



# INDIA AND SOUTH ASIA: MAY 2018 DOSSIER

The May Dossier covers the interesting saga that unfolded after the Karnataka assembly election results and its implications on Indian politics. The economic section analyses crony capitalism and the bank NPAs that have become the bane of Indian economy. It also includes the Walmart buy of Flipkart.

In terms of India's external engagements, the Modi-Putin informal talks, the visit by PM Rutte of Netherlands and Modi's course correction with Kathmandu are analysed.

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**Dr Klaus Julian Voll**

FEPS Advisor on Asia

With Dr. Joyce Lobo

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MAY  
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## Part I India - Domestic developments

Dr. Klaus Voll analyses the Karnataka Assembly election results and the saga that unfolded thereafter.

The elections in Karnataka produced a '*hung Parliament*' without an absolute majority for any party. The Governor first gave the oath to Yeddyurappa as CM with a period of 15 days, in order to prove his majority. The *Supreme Court* intervened and cut the period for the floor test short. Yeddyurappa resigned without the floor test. Therefore, the Governor had to give oath as CM to H. D. Kurumaswamy, who leads a coalition between the Janata Dal/Secular and the Congress.

### Karnataka: BJP-victory without majority

The intensive election campaign by Prime Minister Narendra Modi proved to be decisive and contributed with 72.13%, certainly to the highest voter turn-out since 1952.

Besides one '*Exit Poll*', nobody expected this clear victory for the BJP. But, with 104 seats, followed by the Congress with 78 and the Janata Dal/Secular with 37, besides two independents, the BJP failed to reach an own absolute majority of the 111 required seats. The independent candidates have been literally extinguished compared with 2013.

### Karnataka: Assembly Elections 2013 & 2018

Party	2013		2018	
	Seats	Vote share (%)	Seats	Vote share (%)
INC	122	36.59	78	38.0
BJP	40	19.89	104	36.2
JD(S)	40	20.19	37	18.3
IND	09	7.38	01	3.9
Others	13*	13.35	02**	0.5
Total	224		222	

**Note:** \*BSRC with 4 seats (2.69%); KJP 06 seats (9.79%); KMP 01 seat (0.18%); SP 01 seat (0.34%); and SKP 01 seat (0.35%)

\*\*BSP with 01(0.3%) and KPJP with 01(0.2%)

### Political parties in Karnataka: 2013 & 2018

BJP, Bharatiya Janata Party

BSP, Bahujan Samaj Party

BSRC, Badavara Shramikara Raitara Congress Party

INC, Indian National Congress

IND, Independent

JD(S), Janata Dal (Secular)

KJP, Karnataka Jantha Paksha

KMP, Karnataka Makkala Paksha

KPJP, Karnataka Pragnyavantha Janatha Paksha

SKP, Sarvodaya Karnataka Paksha

SP, Samajwadi Party

#### *Details about the election results*

Karnataka is divided in 30 districts and four administrative divisions, which are part of the six different regions.

1.The *Coastal* region with 19 seats

2.The *Old Mysore* region with 61 seats

3.The *Bangalore* region with 28 seats with the district of the urban Bangaluru.

4.The *Mumbai-Karnataka* region with 50 seats.

5.The *Hyderabad-Karnataka* region with 40 seats

6.The *Central Karnataka* region with 26 seats

Total: 224 seats

The following tables give a detailed view about the performance of the three major parties in the regions as well as within the districts of the different regions.

#### **2018 Karnataka Assembly-Elections region-wise**

Region	BJP	INC	JDS	Oth
Coast (19 seats)	16	03	--	--
Old Mysore (61 seats)	11	19	29	02
Bengaluru (28 seats)*	11	13	02	--
Mumbai-Karnataka (50 seats)	30	17	02	01
Hyderabad-Karnataka (40 seats)	15	21	04	
Central Karnataka (26 seats)	21	05		
Total 222 (out of 224)	104	78	37	03

\*By-elections in two constituencies



**Coastal Region: 19 seats**

Districts	BJP	INC	JDS	Oth
Uttara Kannada	04	02		
Dakshina Kannada	07	01		
Udupi	05			
<b>Total</b>	<b>16</b>	<b>03</b>		

**Old Mysore-Region: 61 seats**

Districts	BJP	INC	JDS	Oth
Mandya			07	
Mysuru	03	03	05	
Chamrajanagar	01	02		01(BSP)
Ramanagaram		01	03	
Hasan	01		06	
Kolar		04	01	01(IND)
Tumkuru	04	03	04	
Kodagu	02			
Chikkabalapur		04	01	
Bengaluru Land		02	02	Insgesamt
<b>Total</b>	<b>11</b>	<b>19</b>	<b>29</b>	<b>02</b>

**Bengaluru-Region: 28 seats**

Districts	BJP	INC	JDS	Oth
Bengaluru Urban	11	13	02	

By-elections in two constituencies

**Mumbai-Karnataka-Region: 50 seats**

Districts	BJP	INC	JDS	Oth
Bagalkot	05	02		
Belagavi	10	08		
Dharwad	05	02		
Haveri	04	01		01(KPJP)
Gadag	03	01		
Vijayapura	03	03	02	

<b>Total</b>	<b>30</b>	<b>17</b>	<b>02</b>	<b>01</b>
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#### Hyderabad-Karnataka-Region: 40 seats

Districts	BJP	INC	JDS	Oth
Ballari	03	06		
Bidar	01	04	01	
Kalaburagi	04	05		
Koppal	03	02		
Raichur	02	03	02	
Yadgir	02	01	01	
<b>Total</b>	<b>15</b>	<b>21</b>	<b>04</b>	

#### Central Karnataka-Region: 26 seats

Districts	BJP	INC	JDS	Oth
Chitradurga	05	01		
Davangere	06	02		
Chikkamagaluru	04	01		
Shivamoga	06	01		
<b>Total</b>	<b>21</b>	<b>05</b>		

The BJP gained with a vote-share of 36.2% 104 seats.

The Congress, with the highest vote-share of 38%, gained only 78 seats.

The Janata Dal/Secular with a vote-share of 18% won 37 seats.

In the *Coastal region*, the BJP increased its vote-share by 10%, a result of an intensive polarisation and a visible hatred spread by the RSS/BJP against Muslims. In constituencies with a high amount of Muslims, the BJP could gain about 8%.

The Congress increased its vote-share by 7% in constituencies with a higher presence of Muslims and by 3% in the Eastern belt with a higher presence of SC- and ST-voters.

The JD/S increased its vote-share by about 4% in constituencies with a higher amount of *Vokkaligas* and in the SC- and ST-belt by 2% , a result of the Mayawati-factor and its alliance with the BSP.

The BJP gained from a consolidation of Lingayat votes in its favour, e. g. the move by Siddaramaiah with regard to a religious minority status for Lingayats backfired for the Congress. In *Mumbai-Karnataka* and in the *Coastal Region*, the BJP won decisively and performed quite well, against all

odds, in the *Old Mysuru* region – traditionally a stronghold of the *Janata Dal Secular* - and in the capital Bengaluru. The Congress did not gain substantially in the *Old Mysuru* region, contrary to its own expectations.

The JD/S performed better than expected, as a result of a *Vokkaliga*-consolidation and also by winning a few seats outside its traditional stronghold.

As a result of the BJP missing an own absolute majority, the JD/S could in the end play its role of a '*king-maker*' by leading a coalition government with the Congress.

### *Assessment*

The good performance by the BJP in Karnataka gives this party a good start for the *Lok Sabha* polls in 2019. Modi transformed in the final stages of the campaign with his huge rallies the BJP into the strongest political force in Karnataka. No doubt, it is a big defeat for the Congress.

Modi demonstrated again to be an experienced campaigner, far ahead of Rahul Gandhi, who, at the side of the erstwhile CM Siddaramaiah, carried the burden of the Congress campaign.

Karnataka demonstrates that the opposition lacks a real alternative and a respective '*narrative*' to Narendra Modi. But Congress and JD/S refer to the fact, that they command together about 56% of the vote-share and thereby the over-whelming support of the population.

*India Today*-moderator Rajdeep Sardesai assumes that the BJP will try before the *Lok Sabha* election in 2019, "*to break this unnatural alliance.*" A BJP-spokesperson said: "*This is only a temporary defeat. We will come back.*" Most probably, the BJP will wait till the time, till the inner contradictions between the *Congress* and the *JD/S* will be out in the open.

The events after the elections also demonstrate, on which hollow feet the deeply plutocratic Indian democracy is really standing and how authoritarian the democratic understanding of Narendra Modi and Amit Shah actually is.

### *Repercussions for national politics*

Abhishek Singhvi, Congress, *Rajya Sabha* and a leading lawyer at the Supreme Court, conceded, that as a result of the post-electoral alliance in Karnataka, it will lead to specific alliances already before elections in some states.

Rahul Gandhi insinuated, "*that Modi authorised the snatching of MLA'S. The Prime Minister and Shah are trying to buy MLA's. The leadership model of the PM is based on dictatorship. The BJP respects no institutions.*"

Danish Ali, *National General Secretary* of the JD/S, opines, that the events in Bengaluru will change Indian politics and that there will be in 2019 a battle between the BJP and a single party or alliance in all states.

Currently, it looks like, that in Karnataka the Congress and JD/S, which have to develop a common

minimum programme, will jointly take on the BJP in 2019 and thereby diminish there the chances of the BJP for a successful performance.

Nilanjan Mukhopadhyay, author of a Modi-biography, is of the opinion, that the BJP has been caught for the first time on the wrong foot. The coming together of the Congress and the JD/S would lead de facto to a two-party system and in 2019 to a high *Index of Opposition Unity*, “*irrespective of fundamental contradictions within the opposition.*”

Milan Vaishnav, *Carnegie USA*, assumes, that the BJP will try in 2019 to lead a presidential-type of campaign. Nilanjan Mukhopadhyay sees it therefore as a challenge for the opposition, to fragment these elections and to launch a series of single-state elections.

The very balanced BJP-spokesperson Dr. Aijaz Ilmi, who distinguishes himself in a pleasant way from other BJP-spokespersons, opines that the opposition requires a “*common narrative*”, in order to really challenge the BJP.

The experienced political scientist Neera Chandokhe regrets, “*that the legislators make themselves increasingly irrelevant and that India is moving into the direction of an executive government and, under the leadership of a right-wing populist party, is moving away from a parliamentary democracy.*”

#### **B. S. Yeddyurappa: Oath and resignation**

Irrespective of the result, the BJP was confident to reach the required majority by hook and by crook, after its candidate B. S. Yeddyurappa had been sworn in by the Governor, although the JD/S-Congress combine claimed to have the numbers with 117 legislators on their side.

A lot of drama followed, the Congress and JD/S legislators moved to Resort Hotels and finally to Hyderabad, allegedly to protect them from poaching by the BJP.

The *Supreme Court of India* intervened and drastically cut short the period of fifteen days, granted by the Governor Vajubhai Vala to Yeddyurappa, in order to prove his majority.

On Saturday, the 19<sup>th</sup> of May, Yeddyurappa gave an emotional speech in the *Vidhan Soudha*, particularly referring to the plight of the farmers in Karnataka, and then suddenly resigned after less than 72 hours as CM. The BJP had obviously failed to attract dissatisfied MLA's from the Congress and the JD/S.

#### *Appendix:*

##### *\* BS Yeddyurappa—Profile*

Bookanakere Siddalingappa Yeddyurappa or most often called BS Yeddyurappa was born on February 27, 1943 at Bookanakere in Mandya District of Karnataka. Having passed his BA, he joined as a clerk in a rice mill. Yeddyurappa has been active with the Bharatiya Janata Party's (BJP) ideological wing—the Rashtriya Swayamsevak Sangh (RSS) - since his college days. He was appointed as Karyavaha (Secretary) of the Sangh's Shikaripur unit in 1970. Since 1972, he won the elections at the municipal

level and also got alleviated in the party ranks of BJP's predecessor party—the Jana Sangh. In 1985, he became the president of BJP's Shimoga district unit. In 1988, he became the State President of the BJP in Karnataka.

Yeddyurappa was first elected to the lower house of the Karnataka Legislature in 1983 and has since represented the Shikaripura constituency six times. In 1994 he became the Leader of Opposition in the assembly. In 1999, he was nominated to the Karnataka Legislative Council. In 2004, he was re-elected to the assembly and became the Leader of Opposition. In 2006, he formed an alliance with the Janata Dal Secular (JDS) and became the deputy CM. However the alliance collapsed in October 2007, as Yeddyurappa was denied his turn to become the CM.

In the 2008 assembly election, the BJP swept the polls with Yeddyurappa becoming the first Chief Minister from the BJP in the entire South India. However, this was also short lived. In 2011, he resigned over his indictment in the illegal mining and illegal iron ore export cases. He quit the BJP and registered his new party, the Karnataka Janata Paksha (KJP). However in 2013, he rejoined his parent party and merged his KJP with the BJP. He won the Shimoga seat to the Lok Sabha in 2014. In 2016, he was reappointed as the BJP President for Karnataka and spearheaded the campaign for the 2018 assembly elections.

#### **H. D. Kumaraswamy, the new Chief Minister**

After Yeddyurappa's resignation, there was no other choice left to the Governor than to swear in H. D. Kumaraswamy (\* see profile) as the new Chief Minister. G. Parameshwara (\*\* see profile) from the Congress was sworn in as the Deputy CM.

The opposition parties used this function as a show of strength with the presence of practically all opposition leaders, except the CM's of Odisha and Telangana.

Kumaraswamy also won two days later the trust vote. Now he faces the difficult task to nominate his council of ministers, which shows already fissures in the coalition, so that the CM publicly lamented, *"I am at the mercy of the Congress."*

The Congress will have 22 ministers, including the Deputy CM, and the JD/S 12, including the CM. The Congress occupies with K. R. Ramesh Kumar also the position of the Speaker and the JD/S its Deputy.

The Congress faces the problem of too many aspirants. Representatives of the Lingayats, Muslims and Dalits each demanded an own Deputy CM from its ranks. Besides, there is an obvious lack of a true regional balance in the top positions. Danish Ali, *National General Secretary* of the JD/S, opined, *"there can be two, three or even four Deputy CM's, this is no problem."*

#### **\* H. D. Kumaraswamy—Profile**

Haradanahalli Devegowda Kumaraswamy or HD Kumaraswamy was born on December 16, 1959 at Haradanahalli in Hassan District of Karnataka. He has a B.Sc. degree from the *National College*, Bengaluru. Apart from being active in politics, he has business dealings with the Kannada film industry. Kumaraswamy is the son of the former Prime Minister of India, HD Deve Gowda.

Kumaraswamy first entered politics by winning from Kanakapura Constituency in the 1996 Lok Sabha elections for the *Janata Party*. Before, he won the 2004 Ramanagara assembly segment, Kumaraswamy faced defeats from Kanakapura in 1998 and Sathanur Assembly seat in 1999. In 2004, his party, the *Janata Dal Secular* (JDS), formed the government in Karnataka with the Congress. However in 2006, he led the party to split from the Congress and formed an alliance with the *Bharatiya Janata Party* (BJP) in a power sharing agreement. Hence, he became the Chief Minister from February 2006 to October 2007, wherein the BJP quit the alliance due to unkept promises by the former. Kumaraswamy has remained the President of the JDS and led the Karnataka campaign during the 2018 assembly elections.

**\*\* G. Parameshwara, Congress-Deputy Chief Minister**

Dr. Parameshwara Gangadharaiah, aged 56, is better known by the name G. Parameshwara. He was born on 6 August 1951 at Siddhartha Nagar in Tumkur. He has a MSc. in Agriculture from the *University of Agricultural Sciences* (Bangalore) and secured a PhD degree from the *Waite Agricultural Research Centre at University of Adelaide*.

Prior to joining politics, he worked at an Institute of Technology and later joined his family in establishing the *Sri Siddhartha Medical College*. In 1989, at the behest of former Prime Minister Rajiv Gandhi, Parameshwara joined the *Indian National Congress*. He was made the Joint Secretary of the *Karnataka Pradesh Congress Committee* (KPCC). He has represented the Madhugiri (1989-94 and 1999-2007) and Koratagere (2008-13 and since 2018) constituencies. He has served various ministries, since 2002 as a cabinet ranked minister, in the cabinets of CM Verappa Moily, CM SM Krishna, and CM Siddaramiah. He was the Home Minister from 2015 to 2017.

In 2010, Parameshwara was appointed as the President of (KPCC). In 2014 he was elected to the *Legislative Council*. In 2017 he was made in charge for campaigning for the party in the 2018 Karnataka Assembly Elections. He has won from the Koratagere constituency and is appointed as the deputy Chief Minister of Karnataka, the first *Dalit* to occupy this office.

### **CSDS/Lokniti-Survey: 'Mood of the Nation'**

This survey, conducted on a bi-annual basis on behalf of *India Today*, was presented on the 25<sup>th</sup> of May 2018 with some interesting results.

#### *The situation in various states*

If there would be an election today in **Uttar Pradesh**, the BJP/NDA would gain 35% of the votes (2014: 43%), the Samajwadi/Bahujan Samaj Party and Rashtriya Lok Dal 53% (2014: 49%) and the Congress 12% (2014: 8%).

The journalist Shoma Chaudhary opines, that the major reason for this is a movement of Dalits away from the BJP.

Yet, in **Bihar** the BJP/NDA would gain 60% (2014: 51%). The Rashtriya Janata Dal (RJD)/Congress-

combination improves from 28% in 2014 to now 34%. The Janata Dal United (JDU) loses support, whereas the BJP is gaining.

In **Maharashtra**, the BJP/NDA reduces from 2014 51% to now 48%. The BJP increases by 3%, whereas the *Shiv Sena* (SS) loses 5%. Congress/UPA improve from 35% in 2014 to now 40%, whereas Others reduce from 14% to 12%.

Alliances will be critical in Maharashtra. The SS will in 2019, so the intention of its leader Uddhav Thackeray, end the alliance with the BJP and fight alone. *“Thackeray wants to teach a lesson to Modi and Shah.”* Yet, the SS cadres might see Modi as the way to power. Yogendra Yadav maintains that the mood amongst farmers could be decisive for the election results.

In **Madhya Pradesh**, the BJP/NDA falls dramatically after 15 years in government from 54% in 2014 to now 40%, whereas the Congress/UPA improves from 35% in 2014 to now 50%. Others, amongst them the BSP, reduce from 11% to 10%.

In **Rajasthan**, the BJP reduces from 45% in 2014 to now 39%, whereas the Congress improves from 33% in 2014 to now 44%. Others reduce from 22% to 17%.

Sachin Pilot, Congress-chairman in Rajasthan, refers to the allegedly big corruption under Chief Minister Vasundara Raje and opines, that the Congress would offer an alternative to Modi's narrative, irrespective of *India Today*-moderator Rahul Kanwal's observation, *“that the Congress did not succeed till now in a single state, to defeat the duo Modi/Shah in a direct confrontation.”*

Traders, traditionally inclined to the BJP, show slight decline in their approval rate, which amongst farmers reduced from 49% in 2017 to 37%, whereas the Congress improved marginally amongst them from 27% to 31%. Others improved from 24% to 32%.

#### *National dimensions*

Dr. Sanjay Kumar, CSDS-director, who conducted the survey, sees the beginning of the so-called 'anti-incumbency'-factor against the NDA-government.

The BJP/NDA won with 36% in 2014 323 seats and would now with 37% win 274. The vote percentage of the BJP would reduce by 7%, the first time since 2014.

The Congress/UPA won with 25% in 2014 60 seats and would, according to this survey, win with 31% altogether 164 seats. The Congress itself improves from 19% in 2014 to now 23/24% and to about 100 seats. Others reduce their vote percentage from 39% to 32% now and their seats from 135 to 105.

Pawan Verma, *National General Secretary* of the *Janata Dal United* (JDU), opines. *“that the BJP, with its leader Modi, its narrative and its cadres, represents the unchallenged pole of Indian politics. The opposition is fragmented, but there is a tendency to two camps of coalitions. But the opposition must demonstrate an alternative model of governance.”*

With regard to the question, who would be the preferred Prime Minister, 36% favoured Narendra Modi, which is compared with February 2017 with then 44% a reduction by 8%.

Rahul Gandhi improved his ratings from 16% to 24%. The still big distance with regard to Modi is decreasing. Yogendra Yadav: *"Modi's mask is losing its contours."*

Asked, if Modi should get another chance to be Prime Minister, 42% Hindus said *"no"* and 44% *"yes"*. Amongst Muslims 75% said *"no"* and only 15% *"yes"*, amongst Christians, 62% said *"no"* and 17% *"yes"*. Muslims, Christians and a part of Hindus expressed clearly, that they regard the Modi-government as *"majoritarian"*.

### **Kavinder Gupta, Deputy Chief Minister of J&K**

The newly inducted deputy Chief Minister of *Jammu and Kashmir* (J&K), Kavinder Gupta, straight away created a controversial record by calling the Kathua rape case of a minor girl as *"a small incident"*. It clearly shows his credentials and therefore the defence of his ex-cabinet colleagues, who took part in the demonstration that was held in favour of the accused in the rape case.

Apart from the Kathua stir, that he created, Gupta is known for his ultra views on Rohingya Muslims, wherein he blamed them for the attack on the Sunjwan army camp in February 2018.

Gupta replaces Nirmal Singh, after he stepped down. Born on December 02, 1959 Gupta joined the *Rashtriya Swayamsevak Sangh* (RSS) at the age of 13. Like most of the RSS members, who have joined active politics, he too shares the same experiences of being imprisoned during the *Emergency* period. He served as the secretary of the *Punjab Vishwa Hindu Parishad* in 1978-79 and headed the J&K unit of the *Bharatiya Janata Yuva Morcha* for two consecutive terms from 1993 till 1998.

Gupta holds the record of being the mayor of Jammu for three consecutive terms (2005-10). He has been the general secretary of the J&K BJP unit. In the 2014 J&K assembly elections, he won the Gandhinagar constituency and was unanimously elected as the Speaker.



## Part II India - Economic Developments

This chapter gives an overview over the Indian economy, and takes a look into what threatens the Indian banking sector. It also covers the acquisition of India's biggest online-retailer and the impacts of crony capitalism on the Indian economy, all written by Moritz Emlein, B.Sc. in Economics, Rheinische Friedrich-Wilhelms University of Bonn.

### Economic Overview

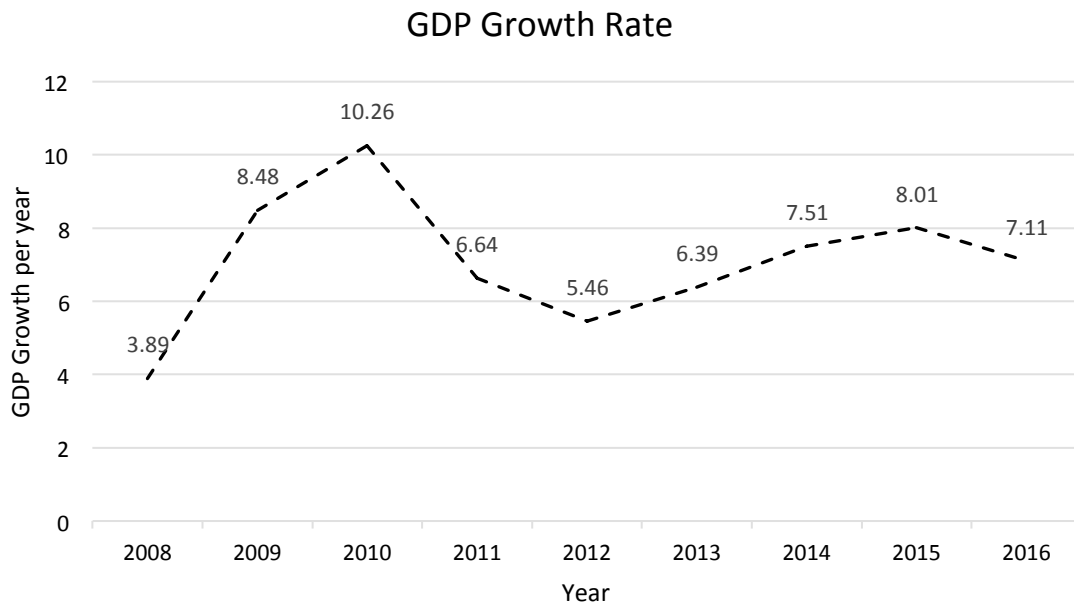
#### *India – An Economic Overview*

This section provides an overview over the Indian Economy – from basic facts, to trade data and the most important Indian newspapers.

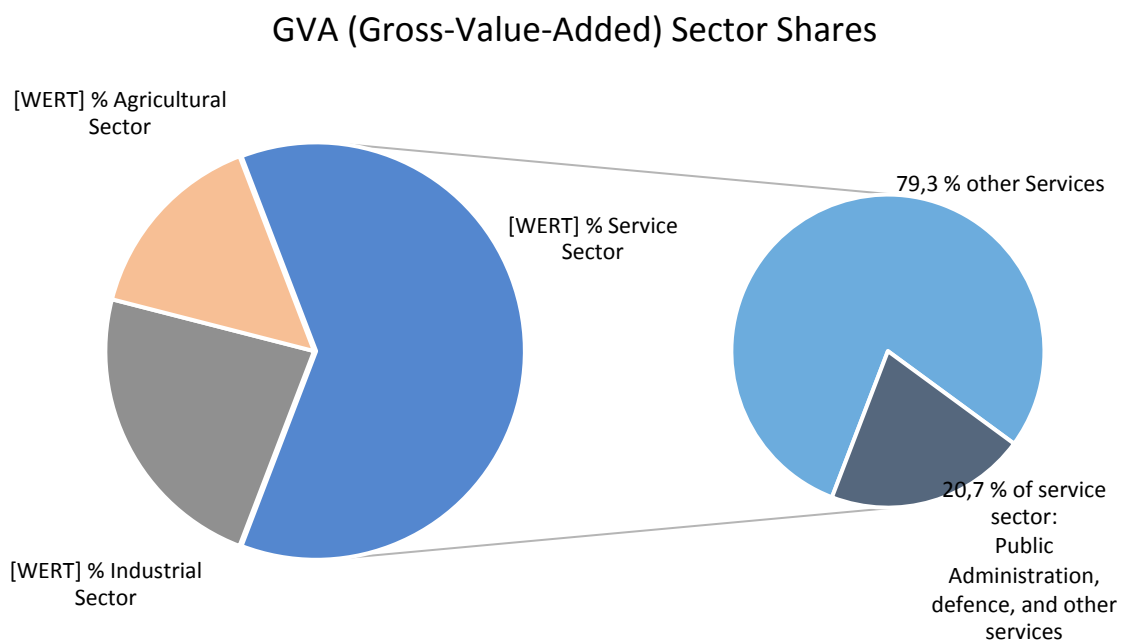
Currency:	Indian Rupee (1 INR = 0.014653 \$ US)	DESTATIS
Land Area:	2,973,190 km <sup>2</sup>	DESTATIS
Life		
Expectancy:	Men: 66.9 Women 69.9	DESTATIS
GDP:	\$ 2,610 billion	IMF 2017
GDP per		
capita:	\$ 1,980	IMF 2017
Population:	1.32 billion	IMF 2017
Public debt/		
GDP:	70.2 %	IMF 2017
Corruption Perception Index:	40/100 (0 worst, 100 best), Rank 81/180, Corruption Perceptions Index 2017 by Transparency International is licensed under CC-BY-ND 4.0	
Human Development Index:	HDI 0.624, Rank 131, Human Development Report 2016, United Nations Development Programme	
Gini-Coefficient:	35.2 (0 perfect equality, 100 perfect inequality), Rank 97, The World Factbook 2018. Central Intelligence Agency, 2018	

DESTATIS: Statistisches Bundesamt | Länderprofil Indien | 2017

IMF: International Monetary Fund, World Economic Outlook (April 2018)

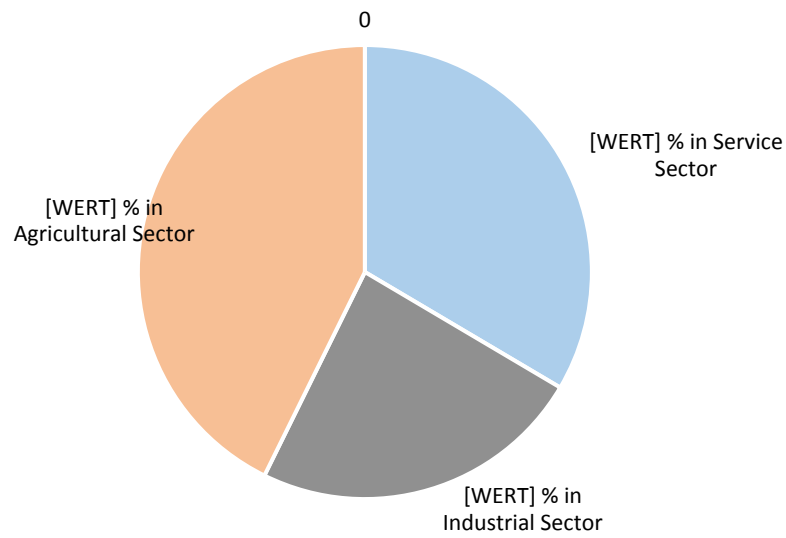


Data Source: World Bank national accounts data, and OECD National Accounts data files.



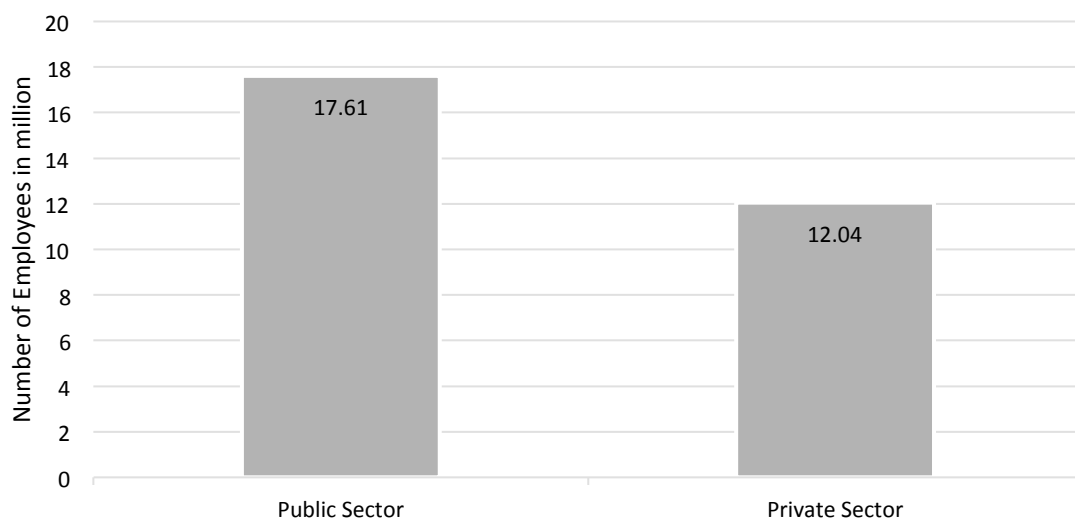
Data Source: Reserve Bank of India Annual Report 2017

### Employment in Sector Shares



Data Source: Worldbank, International Labour Organization, ILOSTAT database. 2017.

### Employment in Public and Organised Private Sectors (Reserve Bank of India)



Data source: Reserve Bank of India Annual Report 2017

### Trade data 2017

Source: European Commission, Directorate General for Trade, Trade in Goods with India

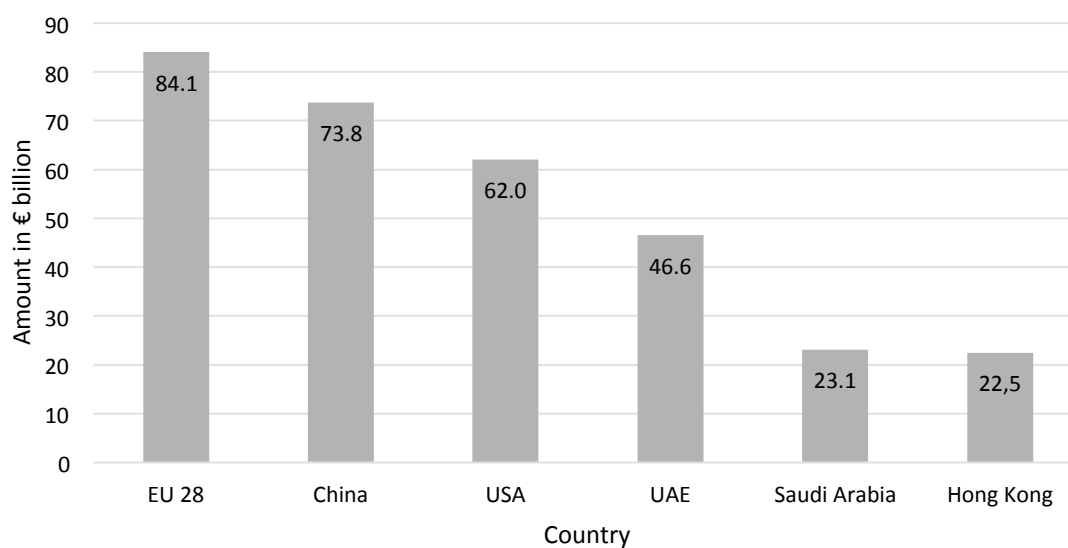
Overall Trade: € 646.3 billion

Import: € 384.9 billion

Exports: € 261.3 billion

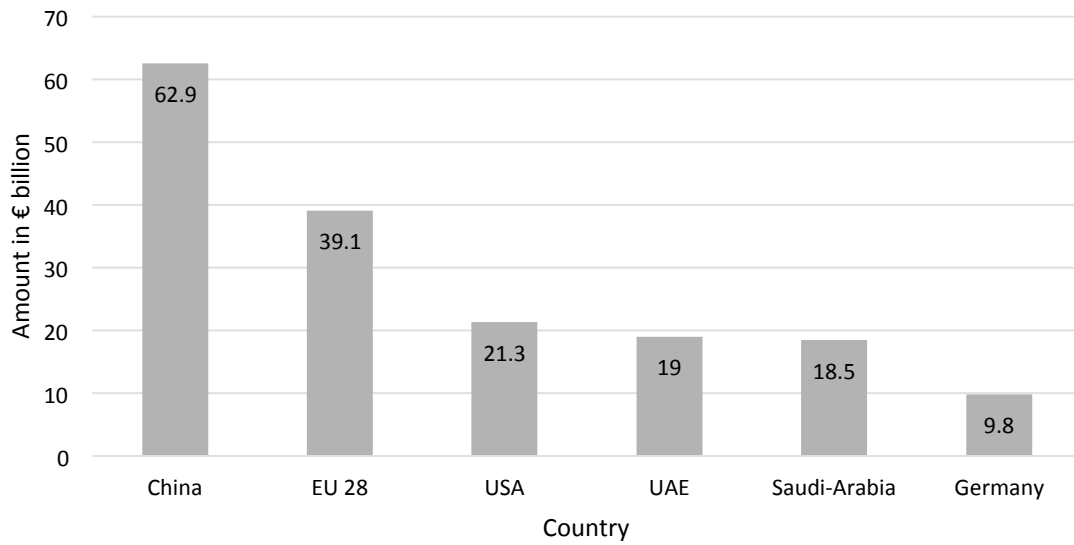
Trade deficit: € -123.566 billion

### Top Trading Partners



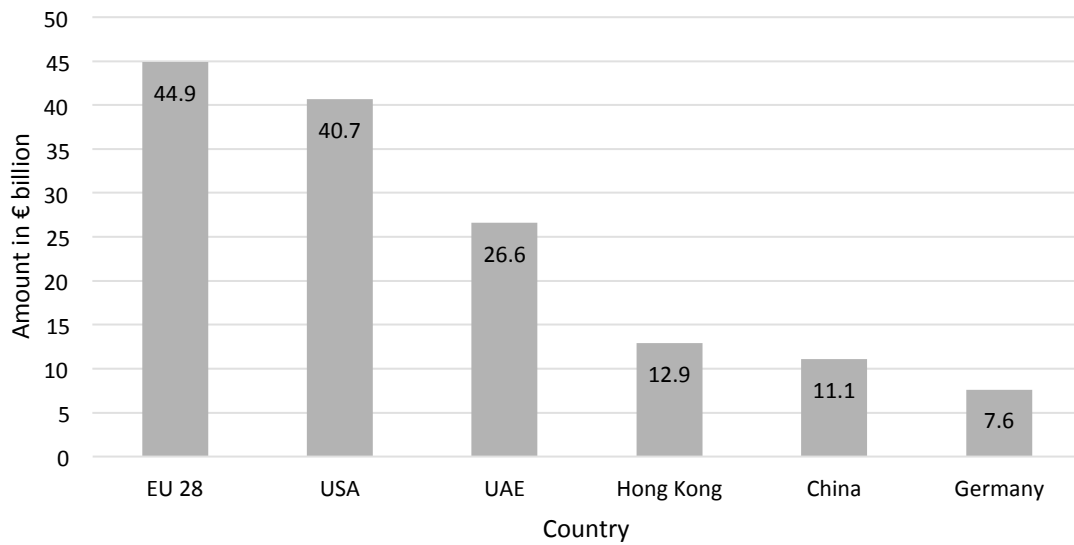
Data source: European Commission, Directorate General for Trade, Trade in Goods with India

### Top Import Countries



Data source: European Commission, Directorate General for Trade, Trade in Goods with India

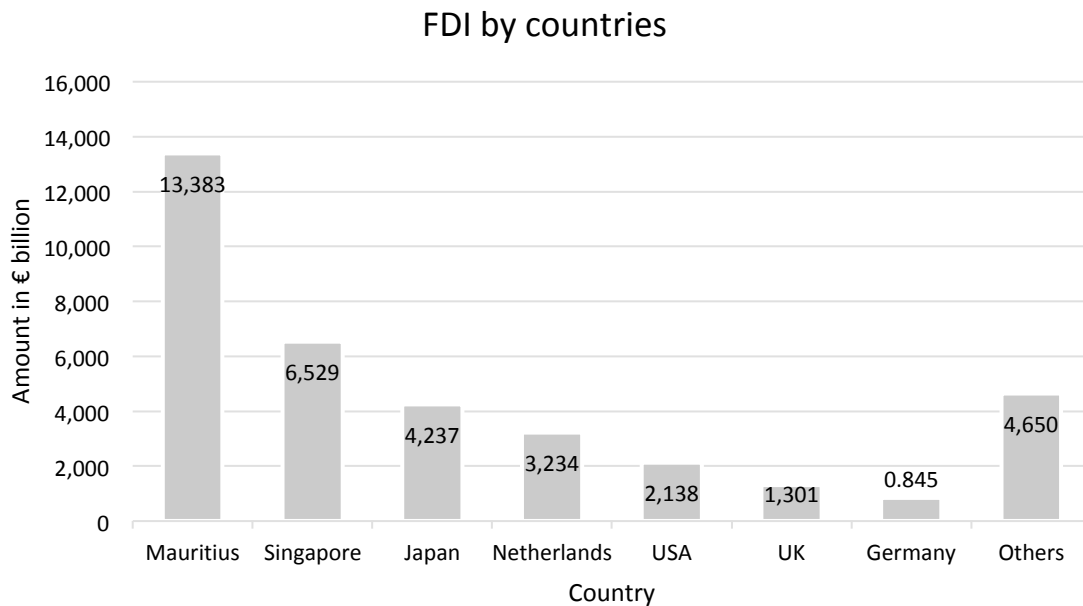
### Top Export Countries



Data source: European Commission, Directorate General for Trade, Trade in Goods with India

### Foreign Direct Investment (Reserve Bank of India, 2016-2017)

Total FDI: \$ 36.317 billion



Data source: Reserve Bank of India Annual Report 2017

### Top 10 Indian Companies

The Indian companies with the highest revenue in 2017 are Indian Oil Corporation, Reliance Industries, State Bank of India, Tata Motors, Rajesh Exports, Bharat Petroleum, Hindustan Petroleum, Oil & Natural Gas Corp., Coal India, and Tata Consultancy Services.

### Top 10 Conglomerates in India

The Indian Conglomerates with the highest revenue in 2017 are Tata Group, Aditya Birla Group, Reliance Industries Limited, Essar Group, Bharti Group, O P Jindal Group, Larsen & Toubro Group, Adani Group, Mahinda, Reliance Anil Dhirubhai Ambani Group.

### Industry and Trade associations

- Confederation of Indian Industries (CII)
- Federation of Indian Chambers of Commerce & Industry (FICCI)
- PHD Chamber of Commerce and Industry (PHDCCI)
- Associated Chambers of Commerce and Industry of India (ASSOCHAM)

## **Crony Capitalism in India**

The term “*Crony Capitalism*” describes an economic system, in which the rules of competition are out of order and in which businesses influence decisions in their favour by having connections in politics and bureaucracy. Thereby they gain advantages over their competition, especially in obtaining access to public goods and public tenders. Successful business management is not characterized by outperforming competitors, but by collaboration with political decision-makers.

With the economic opening of India in 1991, a free market economy was introduced. Previously, the economy was centrally organized by the government, with only a small amount of private companies existing. To gain access to public goods, these companies had to apply for licenses. Private companies were also subject to strict regulations, which made growth difficult, but also benefitted them by offering protection against domestic and national competition.

In the course of economic liberalization, corruption scandals involving the granting of licenses surfaced, and it came to more unequal distribution of wealth as well as the creation of a nexus between politics, industry, and bureaucracy, that attempted to circumvent the rules of a market economy. A major part of power and wealth in the country was held by a small, highly influential group, aiming to manipulate political decision-making in their favour, at the expense of the general public.

“*Crony Capitalism*” effects India in various ways. A negative image of the country is created, scaring away national and international investors. Cancelling out the rules of a free market economy opposes public interest, as it leads to higher prices and less efficiency in the economy. Additionally, the public expenses are higher than necessary.

The reasons for the development of “*Crony Capitalism*” are manifold. After the economic liberalization, the focus of politics was economic growth. Private businesses were to be fostered, and long-term strategic planning was less important, as can be seen by the abolishment of the *planning commission*. Additionally, politicians gained additional power in decision-making without outside control.

As competition arose in politics, with more parties being formed, coalition-forming was necessary, which led to instability and frequent change in policies. To cover the rising costs of election campaigns, collaboration came into place between politicians and the industrial sector. In exchange for financial support, politicians made decisions favourably for the industry.

Bureaucracy plays a role in “*Crony Capitalism*” as well. Responsible for implementing and controlling of rules, and advising politics on behalf of the general public, bureaucracy has to be independent of political and industrial influence. However, this independence has been weakened by politics. Employees who resist against outside influence have been moved to less important positions and are receiving worse evaluations. Party-loyal employees however are treated favourably, with internal job postings being tailored to those who do not stand in the way of “*Crony Capitalism*”.

Through the nexus between politics, industry, and bureaucracy a system was created, that enables wealthy, powerful persons to influence policy-decisions in a way that benefits them, to the disadvantage of the general public.

*Sources:* Curbing Crony Capitalism in India, Chiranjib Sen, Azim Premji University Working Paper No.

5, April 2017

Crony Capitalism: Rent Seeking, Institutions and Ideology, Paul Dragos Aligica, Vlad Tarko, KYKLOS, Vol. 67, May 2014 – No. 2, 156-176

### **Walmart buys majority stake in Indian startup Flipkart for \$16 Billion**

On the 9<sup>th</sup> of May, Walmart announced that it would acquire 77 % of Indian online-retail startup Flipkart for \$ 16 Billion. After the deal, Flipkart is valued with \$ 20.8 Billion.

*Flipkart*, founded in 2007 by Sachin Bansal and Binny Bansal (no relation) in Bengaluru, is the biggest online-retailer in India with a market share of 34,3 %, leading *Amazon* and Indian competitor *Snapdeal*. The company, once started as an online-bookshop and now seller of a large range of products, received just under \$ 7 billion of investments, largely provided by non-Indian venture capital firms. Through adopting innovations like pay-on-delivery, *Flipkart* reached a revenue of \$ 3 billion, and is therefore market leader in Indian online-retail.

Through the acquisition, *Walmart* gains access to the Indian online-market, which, with an expected growth from \$ 38.5 billion in 2017 to \$ 200 billion in 2026, is one of the fastest-growing markets in the world. Currently, *Flipkart's* customer base counts 54 million buyers, while roughly 100 million Indians shop online. With a growing number of Indians using smartphones, massive growth in the online retail-market is expected, which as of right now is with a value of \$ 38,5 billion and a 4 % share of the whole Indian retail market comparatively small (China: \$ 672 billion; USA: \$ 340 billion; Germany: \$ 73 billion).

So far, *Walmart* operates 21 “cash-and-carry” wholesale stores in India. *Walmart's* CEO Doug McMillon stated that the company buys more than 90 % of its products locally in the countries it is doing business in, and that third-party analysis shows that up to ten million jobs could be created directly and indirectly in suppliers. Through the deal, *Walmart* gains access to the Indian retail market and new innovative technologies developed by *Flipkart*, while the startup may profit from *Walmart's* experience in retail and its supply chain.

The American retailer further announced that it is going to support local shops, so-called *Kiranas*. These shops should profit from the acquisition through integration in *Walmart's* supply chains and the opportunity to sell their products globally and online. Additionally, digital payment services should be introduced.

The American stock market reacted negatively to the news. After the announcement, *Walmart's* stock price fell by 4 % to \$ 82.1 per share, due to traders believing that the US-based company overpaid for the Indian startup.

The acquisition has been criticized in India as well. Local retailers, using *Flipkart* as a sales platform, fear being squeezed out of the market by *Walmart's* low-price policy. The deal has been a topic in politics as well. *Swadeshi Jagaran Manch*, an organization linked to *Rashtriya Swayamsevak Sangh*, asked Prime Minister Narendra Modi in a letter to protect national interests and to prevent the acquisition from going through. By granting the biggest retail-company in the world access to the Indian market, farmers and local shops would come under additional financial pressure.



## *Perspectives*

For decades, multinational companies have tried to gain a foothold in the Indian market. However, even the normally so differing poles of Indian politics, the Hindu-Nationalists and the Communists, fought together in the name of *Swadeshi* (trust in your own strength) against the takeover of foreign capital in this sector. The political organizations argue that nationwide the existence of Kirana (mom-and-pop)-stores and millions of jobs are in danger.

The advocates of foreign multinationals however see an opportunity in them entering the retail sector. Farmers especially could profit by delivering directly to the companies, and making use of their cooling chain facilities, ensuring that less produce is being spoilt. This in turn could lead to higher incomes for farmers.

After the acquisition, the three biggest retail chains, namely *Walmart*, *Amazon*, and *Alibaba*, compete in a market that is expected to grow to the mark of \$ 200 billion in the next decade.

After buying out the mostly foreign-owned (90 % of investments coming from outside India) *Flipkart*, *Walmart*, with revenue of around \$ 500 billion, now controls roughly 40 % of the Indian online-retail market.

Author Gurchuran Das argues that besides farmers, retail shops are potential gainers by entering partnerships, which would lead to more competition as well. Additionally, ten million jobs may be created in the next decade.

Das counters the argument of Indian presence vanishing in the retail sector, by stating that in niche sectors more innovation would be observed.

For *Walmart*, threatened by its competitors in the US and selling its business in the UK, India is a test-market. However, it is to be feared that "*vested interests*" will prohibit its presence in several states of the Indian Union.

## **Non-Performing-Assets (NPAs) in the Indian banking sector**

Non-Performing-Assets (NPAs) are a growing problem within Indian banks. A credit is considered as non-performing, if the credit receiver does not pay the interest rate for more than 90 days. In India, about 9.6 % of all loans are rated as non-performing, which equates to a volume of about \$ 150 Mil., the highest among emerging economies.

There is a multitude of reasons for loan defaulting:

- Misusing loans for activities the credit is not intended for
- Projects taking more time than anticipated
- Failing of businesses
- Fraud
- Wrong judgement by the bank regarding the project (e.g. rentability, length, feasibility)
- Changes in law and policies
- Financial and economic crises
- Shortage of material

The high number of NPAs leads to a shortage of the number of loans that can be given to profitable businesses. In turn, economic growth is hindered, and banks have to ask for higher rates when giving out loans, making it more difficult for business owners to obtain money needed for new projects. This results in a lower profit of the bank, and lesser dividends for shareholders.

As a majority of NPAs (86 %) are being held by public banks, with the government being the main shareholder, less money is available for public spending.

To lessen the risk of a bank defaulting as a result of a high number of NPAs being held, the government has tightened up on banking regulations. The Reserve Bank of India mandated a 4 % Cash Reserve Ratio, meaning that banks have to deposit 4 % of their total loan volume with the RBI. Additionally, 19.5 % have to be invested in assets that are easy to sell (e.g. government bonds, gold), to quickly create liquidity if needed.

Additionally, a new law is being discussed. The Financial Resolution and Deposit Insurance (FRDI) Bill would enable banks to use capital that was put into the bank as a fixed deposit in case of a liquidity crisis. This so-called bail-in is heavily opposed by people and business who were made to believe that their fixed deposits were safe assets. The Joint Committee on the bill has time up to the last day of the monsoon season to finish their report.

### Part III India - Foreign Policy Developments

Dr. Joyce Lobo writes that India adjusts to the new scenarios that emerged after the Trump decisions on Iran-NorthKorea-Russia with Modi meeting Putin for informal talks like Wuhan. She covers the outcomes of PM Rutte's visit to India.

#### Informally at Sochi

Prime Minister Narendra Modi seems to have extended his personal diplomacy with informal summits, be it with China at Wuhan or Russia at Sochi. Whether these meetings have been of any success or not, whether they have lead to some kind of breakthrough on the most contentious issues, was this to rekindle relations with China and Russia, have these moves also any bearing on domestic politics in India etc are some of the questions, that arise while analysing the *Informal Summit between India and Russia* (May 21, 2018) at Sochi.

The Indian *Ministry of External Affairs* (MEA) described the purpose of the visit as an “*important occasion for the two leaders to exchange views on international matters in a broad and long-term perspective, with the objective of further strengthening our Special and Privileged Strategic Partnership*”.

The global scenarios have also led to this early summit of an informal nature. The USA have pulled out of the *2015 Joint Comprehensive Plan of Action* (JCPOA) or the Iran Deal in the beginning of May this year. The other is the *Countering America's Adversaries Through Sanctions Act* (CAATSA, Aug 2017), aimed at Iran, Russia and North Korea. These harm the interests of India, as it has cordial relations with Iran and Russia. The CAATSA aims to lay secondary sanctions on countries, having defence and intelligence ties with the proscribed countries.

The CAATSA also hampers the *Special and Privileged Strategic Partnership* between New Delhi and Moscow. Particularly the Act effects the *in principle* agreement signed in 2016, to purchase the Russian sophisticated long-range S-400 air defence system by India. India, between 2013 and 2017, has imported about 62% of arms from Russia (15% from USA). Incidentally the USA arms sale to India has increased. The *Stockholm International Peace Research Institute* (SIPRI) reports, that “*the US has strengthened its ties with India, Its arms deliveries to India rose by 557% between 2008-2012 and 2013-2017.*”

The USA pull off from the Iran deal also affects Indian interests. Tehran is the third largest oil supplier to India (10%). The rising oil prices and the depreciating of the rupee has been a cause of concern for the government and the common man in India. Also the Modi government faces the general elections in 2019, wherein issues such as inflation and oil prices may be decisive factors for a victory or loss. Iran gives 90 days of credit compared to 30 days by other suppliers. India has made substantial investments in its Chabahar Port.

India may circumvent these sanctions by continuing to import Iranian crude. In the meanwhile, it has attempted to reset ties with China and Russia, to have clarity on the future goals of the relations, given the present scenarios posed by an ever unpredictable President Donald Trump.

The last 18<sup>th</sup> bilateral summit between India and Russia took place in June 2017 at St. Petersburg. The

informal summit takes place before the 19<sup>th</sup> summit to be held in India probably in October 2018. The talks were held for 4-6 hours and were termed as 'agendaless'. The informal talks before a formal summit suggest a firm commitment to a multi-polar world and strategic independence. Again, closer Sino-Russian ties and the new found love for Pakistan by Russia are other reasons, why India seeks to make a course correction. There was a commitment made to continue informal talks between both the countries, maybe as an ideal way to meet inadvertent global challenges, like the ones that Trump has thrown up. Trade, investment, energy, terrorism, military, security, nuclear etc were the topics that were mentioned in the press releases.

Modi who started his USA trip with a lot of pomp and show in 2014 seems to have mellowed, by seeking informal ties with Russia and China. KC Singh, former Secretary anti-terrorism in the MEA, says, that Modi may have learnt from his predecessors, whom the latter had conceived as naive, to not put all eggs in one basket (Source: "Modi, US & Russia: Is this neo-alignment?", *Deccan Chronicle*, May 23, 2018). This is in reference to completely relying on the USA or the USA-Israel-Saudi Arabia trio. The USA under Trump is not like it was under Barack Obama. Trump will ensure that countries toe in line with the USA interests. Russia is the only country that has helped India in terms of '*Make in India*', much before the initiative was conceived by Modi. Trump intends to put '*America First*', given his moves like economic sanctions on China, the CAATSA, the pull off from the Iran deal, etc. Modi may have also realised, that '*Make America great again*' will never meet the twain with his '*Make in India*', again a policy that has not taken off yet.

The talks with Putin were pronounced by Modi as "*productive*", which may mean that some kind of understanding or convergence on issues has been achieved between New Delhi and Moscow. Modi is back to following his predecessors, particularly former Prime Minister Manmohan Singh's footsteps of maintaining strategic autonomy. The clean nuclear waiver that India bagged from the *Nuclear Suppliers Group* in September 2008 was achieved without giving up either India's strategic autonomy or the scope to manoeuvre by Dr. Singh.

### **Prime Minister Mark Rutte in India**

India and the Netherlands have completed 70 years of diplomatic relations, when Prime Minister Narendra Modi visited the latter country in June 2017. Prime Minister Mark Rutte reciprocated the visit on May 24-25, 2018. A huge delegation comprising of cabinet members and business delegates accompanied Rutte. Relations between India and the Netherlands have been cordial over a period of time, while laying emphasis on economic and political cooperation during the bilateral meetings. Following a meeting with Indian Prime Minister Narendra Modi in Delhi, Rutte will hold a speech about the strategic importance of cooperation between India and the Netherlands at the invitation of Indian think tank Carnegie India. Afterwards, a dinner with the entire trade mission and Indian business representatives is planned. Furthermore, Rutte will visit the *Indian Space Research Organization* (ISRO) and a *Shell Technology Centre* in Bengaluru.

India has expanded its ties with Europe apart from its traditional partners - France, UK and Germany - to Sweden, The Netherlands, Finland, Denmark, Norway, Iceland etc. India seeks convergence on global and regional issues on areas such as peace, stability, UN, export control regimes, sustainable development goals (SDGs), climate change, etc.

The bilateral trade between India and the Netherlands stands at US\$ 7.621 billion (April 2017-Feb 2018). The Netherlands is the 5th largest investor in India with a cumulative investment of US\$ 23 billion for the period 2000 to Dec 2017. With a size of 235.000 residents, the Netherlands host the biggest Indian diaspora in mainland Europe. Within the European Union, only the UK has a bigger Indian population.

Both countries have collaboration in areas like agriculture and food processing, water, technology, smart city development, cyber space, health care, clean energy and finance. The talks focussed on expanding these areas.

The discussions have attempted to deal with some of the realistic areas concerning human security, to which India is no stranger. Given its population of more than 1.30 billion, India needs solutions to problems like poverty, jobs, depletion of resources, hygiene, clean water, involuntary migration etc. Both countries have marked the 10<sup>th</sup> anniversary of the Indo-Dutch collaboration in *Science, Technology and Innovation* (STI), that focuses on water, health, agriculture, high-tech systems and IT. Water, agriculture and urban development received importance during this visit by Rutte. Both sides have collaborated in projects, that include a waste2wealth approach to solid waste and waste water in the Hindon Basin, conservation of water utilising efficient agricultural practices in Uttar Pradesh, *Clean Ganga* campaign etc.

As committed during their previous meeting last year, the Netherlands signed the *Framework Agreement of the International Solar Alliance* with India, to combat climate change. Several MoUs and initiatives were signed during Rutte's visit in areas such as water, agrifood and horticulture, Hi-tech and space, life sciences and health, smart cities, business, sustainability and knowledge institutions.

## Part IV South Asia

Modi's visit to Nepal acts as a course correction by India which had tensed relations with the latter, writes Dr. Joyce Lobo.

### Modi's Nepal course correction

In what seemed to have been a low in terms of Prime Minister Narendra Modi's engagement with the neighbourhood and the not so successful '*Neighbours First*' policy, a scramble is attempted to resuscitate the relations. There seems an urgency to correct relations with Nepal, build relations with Myanmar, the *Neemrana Dialogue* (Track II) with Pakistan, and not to forget the Wuhan & Sochi informal meets. Modi's visit to Nepal (May 11-12, 2018) follows within a month of the visit by PM Khadga Prasad Sharma Oli in April 07.

This trip had religious-cultural connotations, which experts such as Yubaraj Ghimire, a senior journalist and writer in Nepal, suggest as a cover for diplomatic reach by India. In fact the *Ministry for External Affairs* (MEA) of India has termed this visit as building trust with the Nepal government.

Modi visited the Janaki Temple in Janakpur, 120 kilometres from Kathmandu, which is believed to be the birthplace of the Hindu goddess *Sita*. He also visited the Muktinath Shrine in Mustang district adjoining Tibet and the Pashupati Temple. In Nepal some of the leaders believe that Modi's visit to a Hindu holy place can lead to increased tourism and pilgrimages from India to Nepal. Modi was given civic receptions in Janakpur and Kathmandu. During his visits, he met several leaders of Nepal (former Prime Ministers Deuba and Pushp Kumal Dahal Prachanda), including those from the Madhesi parties.

Modi has visited Nepal in August 2014 for a bilateral meeting and in November the same year for the *South Asian Association for Regional Cooperation* (SAARC) Summit. The present visit has been termed by some as religious/faith diplomacy or a religious eye wash for people in India by critics. In Nepal, since the announcement of Modi's visit, the media had been divided, with some sections of the society criticising the Modi government for the blockade of 2015 and siding with the Madhesis, Tharus and Janjatis against northern hill people. These peoples live in areas bordering India particularly with Bihar.

At his Janakpur address, Modi laid more emphasis on the intertwined cultures of India and Nepal. Most importantly, he referred to the characters of *Ramayana*, one of the great Indian epics. Apart from the virtues of *Sita*, he also pointed that *King Janak* - *Sita's* adoptive father - was a man, who had devoted his life to the public.

India already has a program called the *Swadesh Darshan*, to connect the historical heritage and faith places. One of the fifteen identified circuits is the *Ramayana* circuit and New Delhi has attempted to connect Nepal to this circuit. Oli and Modi inaugurated the *Nepal-India Ramayana Circuit*, connecting Janakpur, the birthplace of *Sita*, with Ayodhya in India and other sites associated with the epic *Ramayana*. On this count too, India has decided to develop Janakpur and its surrounding areas with an investment of INR 100 crores.

Oli and Modi laid the foundation for the 900MW Arun III Hydro-power project, wherein INR 6000

crores will be invested. It is the largest hydropower project ever to be undertaken in the country. India has started work on the *Motihari-Amalekhganj Oil Pipeline*, to supply oil rather than rely on trucks.

#### *Modi-Oli Talks*

Already key aspects were discussed and agreed during Oli's visit in April in areas such as rail connectivity, inland water connectivity and agriculture. Hence, no new agreements were signed. Rather the visit focussed on a review of these. There was a common agreement between the leaders, that the relationship should be marked by frequent high level exchanges sans formalities.

The visit has been termed in the words of Prime Minister Oli, "*that friendly relations between India and Nepal will be developed to new heights*". The Ministry of External Affairs in India has called it "*successful*". However this new bonhomie needs sustenance. This kind of gesture is naturally expected from neighbouring countries and does not suggest anything new.

Both sides gave importance to collective process development to ensure that the implementation gap was narrowed. In this regard, both sides have set September 2018 as the deadline to address outstanding matters. One of the important issues that Nepal faces with India is the trade deficit. Hence, an *Inter-Governmental Committee* on trade and transit (to control unauthorised trade) will initiate a comprehensive review of the bilateral *Treaty of Trade*, and to consider amendments to the *Treaty of Transit* and related Agreements for Nepal, to get better access to the Indian markets.

Though the MEA had confirmed to the media that there were no talks on the SAARC, its revival is centric to the South Asian regional cooperation and particularly to India's '*Neighbours First*' policy. Nepal is active in the *Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation* (BIMSTEC) and *Bangladesh, Bhutan, India, Nepal* (BBIN) initiatives in the South Asian region.

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