

# Strategic Analysis Paper

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## Indian General Election 2019: Will Modi be Returned to Power?

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### Key Points

- The Modi Administration has had mixed results in terms of fulfilling the Prime Minister's 2014 election campaign promises.
- It has fulfilled several economic promises but others, such as job creation, remain unfulfilled.
- The Congress Party, on the other hand, has neither demonstrated any policy of substance nor produced a leader with the charisma of Mr Modi.
- It is more than likely, therefore, that the ruling National Democratic Alliance (NDA), headed by Modi's Bharatiya Janata Party, will be returned to office, albeit with a changed membership and a reduced majority.

### Summary

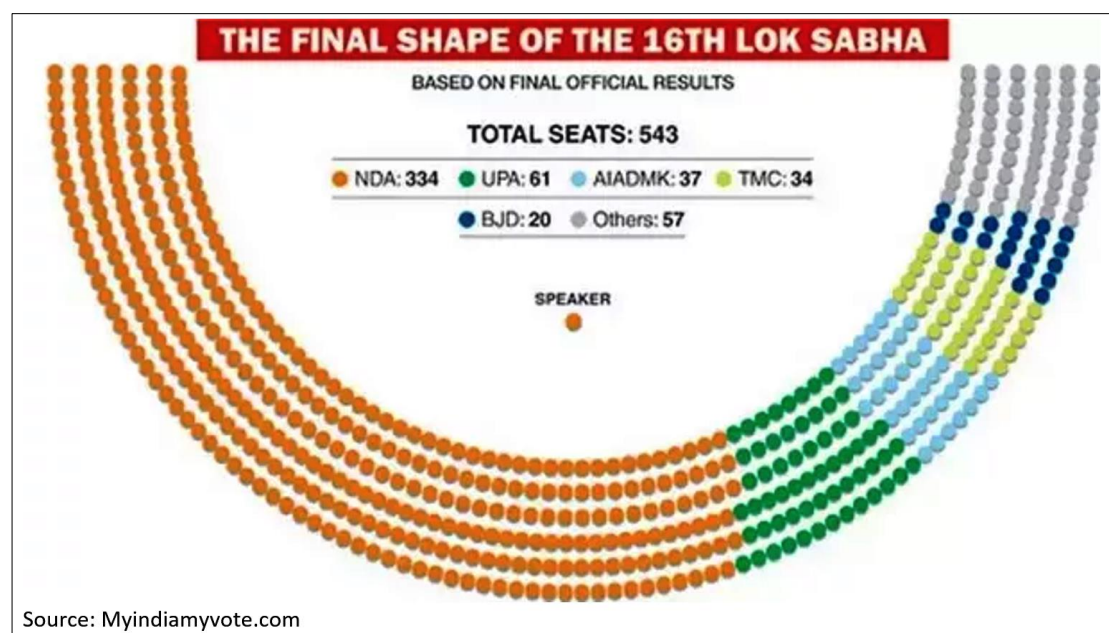
Article 83, Clause 2, of the Constitution of India mandates that a general election be held every five years, except in extenuating circumstances. No such circumstances being evident at the present time, the latest that an election can be held is in April of this year, although the process itself may extend into May. In 2014, an [FDI paper](#) predicted that there would be a change of government; it predicted that the ruling United Progressive Alliance (UPA), headed by the Congress Party under Prime Minister Manmohan Singh, would be overthrown by a resurgent National Democratic Alliance (NDA), headed by the Bharatiya Janata Party (BJP, the Indian Peoples Party) under the leadership of Narendra Modi, then-Chief Minister

of the state of Gujarat. In the event, the BJP won an overwhelming victory, so large, in fact, that it has dominated Parliament since. With the NDA coalition, there was little doubt as to Prime Minister Modi's popularity.

Five years later, the world's largest democracy [heads back to the polls](#). Voting will begin on 11 April and will be conducted in seven phases. This is no run-of-the-mill undertaking. A mammoth 875 million people are eligible to vote in this year's election. In 2014, 830 million people were eligible to vote and around 550 million chose to do so. They will vote to elect 543 representatives to the Lower House (the Lok Sabha); two more seats are reserved for representatives from the Anglo-Indian community. Those two reserved seats aside, each of the others represents a geographic area. The winner of the election is the first to gain a simple majority. Voters will be required to choose from 8,251 candidates nominated by 464 political parties at over 900,000 polling booths that will be staffed by ten million personnel. India's general elections are, in short, a massive logistical exercise. It is easy to understand why, therefore, the election process is conducted in stages.

### Analysis

The BJP won 282 seats in the Lok Sabha in 2014. That was the largest number won by any political party in India over the previous thirty years. Mr Modi won an overwhelming mandate to carry out his promised economic reforms, to weed out corruption and tackle the parallel economy (called the "black market" in India), to create millions of jobs and to raise India's standing in the international order. The Congress-led UPA won a scant 61; the Congress itself a mere 44. This was the party that had ruled India previously, India's oldest political party, the party of the country's first Prime Minister, Jawaharlal Nehru, and the party that was instrumental in India's struggle for independence. It was also the party whose very name had since come to symbolise corruption. The party, no matter that it had an elected Prime Minister, was effectively ruled from behind the scenes by a member of the Gandhi-Nehru dynasty, albeit that she was a member of that family through marriage and an Italian by birth. Sonia Gandhi, the wife of ex-Prime Minister Rajiv and daughter-in-law to India's only female Prime Minister, Indira Gandhi, had few qualms in overriding Prime Minister Manmohan Singh if she felt that action were warranted.



The issue of indeterminate leadership aside, the Congress Party had become a byword for corruption during its second term in office. Some of those instances of [corruption](#) demand review. In 2008, the Department of Telecommunications issued 122 licences to Indian organisations that had little to no experience in that sector. The bandwidths issued, moreover, were priced in 2001 figures. It was later estimated, when the ensuing scandal became public, that India had been deprived of around \$35.6 billion. So involved was the Minister who headed the department, Mr A. Raja, in that scandal that he very soon acquired the sobriquet of “Spectrum Raja”. Although he was later jailed for his part in the theft, little of the money has been recovered.

In 2010, during the second UPA term in office, the ex-Chief of the Indian Air Force, S.P. Tyagi, was alleged to have accepted bribes from an Anglo-Italian firm, Augusta-Westland, in order to change the tendered specification for helicopters for India’s VIPs in such a manner as to favour Augusta-Westland. India’s Central Bureau of Investigation, an organisation analogous to the Australian Federal Police, was brought in to investigate the allegation. They were hampered, however, by the political élite. In 2016, however, after the Modi Administration took office, they arrested Mr Tyagi on charges of corruption. In 2012, the Chief of Army, General V.K. Singh, alleged that he had been offered a bribe in 2010 to clear the purchase of 1,676 Tatra trucks for the Indian Army. The chief of the tendering firm, Mr Rishi, had a case registered against him in 2013 by the Enforcement Directorate under the Prevention of Money Laundering Act. Also in 2010, the former Chairman of the Commonwealth Games Organising Committee was alleged to have accepted bribes in the course of his duties. In 2008, three BJP members displayed in Parliament bundles of cash that they alleged were given to them by members of the UPA to induce them to support the Indo-US nuclear deal. Other scams involving housing in Mumbai and a major Information Technology organisation in Hyderabad continued to plague the UPA government, leading to the impression among the voting public that they were unable to stop corruption or, worse, were part of it. That led Mr Modi to [declare](#) that the Congress Party had ‘changed the nomenclature of ABCD. It is now A for Adarsh (scam), B for Bofors, C for Coal scam’. It was hardly surprising, then, that the UPA was trounced in the general election of 2014.

One of Mr Modi’s first acts upon taking office was to terminate India’s Soviet-era five-year economic plans and to dissolve the Planning Commission. The Planning Commission created rigid schemes to which it demanded that the states adhere. That had the effect of disempowering the states because they had no choice but to set aside funds to follow those plans. The dismantling of the Planning Commission gave the state governments more choice – and more responsibility – in using those funds. Mr Modi was, it appeared, positioning India to move into the twenty-first century. More was to follow. He announced his intention to bring India’s disparate taxes, tolls and octrois charges under one Goods and Services Tax (or GST, analogous to the GST that prevails in Australia) with the aim of attracting more investment and enhancing the ease of doing business in India. Given India’s haphazard and dilapidated taxation system, under which different states had different tax rates for the same goods and services, it was a momentous decision. That sentiment was echoed by a US Federal Reserve [paper](#), the International Finance Discussion Paper, published in 2017, which claimed that the GST could raise India’s GDP growth by up to 4.2 per cent because lower taxes on manufactured goods would raise output and make products cheaper across India.

As the paper noted, the model used suggested that the GST would lead to real GDP gains of 4.2 per cent under the baseline assumptions, driven by a surge in manufacturing output ... GST would raise overall welfare by 5.3 per cent in India. The GST was introduced in 2017.

That aside, Mr Modi sought to allow market forces to dictate outcomes. He deregulated petrol and diesel prices, allowing the price of those commodities to be revised daily. The cap on foreign investment in the defence sector was raised from 26 per cent to 49 per cent. The insurance sector was to also have the foreign investment cap raised to 49 per cent. As the World Bank noted, in 2018, India had adopted thirty-seven reforms since 2003, nearly half of which had been implemented since 2015.

The devil was, as is usually the case, in the detail and, additionally in this instance, in its execution. In the case of the GST, the new tax regime was introduced in five slabs, which defeated the very idea of the GST in the first place: the simplification of the tax structure. A second issue is that of time. India's unorganised sector, which is said to employ around 90 per cent of its work force, pays little to no taxes. There has not been sufficient time to allow Mr Modi to determine the effects of the GST on that sector, leaving him unable to use it positively in his election campaign. Third, the haste with which the GST roll-out was implemented, before the various inconsistencies and drawbacks in it were rectified, met with criticism. The GST roll-out has been, in short, not stellar.

Yet another misstep by the Modi Administration has been its effort to tackle the parallel economy. It believed that "black money" could be curtailed by demonetising 500-rupee and 1,000-rupee banknotes, which constituted around 85 per cent of the notes in circulation. The reasoning was that illicit funds would not be returned to the banks for fear of attracting penalties. As it happened, most of those notes returned to the Reserve Bank of India. On the other hand, a shortage of liquid funds caused a cash crunch that slowed India's GDP to its lowest figure since the BJP took office. Adding insult to injury, people took to using cash as their primary method of transaction when the circulation of notes was normalised.

The Modi Administration has not kept its promise on job creation, either. At a time when ten million jobs need to be created annually, that failure does not bode well for Mr Modi. Added to that is India's inability to persuade its workers to pay income tax. Of the 36 million workers who filed income tax returns, ten million claimed to earn an annual salary less than the tax exemption threshold of Rs. 250,000 (\$5,000). As the Finance Minister, Arun Jaitley, [remarked](#) during his budget speech in 2017, 'We are largely a tax non-compliant society.'

Corruption remains strong in India under the Modi Administration, furthermore. There appears to be more than a hint of it in the proposal to [purchase](#) 36 Dassault *Rafale* fighter aircraft from France. In February 2018, a scam that was estimated to have cost the state-owned Punjab National Bank around US\$2 billion was unearthed. More startlingly, the prime person of interest in that scam fled to New York the day before he was to be apprehended and possibly charged. Transparency International ranked India 78<sup>th</sup> in corruption in a list of 175 countries in 2018.

Country	Corruption Rank 2010	Corruption Rank 2015	Corruption Rank 2016	Corruption Rank 2017	Corruption Rank 2018
India	87	76	79	81	78/175
Philippines	134	95/168	101/168	111/180	99/175
Pakistan	143/168	117/168	116/168	117	117/175

Source: Transparency International

The country does not fare much better for freedom of the press, either. As the Committee to Protect Journalists noted in its 2017 report, ‘Philippines, India and the Maldives are among the worst regional offenders’ in terms of freedom of the press and corruption. (More information on the press in India is available [here](#).)

More importantly, religious minorities in India feel threatened by the BJP’s strong religious nationalism and its strict adherence to its principles of Hindutva (“Hindu-ness”). That has led to [churches](#) being attacked and, according to [Human Rights Watch](#), the promotion of ‘Hindu supremacy and ultra-nationalism at the expense of fundamental rights for all Indians’. Hindu groups that claim affiliation to the BJP have attacked Muslims who, they allege, buy, sell and slaughter cows, an animal considered sacred in India. The Human Rights Watch 2018 report’s section on India may be read [here](#). This has led to a degree of fear among religious minorities and even secular Hindus in India.

It is in that regard that the news that a scion of the Nehru-Gandhi dynasty, Priyanka Gandhi Vadra, has entered Indian politics, is salient. As a recent [FDI paper](#) noted, it is quite possible that she could make a difference to the flailing fortunes of the Congress Party for at least two reasons. First, she bears a strong physical resemblance to her grandmother, Indira, which has led many Indians who look upon her administration with a degree of fondness despite her failings and strongarm tactics, to believe that those days could return. Second, Ms Gandhi’s presence could lead many minority voters to flock, once again, to the Congress Party’s secular policies, thus removing them from the perceived threat of Hindu nationalism as espoused by many BJP followers.

On the other hand, Mr Modi has demonstrated, as the 2014 FDI paper suggested that he would, a willingness to adopt a robust response to Pakistan’s use of asymmetrical warfare against India. After militants attacked an Indian Army base in Kashmir, killing sixteen soldiers, India sent its Special Forces personnel into Pakistan-administered Kashmir to carry out “surgical strikes” against those militants’ bases.





India claimed that it killed many militants in that operation and ‘those who support them’. Pakistan [denied](#) that claim, saying that its army personnel were killed by unprovoked shelling by Indian troops. When militants struck India earlier this year, however, Mr Modi escalated the response, sending [fighter jets into Pakistan](#) itself to strike against militant camps there. Those actions have served to inflame the already-strong nationalism among the BJP’s Hindu base, leading many to believe that he would be willing to take any steps that he deems necessary to protect India and its citizens.

Given all of the above, the question now is, will the BJP and Mr Modi be returned to office? Whereas in the previous election, Mr Modi promised hope against the endemic corruption and economic stagnation of the ruling UPA, this time around he will be assessed against his own promises. Has he kept his 2014 election campaign promises? The answer to that must be yes and no. He has endeavoured to keep his promises; there is little doubt of that. He has been unable, however, to rein in corruption and, among religious minorities, to ease the feeling of being threatened by Hindu nationalism. The question has to be asked, however: what alternative is there to Mr Modi? The Congress Party can offer none. In the long term, Priyanka Gandhi could make a difference but it is increasingly likely that Mr Modi will be returned to office, albeit with a reduced minority.

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