



# INDIA AND SOUTH ASIA: NOVEMBER 2017 DOSSIER

An important state election in Himachal Pradesh and the electoral campaign in Gujarat – the votes take place in December and the results for both states will be declared on the 18<sup>th</sup> of December - will determine the course of Indian domestic politics for 2018/19. In the new chapter „*Economic Developments*“, the focus is on „*business sentiments*“ and the impact of the *General Service Tax*. Modi's tour to the Philippines and India's relations with Afghanistan are the main focus in the regional and wider international relations.

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## Part I Domestic developments in India

### Himachal Pradesh: Can the BJP defeat the Congress?

Governments in Himachal Pradesh normally last only for one legislative period, particularly since there is no sizable third force in the state.

#### The situation before the elections

In 2012 the vote share was divided as follows: Congress 43.21%, BJP 38.83, CPI/M 4.98%, CPI 2.18%, NCP 1.97% and BSP 1.22%. This led to a stable majority for the Congress.

According to a survey before the recent elections, the BJP would gain about 49% of the votes and between 43 to 47 seats, the Congress with 38% is projected between 21 to 23 seats, smaller parties and independent candidates with a vote share of 13% zero to two seats.

The participation in this election on the 9<sup>th</sup> of November 2017 was 74%. This high mobilisation could well be in favour of the BJP. The result will be declared on the 18<sup>th</sup> of December 2017, together with Gujarat.

#### *Social composition of the population*

Irrespective of about 25% of so-called '*Scheduled Castes*' in Himachal Pradesh representatives and descendants of the erstwhile '*royal families*' as well as Brahmins and Rajputs are dominating politics there.

The Rajputs ('*Warrior caste*') with 38% are the biggest group, followed by 26% Dalits, 18% Brahmins, 16% other Castes and religious minorities, including 2% Muslims, and 1.5% of the so-called *Gaddi*-population.

With altogether 56%, the two upper castes form a nearly invincible fortress, which affects naturally also the social composition of the local political class and the social background of the occupants of top positions. Both Virbhadra Singh and also Dhumal are socially Rajputs.

#### *Important electoral groups*

In a state with less industrial working places, positions in the state administration are very much looked after. Government employees – altogether 240 thousand in H. P. - are therefore important for the opinion-building process. Together with '*Ex-Servicemen*', e. g. former members of the armed forces and para-military units, they highly influence the election outcome. About 30,000 temporarily people, employed by the state, seem to accept the reduced time for their regularisation.

Shop owners and traders, the latter constitute a smaller portion than in Gujarat, form traditionally an important support basis for the BJP. Allegedly, they saw the GST not as an essential issue.

Particularly Dalits, besides their affinity to the crisis-ridden BSP, which does not put up candidates in all constituencies any longer, do form together with parts of the Rajputs and the tiny Muslim population a support base for the Congress, although traditional voting en bloc is a part of the past. Brahmins tend overwhelmingly to the BJP.

### *Women a decisive factor?*

Out of 4.9 million people, who are eligible to vote, nearly 2.57 million are women.

Yet, representation of women in the *Vidhan Sabha*, like elsewhere in India, is very low. Only 19 women have been candidates this time, amongst them six for the BJP, three for the Congress and the rest for smaller parties.

In the mountains, women enjoy a rather high reputation and are far less exposed to force, rapes and murders than in the plains and urban centres.

The gang rape of a sixteen years old school-girl in the apple-growing belt of Kotkhai in July 2017 made 'safety of women' a central election issue, mainly promoted by the BJP. It will be interesting to find out, if this led to a higher mobilisation of women in the elections, where Prime Minister Modi enjoys a high degree of popularity country-wide.

### *The situation in the Congress*

The outgoing CM Virbhadra Singh took the main burden of the intensive campaign, although he is 83 years old. There have been disputes within the Congress about the question, who should lead the campaign and be the declared CM candidate, till Virbhadra Singh, who faces corruption charges, managed to get the upper hand.

Allegedly, Virbhadra Singh threatened before the election, in case of not being nominated as the CM-candidate, to split the Congress together with 27 MLA's. During an event, in the presence of Rahul Gandhi, Virbhadra Singh had to stop his speech, because supporters of a Congress-competitor stopped him.

Professor Sanjay Kumar, India's leading election analyst, insinuates, that the Congress produced before and during the election campaign several own goals, thereby harming its chances to retain power. According to him, the party passes through a leadership crisis.

On the other side, Sanjay Kumar refers to surveys of the *Center for the Study of Developing Societies* (CSDS), according to which a relative positive assessment of the government's performance could be observed, which could give the Congress a chance, to break the cycle of the voting out of the incumbent government.

The crossing-over of Virbhadra Singh's sister-in-law Jyoti Sen and her husband Vir Vikram Sen as well of his younger brother Prithvi Vikram Sen to the BJP are in Indian politics not unusual (*'Aya Ram, Gaya Ram'*). Often it is a kind of insurance of family interests and intra-family rivalries.

It is very much possible, that more members of the Congress till the declaration of the results on the 18<sup>th</sup> of December 2017 or afterwards will switch over to the BJP.

Irrespective of the fact, that the state government is not at all really unpopular, the 'disorder' in the Congress camp could prove to be disadvantageous. Several other Congress politicians switched over to the BJP, like Chetan Parmar, a grandson of the still popular first Chief Minister, Anil Sharma, son of the erstwhile Congress minister Sukh Ram, Dinesh Chaudhary, a prominent Rajput-leader as well as expelled politicians like the former minister and five times MLA Vijai Singh Mankotia, Hardeep Bawa, President of the Congress-trade union *Indian National Trade Union Congress* (INTUC) and Purna Thakur, VicePresident of the HPCC.

The faction fights between the camps of Sukhwinder Singh Sukhu, Congress-President in HP, who is

quite popular according to surveys, and Virbhadra Singh could weaken further the Congress, also in view of the lack of bonhomie between Rahul Gandhi and Virbhadra Singh.

The BJP-leadership pursues a deliberate policy, to draw discontented Congress-politicians, who command a basis – often without taking their reputation into consideration – to their side, supplemented by promises and financial incentives.

In case of a Congress defeat, a generational change can be expected in this party.

#### *A chief ministerial candidate for the BJP*

In several states the BJP entered the election campaign without a declared candidate for the post of Chief Minister (see his CV below). The 73 years old Prem Kumar Dhumal is the declared candidate. He occupied this position twice before. His son Anurag Thakur is a member of the *Lok Sabha*.

BJP-President Amit Shah made this announcement shortly before the 9<sup>th</sup> of November 2017 election. A major reason for this announcement is to avoid faction fights – the former CM Shanta Kumar is supposed to be critical vis-à-vis Modi – but also to give a clear answer to the Congress-CM Virbhadra Singh, who occupied this office six times, who frequently asked, who the BJP challenger is.

With this decision in favour of Dhumal, Jagat Prakash Nadda, NDA-Minister for health and family welfare, is out of the race.

#### *Campaign topics*

Ideological disputes don't play a major role in Himachal Pradesh. Both sides demonstrate a pragmatic approach in their manifestos, with welfare measures as the centre-piece.

The major focus was on „*development*“, but one has the impression, that even leading politicians don't have a really differentiated understanding of this notion, so that it degenerates into an empty formula.

Prime Minister Narendra Modi announced the liberation from various mafias, in the field of mines, forestry, drugs, tenders and transfers. Besides this, the BJP focused on security for women, employment and cost-free pilgrimages for senior persons as well as on the alleged corruption of Virbhadra Singh.

Quite a number of leading Congress politicians did not participate in the campaign. Rahul Gandhi, contrary to Modi, campaigned only at the very end.

The Congress – under the leadership of Virbhadra Singh, who hails from the erstwhile ruling family of the princely state of Rampur Bushhar, which is not at all disadvantageous in a state with remnants of semi-feudal loyalty structures – promised 150 000 new work-places and an increase in daily wages. The party focussed on farmers and students.

It is not clear, how far demonetisation and GST will really impact the electoral choices.

Rahul Gandhi insinuated, that the '*Himachal Pradesh-model*' is allegedly superior to the BJP's '*Gujarat-model*'.

The BJP focussed on employment, whereas Rahul Gandhi pointed out, that the Congress-government created seventy thousand jobs in Himachal Pradesh. According to him, the growth rate between 2012 – 2017 was 7.2% and, with regard to the *Human Development Index* (HDI), the state occupied the third position in India behind Delhi and Kerala.

Prime Minister Narendra Modi led between the 3<sup>rd</sup> and 5<sup>th</sup> of November the campaign in Himachal Pradesh, supported by Home Minister Rajnath Singh, BJP-President Amit Shah and Uttar Pradesh-CM Yogi Adityanath.

Adityanath attacked the Congress because of its alleged corruption, likewise Modi, who insinuated, that the Congress was characterised by an immanent identity of corruption. But he concentrated mainly on 'development' ('*Vikas*'). He saw in Rahul Gandhi's late entry an acceptance of defeat and that Congress-CM Vibadra Singh has been left to his destiny.

Modi maintained, that with the same party in power in Delhi and in Shimla, it would be possible to double the growth in Himachal Pradesh. He further promised the expansion of tourism, jobs for the youth, health centres for senior citizens and an adequate education for children.

Rahul Gandhi criticised '*demonetisation*' and the implementation of the *General Service Tax* (GST). He promised a reform of the GST, but he did not deny its importance. He insinuated a bad implementation, the complex tax structure and the late reimbursements, promising help to small traders.

Rahul Gandhi attacked the BJP with regard to the '*Vyapam*'-scandal in Madhya Pradesh and the phenomenal increase in turnover and profits of Amit Shah's Sohn Jay Shah and his company, after the BJP came to power in 2014.

Modi defended '*demonetisation*' and GST as a part of economic reforms. He alleged, that the Congress refuses them, because they tackle corruption, which the ancestors of the Gandhi's did to really fight against.

Gandhi attacked Modi because of his 2014 promise to create 20 million jobs. He insinuated that Modi would only work closely with big companies.

He used official data of *NITI Aayog* with regard to Gujarat and Himachal Pradesh about job creation, the health sector and education. According to this, the HP-government created 70 thousand jobs for the youth during the last five years, Gujarat only ten thousand. HP has built 55 higher educational institutions ('Colleges'), whereas Gujarat only 25.

Himachal Pradesh pays a monthly unemployment allowance of one thousand Rupees for young people, Gujarat is paying nothing. Himachal Pradesh has erected 230 health centres, Gujarat not a single one, besides closing 13 000 government schools, according to Gandhi.

#### *Majority and potential coalition partners*

The Congress and the BJP have been affected by faction fights, which strengthen the chances for independent candidates. This and the often arbitrary nominations in some constituencies could lead to so-called „*cross-voting*“, which means votes against the official party candidate. The Congress seems to be more affected by this, in the BJP camp there are tensions between the followers of Prem Kumar Dhumal and Union Minister J.P. Nadda.

It is not to be expected, that it could come to a so-called '*hung Parliament*', in which none of the two big parties would not have an absolute majority. Irrespective of a few smaller regional parties – like the *Lok Ghatbandhan Party*, *Swabhiman Party* and the *Rashtriya Azad Manch* – as well as the *Bahujan Samaj Party* (BSP), and the communist parties CPI/M and CPI, it is not expected that any of them could become a major factor to reckon with, although the two communist parties polled together about 6% of the votes in previous elections.

Nevertheless, the political scientist Harish Thakur from the university of Shimla envisages a possible scenario, in which the CPI/M and a few independents could play a role for a majority government.

He sees chances for the candidates of the CPI/M in the constituencies of Theog, Shimla, Ani and Kasumpti and assumes, that they could influence the election results there.

#### *Speculations about the election outcome*

The BJP is fully convinced to win. Thaawar Chand Gehlot, Union Minister für *Social justice and empowerment* assumes, that the BJP will win a three-fourth majority, that means more than 51 seats. If this prognosis would be correct, then the gate would be wide open for faction fights about the successor of the old war-horse Virbhadra Singh.

Some observers recognise a certain nervousness in the BJP, particularly with regard to businessmen in H. P. and the effects of GST. This could have been one of the reasons for the late nomination of Prem Kumar Dhumal as CM candidate.

According to the first surveys, the BJP is expected to win these elections, perhaps even with more than 50 seats. But Virbhadra Singh – an experienced campaigner and after many decades familiar with all the details of HP – cannot be underestimated and is possibly good for a surprise.

No other parties, also not the CPI/M and the *Aam Aadmi Party* (AAP), which even did not put up any candidate, are in a position, to break the political bipolarity and fill the existing vacuum.

#### *Conclusion*

It seems to be advantage BJP, but if it will come to the expected landslide victory is another matter. Yet, it cannot be excluded. But the experience of Virbhadra Singh cannot be underestimated, also in view of the predominantly positive perception about his governance by the electorate in Himachal Pradesh.

#### **Is the BJP-citadel Gujarat crumbling?**

The election campaign in Gujarat is in full swing, using all law- and unlawful means. For Prime Minister Narendra Modi, his home state is more than a matter of prestige. Against all expectations, a bad performance or even a defeat of the BJP could have negative repercussions for the upcoming state elections in 2018 and the *Lok Sabha* in 2019.

The Congress, with Rahul Gandhi before the polling as new President of his party, left nothing untried, irrespective of a weak party organization, to build new social coalitions with the Patidars, OBC's as well as Dalits and their young leaders, in order to forge a strong opposition movement. But such attempts and movements do not necessarily translate at the ballot boxes in favour of India's oldest party, also because of the far superior party machinery of the BJP, especially at the boot level.

#### *About the financing of the election campaign*

Like earlier and in other parts of India, cash and black money are in circulation in this election, even after the '*demonetisation*', which explicitly targeted this practice. So-called '*Angadias*', e. g. couriers in the services of diamond traders, guarantee the circulation of „*dirty money*“ in all parts of Gujarat and take their cuts, which are higher, when the money is coming from outside the state. There are no records for these illegal amounts, which are directly coming from *Chandni Chowk* in Old Delhi and are by-passing the *Central Election Commission*. (CEC)

Quairaiishi, a former CEC-Chairman, speaks of 40 different ways of illegal money transfer. „All the parties would pay lip-service, to change this situation, but actually they do nothing against this evil, although the bribing of voters is a criminal offence.

*The expenses of candidates are five to ten times the permissible upper limit. The financing of political parties is the fountainhead of all corruption. The parties reject the RTI-law with regard to party financing. They have reduced the receipts for contributions from twenty to two thousands and replace this instead from one to ten. Politicians and bureaucrats are in the know about all this.“*

The BJP – with a percentage of 82% - received between 2011/12 and 2015/16 about more than four times as many donations than all the other parties together in Gujarat.

*Electoral promises made by BJP in its 2012 Manifesto are:*

- government sharing the interest burden of farmer loans
- relaxation in stamp duty in case of mutual voluntary exchange of survey numbers amongst farmers
- district network of cold storages
- agro processing units to relieve farmers from hassles of storing agricultural produce
- all pending demands for agricultural connections to be met on a war footing
- land under irrigation will be increased by 16 lakh hectares
- constructing 28 lakh houses in rural areas and 22 lakh in urban areas
- greater job opportunities for more than 30 lakh youths
- new super specialty hospitals
- provide safe drinking water

The BJP had focused in its 2012 manifesto on the emerging neo-middle class in Gujarat and therefore the above promises were targeted to secure their votes. However presently, due to the Dalit and Patidar agitation, the party is forced to concentrate on agricultural issues. Patidars are seeking reservations in education and jobs. The Dalits, unlike the Patidars, are farm labourers, who want land reforms to take place. Of the 12.5 million hectares of cultivable land, only 3.8 million hectares were irrigated in 2000, which increased to 6.2 million hectares in 2016.

From 2001-02 to 2011-12, 914,000 homes have been built in Gujarat under the *Indira Awas Yojana*, a central government housing scheme; 352,000 have been built under the *Sardar Awas Yojana*, a state government scheme.

The unemployment rate has gone up from 3.8% in 2011 to 5% (Sept. 2017) in Gujarat.

The Congress has assured that, if voted to power, it would waive off loans of farmers, provide good support prices for farm produce and remove the 5% value-added tax on fertilizers. Also it has promised to give an unemployment monthly allowance to the youth - Rs 3,000 allowance would be given to those who have passed Class XII exam, Rs 3,500 to the graduates and Rs 4,000 to the post-graduates - including smart phones, to keep up with technology. It also promised cheaper loans for small businesses. The Congress is attempting to cash on the problems triggered by demonetisation



and the introduction of the GST. Most of these policies are populist in nature.

The Aam Admi Party (AAP) claimed in 2016, that it would be contesting all the 182 assembly seats. However as per news reports, the party may only contest in constituencies with a strong anti-incumbency factor and so far only 20 nominations have been declared. The BJP enjoys strong support in urban areas. Hence, AAP intends to target the semi-urban and rural areas. On May 1, it held a massive rally of farmers in Sanad. Arvind Kejriwal has backed the Patidar leader Hardik Patel. One of the promises is to cut the electricity price of per unit by half.

#### *Election campaign and promises of the Congress*

The Congress hopes to gain from the negative impact of 'Demonetisation' and the handling of the General Service Tax (GST). Rahul Gandhi to a certain degree succeeded, to partly push the BJP in Gujarat into the defensive. The Tata Nano received a credit of Rs. 60,000 with an interest rate of 0.01%, in order to start its project for the launch of India's cheapest car. Gandhi asked about the number of youngsters being employed in these factories.

He drew parallels to the need to release farm credits, which in his opinion does not belong to the priorities of the government led by CM Rupani. In his speeches he referred to the plights of Dalits, Adivasis, farmers as well as small and medium scale industries. He claimed, that the latter would be capable to compete with imports from China, had they not been exposed to the double blow of 'Demonetisation' and GST, which led to a decrease of the BSP by 2%, according to him.

Gandhi, whose party is far behind the BJP in urban centres, met members of civil society, traders, industrialists and businessmen. He criticised the preference of a few industrialists over the rest of parts of society as a bad practice by the Modi-government.

Gandhi delivered more pointed speeches and adapted a smarter media-strategy. The Congress does not raise the injustice towards Muslims and conveys the impression, not to be a party for minorities. The party appeals particularly to farmers and women.

Yet, the Congress faces the problem, that the party gave tickets to influential people and experienced leaders, instead to genuine candidates, who had served the party.

#### *Caste- and Reservation- topic*

The Congress attempts to forge new social coalitions. After a lot of ups and downs, it reached finally an understanding about seat adjustments with Hardik Patel and his *Patidar Anamat Andolan Samiti* (PAAS).

Alpesh Thakor, member of an OBC-caste, who joined the Congress, and Jignesh Mevani, who led a Dalit-movement against the government after the public flogging of Dalits by upper-castes in Unna, are hopefuls, the Congress is banking on.

It might be finally not decisive, but it can be expected, that these three leaders putting their lot in favour of the Congress will certainly limit the increase of votes, which the BJP tries to achieve.

#### *The 'Shankersinh Vaghela'-factor*

Shankersinh Vaghela – a former BJP/RSS-leader, afterwards Congress and in 2017 expelled, since he was not nominated as CM-candidate by the Congress, which led its campaign under Bharatsinh Solanki – attempts a kind of „third front“ with the newly formed *Jan Vikalp* (JV). The architect of the

BJP-victory in 1995 lost then in the ensuing power struggle to Keshubhai Patel for the CM-office and formed the *Rashtriya Janata Party*, which later merged with the Congress.

In August 2017, Vaghela, together with 7 Congress-MLA's, who did not vote for the Congress-candidate for the *Rajya Sabha*, was expelled from the party. Vaghela, who is not a candidate this time, is very close to the BJP and met Amit Shah. But he does also not exclude a possible entry into the NCP or even the AAP, arguing that a „*third front*“ does not succumb to a central command.

The *Jan Vikalp* favours reservations for the *Economically Backward Classes* beyond the existing regulations. Unemployment, contract jobs and the exploitation of SC's/ST's and OBC as well as GST are the most important themes of its campaign.

It has to be seen, if this new party will numerically play even a modest role. It could marginally damage the two big parties, most probably even more the Congress.

#### *Starting point*

In Gujarat, the votes will be casted in two phases on the 9<sup>th</sup> and 14<sup>th</sup> of December. The counting takes place , together with Himachal Pradesh, on the 18<sup>th</sup> of December 2017.

The following table gives an overview of the vote percentage and the mandates of various parties in 2012.

#### **Gujarat Assembly Elections 2012 and 2017**

<b>Party</b>	<b>2012</b>		<b>2017</b>	
	<b>Seats won</b>	<b>% of valid votes</b>	<b>Seats won</b>	<b>% of valid votes</b>
Bhartiya Janata Party (BJP)	115	47.85		
Indian National Congress (INC)	61	38.93		
Nationalist Congress Party (NCP)	02	0.95		
Gujarat Parivartan Party	02	3.63		
Janata Dal (United)	01	0.67		
Independants (IND)	01	5.83		
<b>Total</b>	<b>182</b>	<b>--</b>	<b>182</b>	<b>--</b>

According to surveys by *Aaj Tak* and *Axis*, conducted between 25. 9. and 15. 10. 2017 in all the 182 constituencies, the BJP with a percentage of 48% would win between 115 to 125 seats, der Congress with 38% between 57 to 65 and other parties with 12% 0 to 3 seats. (*India Today TV*, 24. 10. 2017)

The survey showed, that 44% saw 'demonetisation' as positive and 53% as negative. Only 38% considered the *General Service Tax* (GST) as positive and 51% as negative.

The caste group of *Patels*, altogether with a percentage of 16% of the population, is split in its support for the Congress and the BJP, which they supported over decades.

In the meantime, the young political leader Hardik Patel, who led mass agitations in 2015 for job reservations in favour of the *Patels* – where he has a 10% support – has finally spoken out in favour of the Congress. This could lead to some additional seats, altogether between 62 and 71 for the Congress, but not to a big breakthrough. Analysts argue, this understanding should have taken place six months earlier.

With regard to the '*Other Backward Castes*' (OBC's), the BJP clearly leads with 52% against the Congress with 34%, whereas the Congress is leading with 74% against 11% in favour of the BJP amongst the numerically not so strong Muslims with about 9% of the population.

The Hindu-Muslim factor in a highly polarised Gujarat - „*it is the most ghettoised society in India*“, according to the journalist and head of *Amnesty International India*, Aakash Patel – does not play a role in this election. „*The BJP practices a 'political apartheid' and continues not to put up a single Muslim as a candidate*, so Aakash Patel.

Amongst women, Modi with the bonus of a Prime Minister and hailing from Gujarat, leads with a big margin of 10%. In the urban centres, the BJP is well ahead, whereas in rural areas both parties are neck to neck.

There is no major '*anti-incumbency*' – factor visible against the BJP, which is ruling since more than two decades. The Congress, split into various factions, has no really visible face and alternative narrative, in order to challenge the BJP. 75% of the interviewed people are content with the work of the NDA-government in Delhi.

34% favour the acting CM Vijay Rupani as the desirable new CM, whereas S. Gohil of the Congress is only favoured by 19%.

Yogendra Yadav concludes, that no local personality dominates the election campaign and that both CM candidates are below the expected percentage of their parties.

#### *Speculations about the result*

Amit Shah had declared the aim of „150 plus“ seats. Currently, it does not look like, that this is a realistic perspective. The BJP shows some nervousness. But the campaign machinery of the BJP/RSS could be again, like so often during the last years, prove to be the decisive factor.

Yet, according to surveys of the *Centre for the Studies of Developing Societies* (CSDS), the gap between the BJP and the Congress has reduced during the last weeks.

Since many years, the Congress has for the first time in Gujarat a chance, to do better and reach out to new groups of the electorate, thanks to co-opting the young leaders of the movements of the *Patidars*, the OBC's and Dalits.

#### *Lacking opposition unity*

Gujarat belongs to the states with a clear bipolarity between BJP and Congress, leaving no space for a

so-called „*third force*“. A recent example for such a failed attempt was Khesubhai Patel, a former BJP-CM of Gujarat, with his *Gujarat Parivartan Party*, which gained in the state elections in 2012 only 3.63 % and two mandates.

The attempts of BSP, Samajwadi Party, Janata Dal United, Trinamool Congress und Nationalist Congress Party (NCP), to set up a base in Gujarat, failed more or less altogether.

Originally, the *Aam Aadmi Party* (AAP) had big plans for Gujarat and wanted to put up candidates in all constituencies. But after its clear defeat in Goa and its below expectations performance in Punjab, it put up only candidates in some constituencies, which might do more harm to the Congress there, according to Alka Lamba, Congress MLA in Delhi. Various discontented segments in semi-urban constituencies and also in the countryside could be supportive for AAP.

The NCP, with its „corrupt“ leadership in Maharashtra, can be politically intimidated by the BJP with the threatening of cases against them. Therefore, the NCP presents itself as an alternative to the Shiv Sena for the BJP in Maharashtra, and goes into the Gujarat election without an alliance with the Congress or even the BJP.

Congress did not forge a „*third front*“, besides seat adjustments with the Sharad Yadav led faction of the *Janata Dal United* in Gujarat, led by the MLA Chhotu Vasava in the *Adivasi*-areas, the so-called „*tribal areas*“ in Gujarat, where the Congress made a few concessions.

The lack of opposition unity will undoubtedly favour the BJP under the existing electoral majority voting system.

### *Perspectives*

Dalits and Muslims constitute together about 16% of the electorate in Gujarat and are therefore an important factor. Muslims, although this is not anymore so clear, will in their majority vote for the Congress. But a lot depends on their mobilisation, since otherwise many of them might stay at home in the prevailing socio-political climate in Gujarat.

On the other side, the BJP succeeded countrywide to draw quite substantial parts of Dalits on its side, like in Uttar Pradesh.

In the final phase of the campaign, Narendra Modi will intervene massively and appeal in particular to the 'pride' (*'Asmita'*) of Gujaratis and highlight the achievements of the BJP. The Election Commission delayed the announcements of the voting dates, so that the government could launch various programmes.

If there will be a polarisation along religious lines has to be seen, but it also cannot be excluded.

Christians form only 0.5% of the population in Gujarat. The call of the Archbishop of Gandhinagar, Thomas Macwan, „*that the nationalists are taking over the country and the oppositional forces should therefore defeat them*“, certainly played into the hands of the BJP.

Macwan, socially a Dalit, referred to alleged frequent attacks on churches, especially in Gujarat. He explained, „*that my appeal is not directed against a certain party.*“ Dr. Subrahmaniam Swamy, BJP-Rajya Sabha member, countered: „*The christian church attempts under directives from abroad to destroy the Hindutva-forces. The Congress-President entertains best relations with the Vatican.*“

Early December, the *Supreme Court of India* will deal with the Ayodhya-issue and decide, if there can be a temple constructed in honour of the Hindu-god *Ram*. This could decisively influence in the final phase the voting behaviour in favour of the BJP and deviate attention from the real topics.

A decisive election takes place in Gujarat, which will -to a large- extent influence the power relations in Indian politics with a view to the outstanding Assembly elections in 2018 and the *Lok Sabha* election in 2019.

## II India - Economic Developments

Dr. Klaus Voll sketches the economic situation with regard to the „*Business Sentiment*“. Dr. Joyce Lobo examines the problems faced largely by the MSMEs, when the new tax regime was introduced in India.

### The economic situation in November 2017: „*Business Sentiment*“

There are naturally different viewpoints about the current economic situation. The jump of India from position 138 to 100 in the World Bank-index in the „*ease of doing business*“ was celebrated by the government and its various apologists as a proof, that the Indian economy is turning around and that through this the confidence of foreign investors would be strengthened.

On the other side, the so-called '*Business Sentiment*' reached between July and September 2017 a new low, according to a survey of 500 *Chief Executive Officers* (CEO's) and high-ranking financial officers of enterprises in 12 Indian cities.

This historically lowest confidence-degree is connected with the expectation of 65% of the people being interviewed, that there will be a profit erosion between October and December, which means an increase of 42%.

The handling of the *General Service Tax* (GST) is regarded as an important factor and it is expected, that about six months are required, till the GST-reimbursement process will be in order. 76% of the interviewees assume that the GST will influence the growth of their business.

Major problems are the flip-flop of tax rates, the slow speed of GST- networks/websites and the change in time-lines seen. Exporters are mainly complaining, that valuable working capital is stuck with the government and is therefore not available with them.

81% are not ready to invest in business operations. The slow demand, sub-optimal capacity use and low private investments are leading to a veritable „*devil's circle*.“

Only if there is a capacity use of 75%, investments are happening. According to the *Bank of India* (RBI), there was a capacity utilisation of 71.2% between April till June 2017, compared to 72.2% between October till December 2016.

42% believe, that with lower GST-rates private consumption will increase, whereas 52% want lower direct taxes, an improvement of the fiscal structure – through recapitalisation of banks by the government – in order to kickstart the economy.

Yet, the *Economic Advisory Council to the Prime Minister* advocates the opinion, that the acceleration of the economy cannot be effected by a loosening of the fiscal deficit limit of 3.2%.

### GST: Trials and tribulations

The *Goods and Services Tax* was introduced on June 30, 2017, which came as a second painful event particularly for the micro, small and medium enterprises (MSMEs) and workers. GST has lead to more confusion as the government of India decided to roll out the tax and do corrections as errors and problems arise. Lack of clarity and presently with the correctional changes being made, resolutions of problems do not see the end of the tunnel. The GST Council under the Union Finance Ministry has had 22 meetings (Oct., 06, 2017) from September 22-23 since its introduction.

*The 22nd meeting of the GST Council: October 06, 2017:* This meeting has largely addressed the problems of the small and medium scale industries. It has recommended facilitative changes to ease the burden of compliance of these industries:

1. *Composition Scheme:* A Composition Scheme will be available to taxpayers (manufacturer, traders and only restaurant related services), whose turnover is less than Rs. 1 crore (this included states of J&K and Uttarakhand). Previously, the threshold was Rs. 75 lakhs. For special category States, except Jammu & Kashmir and Uttarakhand, the threshold will be increased to Rs. 75 lakhs from Rs. 50 lakhs. The increase in the turnover threshold will make it possible for a greater number of taxpayers to avail the benefit of easier compliance under the composition scheme and is expected to greatly benefit the MSME sector. The Council suggested, that a Group of Ministers (GoM) shall be constituted to examine measures to make the composition scheme more attractive.

2. Service providers, whose annual aggregate turnover is less than Rs. 20 lacs (Rs. 10 lacs in special category states except J & K), are now to be exempted from obtaining compulsory registration, even if they are making inter-State taxable supplies of services. This will reduce the compliance cost of small service providers.

3. To facilitate the ease of payment and return filing for small and medium businesses with annual aggregate turnover up to Rs. 1.5 crores, it has been decided, that such taxpayers shall be required to file quarterly returns in FORM GSTR-1,2 & 3 and pay taxes only on a quarterly basis, starting from the third quarter of this financial year, i.e. October-December, 2017.

4. The reverse charge mechanism under sub-section (4) of section 9 of the CGST Act, 2017 and under subsection (4) of section 5 of the IGST Act, 2017 shall be suspended till 31.03.2018 and will be reviewed by a committee of experts. This will benefit small businesses and substantially reduce compliance costs.

5. Taxpayers, having annual aggregate turnover up to Rs. 1.5 crores, shall not be required to pay GST at the time of receipt of advances on account of supply of goods. The GST on such supplies shall be payable only when the supply of goods is made.

6. The services provided by the Goods Transport Agencies (GTAs) to small unregistered businesses, especially an unregistered person, shall be exempted from GST.

However after the Guwahati conclave, the 23rd meeting, the GST Council has further made concessions. The turnover threshold has been increased from Rs. 1 crore to Rs. 1.5 crore. Also a uniform rate of GST of 1% under the composition scheme as opposed to the current rates of 1 percent for traders and 2 % for manufacturers stands replaced. These small and medium units will pay taxes quarterly and file quarterly returns.

The suggestions will be looked into by the GST Council. Coming heavily under criticism, Modi said on October 29, 2017, that he was willing to make changes but will not roll back the tax, blaming constantly on the Congress for the hurdles caused in its path. The Congress had all along maintained, that the GST should be pegged at 18%. Modi also assured the business community, that their old registers will not be opened.

*Problems associated with the GST:* The MSMEs particularly had problems of filing GST and compliance. This would require resources, that are only owned by the big industries. Lack of clarity, complex procedures and compliance requirement and presently with the correctional changes being made, resolutions of problems do not see the end of the tunnel. The constant new changes and clarifications have created more problems and further confusion. There are too many GST slab rates, ranging from 0 % to 28%. Though a change has been made presently, that instead of monthly filing of returns the government has agreed for quarterly filing, there is no clarity on how this will help if taxes still need to be paid and filed monthly.

Second, how will things be coordinated between a big manufacturer, who files GST and claims input taxes with a supplier, who files under the composition scheme. This may also hurt the interests of the small businesses and the unorganised sector. Also the government needs to look into the problems of the job workers and create a uniform duty rate, which will taken as input tax credit to large and medium enterprises. This sort of integration will enable to cater to the interests of all types of enterprises, while limiting the losses the MSMEs have already faced.

So far the GST Council has been able to reduce the tax rates on 211 items. The highest taxable items, that attract about 28% has been brought down to 50. More needs to be done. Key industries such as real estate, electricity, alcohol and petroleum do not come under the purview of GST. Procedures are complex and filing of monthly returns, lack of computer knowledge and poor internet connectivity had added more to the chaos. Rural areas, small businesses and first timers found issues with compliance. Reverse charge mechanism has put the small businesses to be at the mercy of big businesses. The buyers first pay taxes, including that of their suppliers, and since the former claims input tax late, the suppliers are not paid.

*Effects of GST: Small and medium scale industries in India:* Small and medium industries are largely consumer industries in India. The effects of demonetisation and the subsequent introduction of the GST have had a double reeling effect. The impact can be assessed with the available data either industry-wise or state-wise. Below are some of the industries, that the GST policy has impacted:

*Beedi Industry:* The GST imposed on finished *beedi* (rolled cigarettes) products is 28%, while the leaf (*tendu*), that is used, has a tax of 18% (previously 5%). The 18 per cent GST on the *tendu* is made up of 9 per cent central GST (CGST) and 9 per cent state GST (SGST). Central tax on the leaf was earlier zero. There is a fear, that the hike in tax rates might result in low wages to the tribals, that are authorised to collect the *tendu* leaves from the forests under the *Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006*.

In India, the *beedi* industry provides direct and indirect employment to nearly 5 crore people. The high tax rate puts the jobs of leaf collectors and *beedi* rollers into danger. Largely, the working force here comprises of women. As per the *Annual Survey of Industries 2016* brought out by the *Directorate of Economics & Statistics (DE&S)*, Telangana, the *beedi* manufacturing sector in the State accounts for over 40 per cent of the total industrial workforce, which is estimated at 13.75 lakh (6.29 lakh workers and 7.45 lakh employees). Telangana is home to 700 *beedi* manufacturing units, majority of which are in the small scale sector with an employment strength of below 50.

A.K. Padmanabhan, all-India vice-president of the *Centre for Indian Trade Unions (CITU)*, confirmed that *“Beedi workers have work for hardly two days a week. Post-demonetisation, no work was created and small traders were hit as money transactions were affected. GST added to the prevailing crisis. Jobs have come down very seriously. The hike has affected the welfare measures of the beedi workers as additional cess, which proceeded to form the welfare fund for the beedi workers, which is now subsumed under the new tax. Measures such as special dispensaries, scholarships etc. now stand endangered.”*

One of the groups, prior to the rolling out of GST on June 30, pointed the need for a balanced GST. The *Swadeshi Jagran Manch (SJM)*, along with other groups, pointed that compliance for big businesses and multi-state operators was easier unlike for the small scale industries. There has been no detailed consideration on taxing the commodities produced by small scale industries—*beedi*, crackers, beverages, biscuits, pickles, confectionery, scissors, etc. Also there is the worry of Chinese competition, taking over the indigenous industries. And this is the exact reason, why the *SJM* objected to the GST regime in the first place. The small and medium scale industries provide for most of the low skilled jobs in the country.



*Exporters:* During the first GST Council meet on Exports, exporters came with their problems with the new tax regime and suitable concessions. They sought exemption from import taxes on inputs under popular schemes such as *Advance Authorisation (AA)* and *Export Promotion Capital Goods (EPCG)*. Countries like Canada, the EU, Vietnam, Indonesia and Australia have implemented the GST and provided these kinds of relaxation. Since the exporters have been able to provide data on such countries, the Finance Ministry is willing to consider the suggestion, which earlier it had shot down. Also they requested, that incentive schemes such as *Merchandise Export from India Scheme* and the *Duty Drawback Scheme* should also be allowed to continue under GST.

The second problem, that they faced, was with the timing of receiving refunds on taxes paid. They suggested, that refunds be given on the basis of GSTR-3B as an interim mechanism, till things settle down and get sorted out. This can be later merged with actual invoices, when detailed filing of returns is done (GSTR-1 and GSTR-2). Thus the filing of returns happens on time without extensions. This will set the ball rolling, wherein refunds will automatically happen on time.

The third suggestion was to simplify procedures. Since the introduction there was lack of clarity on refunds, like whom to approach for funds—the centre or the states.

The major problem is the wait for refunds. Previously the exporters continued to export without payment of taxes, by filing a bond or letter of undertaking (LUT), which enabled them to be continuously in business as capital did not become a issue. After GST, the exporters pay the IGST during export and then claim the refund, which will block their working capital. The long wait for the refunds has hindered the business of the exporters. P. K. Shah, the former Chairman and presently the Board member of *Engineering Export Promotion Council of India (EEPC India)* said, “*that the Revenue Secretary has been apprised of the cash flow problem as the refunds for the August exports would be available only in December with a cascading effect even on the refunds for September*”. (“Exporters seek early refund, exemption under GST”, BusinessLine, September 19, 2017). Hence the EEPC India sought the release of at least 90% of the refunds immediately after shipment and to proceed with verification and adjustment at a later stage. At the country level, capital to the tune of Rs 95,000 crore is estimated to be locked-up from the time of buying raw materials and claiming refund on exported goods, which is typically four-six months, according to Suresh Nandlal Rohira, partner at Grant Thornton India Llp. (“GST opens a Pandora’s box for exporters”, Livemint online, September 12, 2017).

The *Council for Leather Exports* suggested to the GST Council on Exports, to review rates under GST. That is to lower GST to 5% on job works, 18 % on leather garments and goods.

Before GST was introduced, exporters enjoyed exemptions under *Foreign Trade Policy (FTP)*. They could import capital goods and raw materials without paying duties, thus having no impact on cash flow. However under GST, exporters are exempt only from paying the basic customs duty. GST is based on refund principle and not exemptions.

*Handicrafts and handloom:* Due to ambiguous tax rates on different products involved in making handicraft or handloom products, taxes have to be paid. Local artists or weavers face problems presently as raw materials have been taxed under the present regime, unlike before. For example tortoise shell is taxed at 5%, un-worked material at 18%, raw yarn 5%, etc. The kinds of families, that are involved in being artisans, come from the poor or lower middle class. They find technical aspects like working online, understanding HSN or GSTIN numbers, or carrying invoices stage to stage perplexing. There is a complete lack of awareness on the new regime be it on refunds, tax rates, compulsory registration, etc. The advance payments delayed refunds and add more to their woes. The registration procedures have to be complied with as there is no other option than leaving the trade altogether.

Traders form the traditional vote base of the *Bharatiya Janata Party (BJP)* in India. However, there is a growing discontent, that has resulted in protests. A number of traders’ bodies, like the *Confederation of All India Traders (CAIT)*, plan to hold protests on a number of economic issues, that includes

difficulties relating to complying with the GST. There are about 6.34 crore traders in India. Over these concerns, the SJM is not denying the role of GST and other issues, that have irked the traders. The Congress and the Left parties have also been actively involved in these protests.

*Impact on imports:* Before GST was implemented, the tax regime for import goods included Custom Duty, Countervailing Duty (CVD equivalent to Excise Duty) and Special Additional Duty (SAD equivalent to VAT). Here the importer was required to file the bill of entry for clearance of goods. The duties were payable on clearance of goods. The same for import of services included Service Tax, wherein the service receiver was liable to pay Service Tax under the reverse charge mechanism. Input Tax Credit (ITC) of IGST was allowed, while ITC of BCD was not allowed.

Presently with GST, importing goods includes *Basic Custom Duty* (BCD) and *Integrated Goods and Services Tax* (IGST), including surcharges, while for services it is only IGST.

The implementation of the GST changes the business structure, bringing important changes to the international trade, as computation of the *Basic Custom Duty* (BCD) will change. So, there may be a possibility of withdrawal of various tax exemptions and amendments to the terms of the *Foreign Trade Policy*. Experts have pointed, that the introduction of GST will let the import of consumer durables to be slightly expensive for a temporary period, especially in transition stock. The benefits of the special credit transfer scheme will be restricted only to the manufacturers.

In terms of foreign companies, there is a welcome move especially by the investments companies. The GST move by PM Modi is to unify markets and make the tax regime simpler and boost the manufacturing base through the *Make in India* initiative. However, manufacturing suffers largely due to infrastructure and poor policy implementation.

### Part III India - Foreign Policy Developments

Dr. Joyce Lobo writes briefly on Modi's Manila visit for a first ever bilateral with Duterte and the ASEAN summit.

#### Modi at ASEAN-India Summit

The *15th ASEAN-India Summit* and the *12th East Asia Summit* at Manila heralded a new phase in terms of India's foreign policy, wherein the 'Act East' policy is wedded to the notion of the Indo-Pacific region, that is envisaged by India, USA and Japan. Prime Minister Narendra Modi along with the ASEAN leaders reviewed a comprehensive cooperation and the activities undertaken for commemorating the 25 years of New Delhi's dialogue partnership. The 25 years will be celebrated at the *India-ASEAN Special Commemorative Summit* on January 25, 2018 in New Delhi. Trade between India and the ASEAN has increased at a decent pace of 10.85% (US\$ 71 billion in 2016-17).

Modi focused on India's economy and connectivity as two areas while addressing the *ASEAN Business and Investment Summit*. India is also hosting the *India-ASEAN Connectivity Summit* towards the end of the year, followed by a business summit in the beginning of next year.

*First Bilateral with Manila:* Modi became the first Indian premier to visit the Philippines in 36 years and hold the first bilateral with President Rodrigo Duterte. Manila looks forward to India's cooperation in the health sector and especially to Indian investments in the pharmaceutical sector. Other potential areas of cooperation seemed to be education, infrastructure and defence. Four agreements were signed especially on defence cooperation and logistics, agriculture, etc. Defence cooperation is aimed at humanitarian assistance and disaster risk reductions.

The much talked about event in Manila on the sidelines of ASEAN concerning India has been the first 'Quad' talks on November 12, 2017 at the official level between India, USA, Australia and Japan. However, much was discussed in India that this 'Quad' is a befitting answer to an aggressive China. There was a common consensus on a "rules-based order in the Indo-Pacific and respect for international law, freedom of navigation and overflight; increase connectivity; challenges of countering terrorism and upholding maritime security in the Indo-Pacific". This indeed looks like a group opposing China's stance in the South China Sea. However these four countries are part of several informal groupings. India is able to be part of converging interests, that support its 'Act East' policy and policy on being the net security provider in the Indian Ocean Region with that of the Indo-Pacific policy of the USA and Japan.

## Part IV South Asia

Dr. Joyce Lobo analyses the twin visits of Ghani and Tillerson, in order to understand the South Asia strategy spelt out by Trump.

### Ghani's Visit in the Context of Trumps' South Asia Strategy

President Mohammad Ashraf Ghani's visit to India followed that of the Chief Executive Dr. Abdullah Abdullah (Sept. 27-29) this year. Holding talks on October 24, 2017, Prime Minister Narendra Modi conveyed assurances to Ghani's government on the continuation of India's development assistance to the people of Afghanistan. Adding a new dimension to their existing relationship, which has relied on mutual respect, community development, capacity building and infrastructure creation, both sides have this year the *New Development Partnership* adopted. With this, about 116 development projects have been identified in 31 Afghan provinces.

Apart from the common interests that Kabul and New Delhi share, both sides have attempted to address the issue of terrorism, that largely emanates from Pakistan. The case gains complexity, given that Islamabad refuses to acknowledge the positive, constructivist and non-offensive approach in Kabul. India has accepted the role of bringing and building developmental infrastructure for Kabul's prosperity, while wishing for its peace and stability to achieve it.

In order to bypass the Pakistan route for trade and connectivity between India and Kabul, an air corridor has been inaugurated since June 2017, thus enabling the import of perishable commodities on time to Indian markets. There is earnestness in Kabul and New Delhi for the completion of the Chahbahar Port in about a year. Already, the first cargo of wheat from India has reached Afghanistan through this port. India rejected the idea of reviving talks with Pakistan on the transit trade with Kabul. The latter has refused to let the Indian goods to be transited to Kabul.

*India and Trump's South Asia-strategy:* India has agreed to continue training the Afghan forces on a need basis of the Afghan security forces. For the USA, India is no doubt an important partner, given the fact that it is a leader amongst the South Asian countries. However, as President Donald Trump's South Asia-strategy suggests, the USA assigns no significant role to India in terms of Afghanistan's counter terrorism operations, but welcomes the former's development role. The USA still rely and will continue to rely on Islamabad, to counter terror in Kabul and therefore its stability is paramount to its strategy. Secretary of State Rex Tillerson's visit to India on October 25 has been to clarify America's policy on South Asia and to convince India to deescalate tensions with Pakistan.

Prior to his visit, Tillerson had delivered a speech on October 18, 2017 at the *Center for Strategic and International Studies* (CSIS)—*'Defining Our Relationship with India for the Next Century'*. The focus was on the importance of the Indo-Pacific region and its need to be free and open as common endeavour between India and the USA, which was exhibited through the *Malabar Exercise*, while showing the unified strength of the three Indo-Pacific democracies—India, USA and Japan. The aim is to ensure this cooperation in the region for the next 100 years, suggesting a kind of Asian security concept, that might be slowly evolving. New Delhi and Washington are focussing on "*upholding the rule of law, freedom of navigation, universal values, and free trade*", said Tillerson in his speech. This brings China into a clearer picture of not adhering to an international rules-based order. However the relationship also means, that India buys arms from the USA as part of the defence cooperation, that comes under the rubric of the Indo-Pacific context. That seems the meaning of being part of the global security and stability. This also becomes very important from this year onwards, as the USA, the third largest oil producer, exports crude to India.

The USA are aware of the connectivity problem between the South Asian nations, which has led to a dismal trade of about 4-5% inter-regional trade unlike the ASEAN (25%) countries. The USA here lays emphasis on security, to achieve peace and stability and therefore a defence cooperation, wherein

the procurements are from none other than Washington D.C., like Guardian UAVs, aircraft carrier technologies, the future vertical lift program, and F-18 and F-16 fighter aircrafts. However this does not actually amount to an organisation, that will set the Asian security order in place.

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