



## India: recent developments

Standard Note: SN/IA/5006

Last updated: 27 July 2011

Author: Jon Lunn

Section International Affairs and Defence Section

---

India's Congress-led Government, which convincingly won re-election in 2009, is currently mired in corruption scandals, amid growing anxieties that the country's economic miracle is losing momentum. Public outrage over levels of official corruption are combining with discontent over the impact of rising food and fuel prices on the livelihood struggles of most Indians. It remains to be seen whether the Government's current difficulties are a variation on the well-trodden theme of 'mid-term blues', or whether they are the first signs of a political sea-change. State-level elections due in 2012 will provide the next reliable evidence of voter sentiment. Meanwhile, in terms of foreign policy, formal talks with Pakistan have resumed after a two-year hiatus following the November 2008 Mumbai attacks, but are still at an early stage. India's civil nuclear cooperation deal with the United States is struggling to get off the ground. Levels of UK trade with India have reportedly increased by 20% over the last year.

This note provides a brief survey of recent political and economic developments in India, and in its relations with the rest of the world.

For further background, see:

SN/IA/5131, *India: A Chronology of Events since October 2008* (last updated 11 March 2011)

SN/IA/4127, *US-India Nuclear Co-operation* (last updated 19 October 2007)

See also our 2007 Research Papers, *An Economic Introduction to India* (RP 07/40) and *A Political Introduction to India* (RP 07/41).

This information is provided to Members of Parliament in support of their parliamentary duties and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as being up to date; the law or policies may have changed since it was last updated; and it should not be relied upon as legal or professional advice or as a substitute for it. A suitably qualified professional should be consulted if specific advice or information is required.

This information is provided subject to [our general terms and conditions](#) which are available online or may be provided on request in hard copy. Authors are available to discuss the content of this briefing with Members and their staff, but not with the general public.

## Contents

<b>1</b>	<b>Domestic Politics</b>	<b>2</b>
<b>2</b>	<b>Foreign and security policy</b>	<b>4</b>
<b>3</b>	<b>Recent UK-India relations</b>	<b>6</b>

### 1 Domestic Politics

In 2009, the United Progressive Alliance (UPA), a coalition of parties headed by the Congress Party, convincingly won federal elections. Its victory was widely viewed as reflecting the fact that the UPA Government had performed well on the economy and in terms of tackling social issues. It was also a vote of confidence in the Prime Minister, Manmohan Singh, who was seen as having provided calm, honest and judicious leadership over the previous five years. The main opposition party, the Bharatiya Janata Party (BJP), and its allies in the National Democratic Alliance (NDA), was thrown into disarray by the defeat and a generation of its leaders quickly left the stage.

Two years on, the picture is different. It might not be that surprising to find the UPA Government in mid-term doldrums. However, its problems are such that some analysts detect a sea-change in the country's political mood – one which could presage a change of government when India next goes to the polls at the federal level in 2014. It is worth noting that the UPA had some successes in the few state-level elections held in May. There was certainly no breakthrough for the NDA. Important state-level elections in 2012 will be the next test of political popularity.

The UPA Government faces a host of challenges, some of which will be discussed later. However, the two biggest threats it currently faces are a medley of corruption scandals and rising inflation. The first has tarnished the Government's biggest claim of recent years and cast a shadow over the reputation of the 78-year old Prime Minister, who some accuse of "near-total lethargy" and "having lost the plot".<sup>1</sup> The second could alienate the vast majority of Indians for whom economic survival remains their overwhelming preoccupation.

On corruption, it is widely accepted that there has long been an intimate nexus between business interests, politicians and the bureaucracy that fuels it. India currently ranks at 87<sup>th</sup> in Transparency International's Corruption Perceptions Index. A series of recent scandals has thrown this nexus into sharp relief. One of them, known as the 2G Licence scam, relates to bribes that were allegedly paid by phone operators in exchange for telecoms licences. This has claimed two ministerial scalps so far, with one of them awaiting trial. Several businessmen involved in the scandal are doing likewise. There are also ongoing investigations into corruption in the issuing of oil contracts and in connection with the 2010 Commonwealth Games that took place in India.

Amartya Sen has said: "I do not think corruption in India has increased, but the magnitude of the money involved in it has. There is also greater commitment among the masses to use democratic systems and curb the menace." He went on to argue that he wished the issues such as basic education and healthcare received more attention than they do.<sup>2</sup> The outcry

---

<sup>1</sup> "India's leadership is missing in action", *The Age*, 15 July 2011

<sup>2</sup> "Corruption has grown in scale, not extent": Sen", *Times of India*, 5 July 2011

over corruption has been the main factor behind two cabinet reshuffles by the Prime Minister since the beginning of 2011, who has said that he believes public opinion considers his government “the most corrupt ever”.<sup>3</sup> The Government has also pledged to quickly pass a new law to combat corruption, known as the Lokpal Bill, which would create an anti-corruption Jan Lokpal, or Ombudsman, potentially with powers to initiate prosecutions against senior politicians, including the Prime Minister and judges. Perhaps unsurprisingly, some politicians and judges oppose such a move. The Government is also facing a growing mobilisation by civil society groups on the issue, with one social activist, Anna Hazare, threatening a mass hunger strike on 16 August if a strong Bill has not been passed by then. In this he is following in the footsteps of the guru Swami Ramdev, who held an anti-corruption protest in New Delhi during May and June before it was broken up by the police.<sup>4</sup> Meanwhile, the BJP is seeking to capitalise on the Government's problems, calling the fight against corruption “the second freedom struggle of independent India”.<sup>5</sup>

Siddhartha Deb, writing in the *New Statesman* recently, cautions against too optimistic an interpretation of the recent upsurge in public discontent about corruption. Deb argues that underpinning it is “a deep yearning for authoritarianism” among the middle and upper classes analogous in some ways to that which emerged in the context of the 1975-77 state of emergency called by Indira Gandhi. He claims that the obverse of corruption in the minds of many of its critics is “purity”, rather than democratic accountability. Deb writes of Ramdev:

He embodied perfectly the conflicted identities of the new Indian elite, who are mostly heedless of the majority, quite enamoured of their own purity, and angry every now and then at the corruption that could be eliminated, if only they could find a policeman with a big stick.

In terms of the Indian Government's current economic problems, food inflation is reportedly the highest it has been for 16 years at around 10%, a level which some say could throw 10 million more Indians into poverty. Fuel prices are also on the rise. At the same time, levels of economic growth have dipped. The Government stands accused by many commentators of failing to push ahead with economic reforms since it was returned to power, which has hit Foreign Direct Investment in recent months, although it recovered somewhat in May. Even Indian industrialists are said to be investing much more abroad than at home at the moment. In addition, the medley of corruption scandals has also reportedly constrained the ability of the Government to move ahead with big infrastructure projects, for which large contracts would need to be granted.<sup>6</sup> The Indian Central bank raised interest rates to 8% from 7.5% on 26 July as part of its counter-inflationary efforts. One piece of good economic news is that this year has seen a record harvest, although there are now question marks about whether the state grain-buying agency has enough funds to procure as much grain as it would like for the public distribution system, India's primary mechanism for supporting farmers and meeting emergency food needs.<sup>7</sup>

There are many other issues which are testing the popularity of the UPA Government. Although there are reports that increased levels of development funding are going to affected areas, the Government appears to be making little progress in tackling the Maoist insurgencies that proliferate across the ‘Red Corridor’ that runs from east to south across

---

<sup>3</sup> “My government is being termed most corrupt ever: PM”, *Times of India*, 30 June 2011

<sup>4</sup> “An unlikely hero battling India's corruption”, *Independent on Sunday*, 26 June 2011

<sup>5</sup> “Campaign against corruption”, *Hindu*, 6 July 2011

<sup>6</sup> “India's leadership is missing in action”, *The Age*, 15 July 2011

<sup>7</sup> “Cash crisis threat to record harvest”, *Hindustan Times*, 25 July 2011

India.<sup>8</sup> Current estimates suggest that they have a significant presence in one-third of the country. Nearly 1200 people were killed in Maoist attacks in 2010, according to official figures.<sup>9</sup> The new state government in West Bengal, the first non-communist administration there for over four decades, has indicated that it wants to pursue peace talks, but this initiative is at an early stage and may not lead anywhere. Earlier this month, the Supreme Court ruled that an anti-Maoist militia set up in the state of Chhattisgarh with the endorsement of local officials, called the Salwa Judum, should be disbanded. The Salwa Judum had been accused of committing abuses against civilians in the course of its counter-terrorism operations.<sup>10</sup> Over the past year, several civil society activists have been targeted for alleged sympathy or co-operation with the Maoists, including Arundhati Roy and Binayak Sen, who is out on bail following a Supreme Court challenge to a life jail sentence imposed on him for having links to the Maoists. Meanwhile, the BJP has been outraged by recent suggestions from senior Congress officials that the Hindu nationalist Rashtriya Swayamsevak Sangh (RSS) is involved in terrorist activities.<sup>11</sup>

Insurgencies continue in Northeast India, including Assam, although security co-operation with neighbouring Bangladesh has put key insurgent groups on the defensive. Peace talks have begun with the United Liberation Front of Assam. State elections were held in May, which the Congress Party performed strongly in.

Last but not least, while levels of unrest are lower than they have been for a while in Indian Kashmir, for many analysts the underlying causes of conflict remain largely unaddressed (see also below). A panel set up by the Government following unrest in 2010 held extensive consultations on the ground but its recommendations, which for an officially mandated inquiry placed an unprecedented degree of responsibility for the situation on the Indian authorities themselves, have prompted little response so far, according to one of its members, Radha Kumar.<sup>12</sup> On 12 July, there were more bomb attacks in Mumbai, albeit on a much smaller scale than occurred in 2008, when 165 people were killed. The death toll to date is 24. It is not yet clear who was responsible, but fingers have been pointed more at home-grown militants known as the Indian Mujahedin, rather than at Pakistan-based organisations.

## 2 Foreign relations

Relations with the US, while overall on a steadily upward trend in recent years, are not without their glitches. For example, the 2008 civil nuclear agreement signed between the two, despite the fact that India is not a signatory of the NPT, which was viewed as symbolising their new closeness, has so far produced less for India than many had hoped. Specifically, the US is viewed by many in India as having failed to secure arrangements within the powerful Nuclear Suppliers Group that would facilitate extensive nuclear technology transfers to it. However, many concerns remain that India's nuclear safeguards are inadequate and there is a real danger of diversion. The US Government rejects Indian complaints and states that it never pledged to secure such arrangements for India, arguing that India needs to do more to get its laws and procedures in relation to civil nuclear liability in order.<sup>13</sup> There has been some US disappointment that India has not taken a more

---

<sup>8</sup> "Development plan for Naxal-hit districts shows good response", *Times of India*, 24 June 2011

<sup>9</sup> "India losing battle against Maoist rebels says ministry", *Irish Times*, 19 April 2011

<sup>10</sup> "State told to disband militia fighting Maoist guerrillas", *New Zealand Herald*, 13 July 2011

<sup>11</sup> "RSS making bomb factories: Digvijay Singh", *Times of India*, 18 July 2011

<sup>12</sup> "J and K wants a solution, but not with guns", *Times of India*, 10 July 2011

<sup>13</sup> "Another contentious nuclear issue", *Hindu*, 12 July 2011

forthright stance on Iran. Iran provides around 17% of India's oil.<sup>14</sup> The BJP has accused the UPA Government of betraying the nation on the nuclear issue. India has also been signing civil nuclear deals with other countries. The UK and India signed one in February 2010. The most recent deal came on 26 July, when South Korea agreed to export nuclear technology to India.

The latest round of the US-India Strategic Dialogue, which was launched in 2010, took place earlier this month. India has welcomed the recent US decision to cut its military aid to Pakistan, reflecting deteriorating relations in the aftermath of the killing of Osama bin Laden in May.<sup>15</sup> India has expressed concern about what it views as premature US and other allied troop withdrawals from Afghanistan. It is extremely sceptical about ideas of talking to the Taliban leadership.

In recent weeks there has been a potentially important development in India's often troubled relationship with China, with the latter suggesting that it might be willing to support India's claim for a permanent seat on the UN Security Council. Until now, China's close alliance with Pakistan, which remains intact, has appeared until now to rule out such a shift.<sup>16</sup> Time will tell whether there is substance behind this shift. Early movement is not expected. India and China are still working together on climate change issues in UN fora. Earlier this month, they blocked a proposal to suspend a programme that allowed states to earn carbon credits from large-scale thermal power projects.<sup>17</sup> China is India's largest trading partner. However, India remains concerned about China's military modernisation programme and its implications for Asia and has upgraded its efforts to secure access to Africa's primary resources over the last year in response to China's perceived head-start in this part of the world. It supports a permanent African seat on the UN Security Council. The two countries are in direct economic competition in many Asian states, including Bangladesh and Burma, whose energy resources are the big prize. This goes a long way to explaining why India has largely abandoned its pro-democracy rhetoric in connection with Burma. The border disputes between China and India remain unresolved.

In recent months, India and Pakistan have sought to re-start the 'composite dialogue' that was frozen following the attacks on Mumbai in November 2008. In late June, the foreign ministers of the two countries met for talks in Islamabad. A range of modest confidence-building measures (CBMs) were agreed. There is another round of talks in New Delhi starting today, which could lead to further CBMs. However, this process of re-engagement is at an early stage and could all too easily be disrupted by further attacks of the kind seen once again in Mumbai earlier this month. The BJP is campaigning against any compromise by India on Kashmir, arguing that Pakistan had still not done enough to assist India in bringing the perpetrators of the November 2008 attacks on Mumbai to justice.

India has not pushed the Rajapakse Government in Sri Lanka particularly hard on governance issues since the end of the internal conflict there in May 2009. It has not endorsed calls for an international investigation into alleged atrocities committed during the final months of that conflict.

---

<sup>14</sup> "India needs more clarity on Iran policy", *Jerusalem Post*, 12 April 2011

<sup>15</sup> "India's external affairs minister Krishna hails US decision to suspend aid to Pakistan", *Economic Times*, 13 July 2011

<sup>16</sup> "China ready to support Indian bid for UNSC", *Hindu*, 17 July 2011

<sup>17</sup> "India, China scuttle move to review clean power projects", *Hindustan Times*, 18 July 2011

A Comprehensive Economic Partnership Agreement between India and the Association of Southeast Asian Nations is scheduled to be signed by the end of 2011.

### **3 Recent UK-India relations**

The current British Government has made further increasing links, not least in the sphere of trade, with India one of the main priorities of its foreign policy. It talks in terms of an “enhanced partnership”. Another consideration has been India’s influence within the Commonwealth, which the Government has said it wants to play a larger role within British policy.

In June 2010, David Cameron and George Osborne led a large ministerial and business delegation to India. According to the FCO website:

As well as agreement on an ambitious agenda of increased trade, co-operation on civil nuclear technology and people-people links, the visit resulted in a number of concrete outcomes:

A CEO Forum of senior business people to advise the two PMs on increasing trade and investment

A new phase in the UK-India Education and Research initiative

A UK-India Future Leaders Network to create links between dynamic young leaders in each country

An MOU on Cultural Co-operation

On 25 July 2011 the UK Government announced a number of trade deals had been agreed with its Indian counterpart, including approval for BP to invest £4.4bn in oil and gas blocks owned by India’s Reliance Industries. The British Treasury says that trade between the two countries has increased by 20% since the visit of the UK delegation in June 2010.<sup>18</sup>

As part of its review of the British diplomatic network, the current UK Government has also announced that additional resources are due to be deployed in India that will allow for the opening of additional Consulates General around that country. Precise arrangements are yet to be agreed by with the Indian Government.<sup>19</sup> In the context of recent debates about the future funding of the BBC World Service, there was considerable political controversy recently about whether the its shortwave Hindi radio service might be discontinued. However, following an official announcement of additional funding to the World Service made in June, the service has apparently been safeguarded for now. The Hindi shortwave programming has an estimated audience of over 11 million.<sup>20</sup>

---

<sup>18</sup> “£1bn deals boost India trade talks”, *Daily Telegraph*, 25 July 2011

<sup>19</sup> HC Deb 11 May 2011, c1177

<sup>20</sup> HL Deb 22 June 2011, c113-5WS