent of India's GDP. Bonds issued to oil marketing companies (in lieu of subsidies) to compensate for under-recoveries is another two per cent of the GDP. The annual subsidy bill of USD 90-100 billion contributes to high levels of fiscal deficit.

**Public expenditure reforms:** There has rarely been any attempt to review public expenditure to ascertain the efficacy of existing government programs. Programs that have outlived their utility need to be weeded out, as this would create substantial fiscal space to revitalise stagnating human development and strengthen the economic infrastructure base of the country.

**Revenue constraints:** According to the International Monetary Fund (IMF) Fiscal Monitor, government revenue in India in 2011 was 18.5 per cent of the GDP. In comparison, other BRICS nations made substantial gains – revenue percentages in Brazil, China, Russia and South Africa were 35.1 per cent, 23.2 per cent, 37.7 per cent and 27.3 per cent, respectively.

To generate larger resources, the new government should introduce the Goods and Services Tax (GST) system. There is also scope to arrest the huge revenue losses currently arising on account of various incentives and concessions announced by the previous government. According to an estimate, (Rao, 2013) the exchequer has been incurring a loss of 12.7 per cent on Income Tax collected, 44.7 per cent on Corporate Tax; 21.9 per cent on Excise Tax and 154.1 per cent on Customs Duty. This revenue loss is popularly known as 'tax expenditure' as the government otherwise would have had an equivalent amount to spend.

### ***Shift from 'Outlays' to 'Outcomes':***

Generally, focus of the government at the Centre and state levels has been to increase expenditure levels. It's time to shift the attention from 'outlays' to 'outcomes'. Review of government expenditure to eliminate programs that have become redundant can create effective fiscal space to achieve the desired results.

***Role of State:*** Despite the major economic reforms initiated in India, the role of State/government in the socio-economic development path has still not been well defined. The grave infrastructure inadequacies, arising from a decline in public and private sector investments represents a major challenge for the country. The nature of fiscal consolidation required for furtherance of sustained socio-economic development has to be carefully debated in the context of the revenue and expenditure reforms.

The Bharatiya Janata Party (BJP) government needs to prepare a 'White Paper on Government Finances' to take stock of the problems and then initiate reforms. Moreover, a realistic time frame has to be set to achieve the expected results. The Modi mantra of 'minimum government and maximum governance' would yield benefits if implemented in letter and spirit.

<sup>1</sup> Fiscal deficit refers to net liabilities of the government.

<sup>2</sup> International Monetary Fund, 2013, Fiscal Monitor: Fiscal Adjustment in an Uncertain World, IMF, Washington, D.C.

<sup>3</sup> Bernheim, Douglas, B.; Budget deficits and the balance of trade, <http://www.nber.org/chapters/c10935.pdf>

<sup>4</sup> Revenue deficit refers to the difference between revenue receipts and revenue expenditure.

<sup>5</sup> Non-plan expenditure refers to the expenditure incurred on the plan programs implemented in the completed plans, which become commitments on the part of the government. Salary, pensions, interest payments etc. are a part of the non-plan expenditure.

<sup>6</sup> International Monetary Fund, 2011, Revenue Mobilization in Developing Countries, Fiscal Affairs Department, IMF, Washington, D.C.

<sup>7</sup> Rao, Kavita, 2013; Revenue Foregone Estimates: Some Analytical Issues, Economic and Political Weekly, Vol, XLVIII, No 13; PP21-24.

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## GLOSSARY

ASEAN	Association of South East Asian Nations
ASHAs	Accredited Social Health Activists
BRICS	Brazil, Russia, India, China and South Africa
BPL	Below Poverty Line
CAG	Comptroller and Auditor General
GDP	Gross Domestic Product
ICDS	Integrated Child Development Services
ILO	International Labour Organization
NRHM	National Rural Health Mission
NCRB	National Crime Records Bureau
PESA	Panchayats (Extension to Scheduled Areas) Act, 1966
PRIs	Panchayati Raj Institutions
SAARC	South Asian Association for Regional Cooperation

## ABOUT THE AUTHORS

(in order of appearance)

**Dr. W.P.S. Sidhu** is Senior Fellow for Foreign Policy at the Brookings India Centre and Brookings Institution. He is also a regular columnist for a leading Indian financial daily on international and strategic issues. Dr. Sidhu has researched, written and taught extensively on India's grand strategy, emerging powers and global order. His recent publications include - *Shaping the Emerging World: India and the Multilateral Order* (Brookings Press, 2013).

**Balaji Pandey** is Director of the Institute for Socio-Economic Development (ISED), an Odisha-based action research and advocacy organisation. He has done extensive research on development induced involuntary displacement. His major publications include; 'Depriving the Underprivileged for Development', 'Women's Alienation- Landless Development', 'Trafficking in Women in Orissa' and 'Displaced Development: Impact of Open Cast Mining on Women'.

**K. Gayithri** is Associate Professor at Center for Economic Studies and Policy, Institute for Social and Economic Change, Bengaluru.

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### [Friedrich-Ebert-Stiftung](#)

India Office

K-70B, Hauz Khas Enclave

New Delhi 110016 / India

Phone: +91-11-26561361-64

Fax: +91-11-26564691

E-mail: [info@fes-india.org](mailto:info@fes-india.org)

[www.fes-india.org](http://www.fes-india.org)

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