

India

Status Index (Democracy: 3.8 / Market economy: 2.7)		6.5	Management Index		5.0
System of government	Parliamentary democracy		Population	1,033 mill.	
Voter turnout	59.2 % (1999)		GDP p. c. (\$, PPP)	2,840	
Women in Parliament	9.3 %		Unemployment rate	n. a.	
Population growth^a	2.0 %		HDI	0.590	
Largest ethnic minority	10 %		UN Education Index	0.57	
			Gini Index	37.8 (1997)	
Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

The Hindu nationalist party BJP emerged from elections for the lower house of Parliament in February–March 1998 as the strongest political power in India for the second time, and thus was called on to form a government. Initially viewed with much skepticism, members of the government, a disparate coalition of fifteen smaller regional parties and the dominant BJP, fought more among each other and with radical activist organizations such as the RSS and the World Hindu Congress (VHP) than with the political opposition.

Politically, the new government was sworn to a relatively moderate platform that eschewed the controversial BJP topics so beloved by many of its supporters. Economically, it cautiously pursued the economic liberalization and opening to the global market initiated by the previous Congress government, in spite of considerable resistance from radical activist organizations that demanded greater protection for the domestic market and impediments to foreign investment in non-priority areas.

Only in the realm of defense policy did the government seem to break new ground by exercising the nuclear option, even while it simultaneously sought a dialog with its Pakistani counterparts. All this provides sufficient evidence that centrist policies are the imperative consequence of India's social plurality. It also shows that the economic reforms begun in 1991 have since generated so much momentum and that so many groups have benefited from them, that a reversal of liberalization is almost unthinkable.

The government that took the reins in 1998 held office for only a short time; after thirteen months it fell to a vote of no confidence precipitated by the palace

intrigue of a smaller coalition party. Elections in the fall of 1999 resulted in an impressive confirmation of the government, creating a clear majority although not appreciably increasing its internal stability. Controversial projects to reform the constitution and the educational system drained the government, which suffered painful setbacks in state parliamentary elections and became entangled in spectacular corruption cases and communal disputes. The government nonetheless continued to pursue a policy of economic opening, initiating reforms even in difficult areas such as labor and real estate markets, and the reduction of non-customs trade barriers. It also continued with its efforts to protect citizens' basic civil liberties, even when this meant challenging its own sympathizers.

2. History and characteristics of transformation

The process of economic and political transformation transpired very unevenly in India. Self-rule and the political democratization of the country preceded economic liberalization by decades. The democratic franchise has existed since the Government of India Act of 1935, which was taken over in large part by independent India. Democratic continuity has remained unbroken since 1947, with the exception of a two-year emergency government under Indira Gandhi.

The long-standing dominance of the Congress Party, the embodiment of the independence movement, made any change of government at the national or state level impossible before 1967. Since then, pluralization of the party system and frequent changes of government have been observed, first at the state and later at the national level. This development brought with it the political mobilization and articulation of new strata, particularly from the lower castes, and a stronger expression of regional, language and religious identities, often bound up with increasing internal levels of conflict. However, this marked increase in social movements has been accompanied by only modest development of a traditional civil society.

Despite the occasionally problematic suspension of civil liberties and of federal self-rule, India can be considered a consolidated democratic state in view of the strong political mobilization within the country and the fact that democratic processes are the only ones that convey legitimacy.

Transformation to a predominantly market-based economic system is a more recent phenomenon. India has overcome four decades of state-controlled economic development (with considerable leeway for private enterprise) that was generally closed to the world market. The government of Rajiv Gandhi (1985) instituted the first tentative deregulation of the domestic market, opening it for technology-intensive goods and investments.

It took a massive liquidity crisis to bring about broader reforms toward an open market, a crisis that necessitated an application to the IMF and simultaneously resulted in a political commitment to reform. These reforms put India on the path to a largely open, market-based economy with only a few important sectors still regulated, including, most significantly, agriculture and small enterprises. This turn toward a market economy was accomplished with political skill, without undue haste, while protecting politically important social groups and the poor. Consequently, there is no serious grouping today that strives to return to the economic policies of the *status quo ante*.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

India can be considered a democratic state that has been consolidated for decades. The coming to power of a Hindu nationalist party has not changed this situation. Deficiencies can be found in the implementation of the rule of law, the neutrality of the police, and the safeguarding of human rights in trouble spots.

3.1.1 Political organization

(1) *Stateness*: India does not experience any problems with state identity. The state's monopoly of violence is established, subject at most to slight erosion in federal states with poor government leadership such as Bihar. For India as a whole, defining who qualifies as a citizen of the state is not a politically relevant issue. Only a few splinter groups in Kashmir and the Northeast do not view themselves as citizens of India. India has long considered itself a secular state, and this has not been put into question by the rule of the BJP and its vague Hindutva ideology, particularly because the BJP has been forced to take a more moderate course in order to expand its electoral base.

The country inherited a capable civil service bureaucracy from the British, in which merit serves as the basis for recruitment and promotion. However, politicization and recruitment via extensive quotas for certain population groups have spread in the administrative bureaucracies of the federal states. The Indian police force is characterized by low efficiency, professional independence and political neutrality, as well as by a proclivity to corruption. As a consequence, crime-solving rates are declining, the police infringe upon the rights of citizens, and the army has had to step in for the police to pacify internal conflicts.

(2) *Political participation*: Free, fair and relatively non-violent elections have been guaranteed in India since it won independence; they have been marked by increasing voter turnout (especially among the underprivileged) and more

frequent peaceful transitions of power. This positive picture is clouded only by election boycotts enforced by violence and compulsory voting in Kashmir. The military is not a force with veto power; it is subject to stringent civilian control and views its role as strictly professional. Freedom of association is a given, and the prerequisites for forming organizations are minimal. Civil liberties, while existent, can also be restricted in the interests of public order and morale. Numerous emergency and anti-terrorism laws severely restrict civil liberties.

(3) *Rule of law*: Effective horizontal separation of powers exists, while vertical separation of powers is restricted by the frequent practice of direct rule over the states, often for partisan reasons. Parliamentary control is restricted by limited technical expertise and support for delegates that borders on the martial. The Supreme Court has wide authority to review the constitutionality of laws and is the court of appeals for violations of civil rights. It has made increasing use of this authority in recent years.

Despite pressure from the executive branch and the politicization of both appointments and the transfer of disagreeable judges, the judiciary has remained independent. The rule of law tends to be restricted primarily by the extremely slow functioning of the courts, which must plow through mountains of pending litigation, conditioned by the ease with which litigation can be postponed and protracted through such tricks as extremely detailed legal codes. Moreover, the poor only rarely turn to the courts because of their lack of knowledge about the judicial system and to the relatively high costs.

The abuse of authority is common in India and is rarely punished effectively. As this is also related to the traditional overregulation of the economy, it is improving slowly. However, the culture of corruption is deeply rooted in India and regularly leads to horse trading for the offices that offer the best opportunities for supplemental income. India ranks among the leaders in official bribery. (This is also reflected in the relevant rankings.) Spectacular corruption scandals that have swept up almost the country's entire political class have brought about a slow change in attitudes and have reinforced judicial activism.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Democratic institutions are stable within the terms of the above restrictions. Institutional efficiency is restricted by the fragility of ruling coalitions, which enable even the smallest coalition parties to block the reform process, and by the overregulation of society and the economy and by the associated backlog of litigation. However, democratic institutions are accepted and their survival supported by all political parties—no matter how extreme—and by all social groups. Their legitimacy is also above question for the population as a whole.

(2) *Political and social integration*: The Indian party system is unstable. Individual parties are rarely solid institutions, and a lack of party discipline is apparent despite precautions against splinter parties. Among the smaller parties, appeals to group identity and patronage substitute for organization. The only exceptions in this regard are the BJP, with its disciplined activist organizations and long political socialization of party leaders, and the communist parties. The Congress Party has lost much of its institutional foundation.

Despite memberships in the millions, India enjoys only a weakly differentiated array of interest groups. These are deeply fragmented along ideological and, even more so, party-line criteria, and fight more against each other than together. Precisely for this reason, working relationships are riven with conflicts. The historically dominant role of the state in the economy has left the trade unions and employers' associations with only limited autonomy. Economic liberalization has engendered new, professionally oriented associations, however. Social movements, especially in the areas of environmentalism and the protection of women, of farmers, human rights and the underprivileged, represent an increasingly important and visible force. They are generally influenced strongly by members of the middle class. Direct connections between parties and social groups compensate for the associations' somewhat deficient linkages to the population as a whole.

3.2 Market economy

It is hard to imagine a country whose economic organization has successfully completed such a radical about-face in such a short period of time as India has with its economic policy. Yet the transformation process shows considerable deficiencies in privatizing state enterprises, reducing subsidies, creating market-based labor and agrarian laws, and in reducing substantial budget deficits.

3.2.1 Level of socioeconomic development

India's central indicators of development suggest an average level, albeit clearly rising. However, this improvement originates from a low starting point. Measured by HDI, its developmental status by no means provides all of its citizens with sufficient freedom of choice. India remains the country with the most people living in absolute poverty in the entire world (30 % of the population, or 300,000,000 people), although the incidence of poverty and the poverty gap have clearly decreased since the mid-1970s and also exhibit strong regional concentration.

The developmental differences and the gap in living conditions among the various states experienced a relative increase during the 1990s. Poverty and social exclusion are still clearly concentrated in certain sectors (primarily agriculture), social groups (agricultural workers, employees in the informal economy, lower castes, tribal members), and states with little economic dynamism and weak social policy performance. Although both the federal and state governments have instituted numerous affirmative action programs in favor of the underprivileged, equality of opportunity is far from attained, despite moderate changes in income concentration.

3.2.2 Market structures and competition

In principle, the fundamentals of market competition are regulated. The level of regulation in the economy has been reduced, but remains quite high in certain areas—agriculture, labor and agrarian law—and with regard to export regulations. Several hundred products are still reserved for the small-business sector, even though their importation has been liberalized. The strict regulation of foreign and large enterprises has been reduced, and the investment regime is now one of the most liberal in Asia. Complicated licensing procedures still create problems, however, and, despite policies to the contrary, business concentration has been considerable in recent decades. Legal regulations for business bankruptcies and liquidations are particularly inadequate, demand a great deal of time, and reduce efficiency. Relatively weak protection for financiers encourages risky business strategies.

Trade barriers remain high, even after considerable reduction of duties and the almost complete abolition of absolute quotas. The average rate of duties is 35 % (2000–2001). Customs clearance takes considerably longer than in rival countries. The government is quite obviously pursuing a cautious opening to the global market to protect Indian businesses.

The Indian financial system is well developed and relatively sophisticated; in recent years it has undergone extensive reforms. The state banks are dominant, however, and the greatest share of India's funds is absorbed by the public sector. The share of regulated loans in priority areas is still considerable at 40 %. Banks have sufficient capital resources available, but the proportion of bad loans remains significant.

3.2.3 Stability of currency and prices

Conditioned by its democratic system, India has always pursued a consistent policy of curbing currency depreciation. Nothing changed in that regard during the period under study—on the contrary, the rate of inflation sank to its lowest

level, despite continuing high budget deficits. The central bank has always pursued cautious monetary and currency policies, supported by the considerable internal mobilization of savings and by inflows from Indians abroad. Foreign currency reserves have reached a comfortable level and, while foreign debt is not inconsiderable, it is manageable and, most importantly, long-term.

3.2.4 Private property

Property rights are defined sufficiently, even though the constitution allows for restrictions in the public interest. No political grouping seriously questions private property, the need for direct foreign investment, and the priority of private initiative. The labor market remains heavily regulated, and closing businesses is almost impossible through normal means. The same applies to the agricultural market; the free movement and open pricing of agricultural products is a reality only in a few niche markets. The privatization of state enterprises is finally making some progress after years of difficulties getting started.

3.2.5 Welfare regime

India has only a rudimentary social security system that benefits the relatively privileged employees of the government and formal sectors. There is, however, an entire range of central and state government social security networks that provide subsidized food, emergency employment, and integrated agricultural development. They generate leakage losses that benefit some who are not poor, but in recent years have been aimed more specifically at their target groups.

Expenditures for basic social services, such as education and health, are at the lower end in the international comparison and do not ensure across-the-board service, even when considerations of the quality of service provided are excluded. India trails the rest of the world with regard to important social indicators, whereby the range of spread of these indicators among the various states is considerable.

Consequently, equal opportunity does not exist in this sphere either: social indicators correlate positively with income and upper caste status. Women face systemic discrimination. This is most apparent in the obvious surplus of men. The underprivileged status of the lower castes is also apparent in land ownership and, despite quotas for certain population groups, in the distribution of public offices. Muslims are excluded in a similar manner.

3.2.6 Strength of the economy

Since the mid-1980s the Indian economy has grown at one of the fastest rates in the world. The reforms since 1991 have only increased that rate, although the last few years have witnessed a certain flattening, conditioned by the slowing tempo of reforms and adverse world economic conditions. The growth rate could be higher if those markets that are still regulated were liberalized, if open trade were pursued resolutely, and if budget deficits and, especially, unproductive subsidies were reduced. This could also increase the labor intensity of that growth and actualize the value of the labor force, much of which is very well trained.

3.2.7 Sustainability

Social sustainability has already been discussed in part. In terms of expenditures for health, education, non-military research and development, and the material/social infrastructure, India is located at the lower end of the range of poorer developing countries. What is more, these expenditures are consumed to a large extent by expenditures for tertiary institutions such as universities and central hospitals. Environmental quality is only fair and is declining in both urban and rural areas.

According to World Bank estimates, the various costs to the national economy caused by environmental degradation amount to about 6 % to 8 % of GDP. Of these costs, about 40 % is attributed to the cost of contaminated water, 35 % to air pollution, and 15 % to soil contamination. The main group affected is the urban poor. There is no lack of relevant legislation concerning sustainability; in fact, a certain activism has been observed for some years now. Lacking environmental consciousness or relevant organizations to promote it are no longer the main problem. Instead, the lack of sufficient financing for programs especially at the state level and of adequate monitoring of the programs' success are obstacles. Even so, the national parks have been expanded significantly and a new forestry policy has been implemented. Emissions limits for industrial operations have been lowered and the highest courts punish serious environmental violations.

4. Trend

(1) *Democracy*: The existing, relatively good ratings for the state's monopoly on power, administrative efficiency, independence of the judiciary, and the value placed on democratic processes did not decline during the period under study. This is true in spite of the fact that a new government dominated by Hindu nationalists gave rise to fears of such a decline. In power, the BJP has moderated its views out of consideration for numerous coalition partners with regional orientations, and has put controversial projects on the back burner.

Under pressure from its coalition partners and the opposition, plans to revise the constitution and “Hindu-ize” education also have been put aside. The government has concentrated for the most part on continuing economic reforms and improving living conditions. However, on the negative side, its half-hearted policy (to put it mildly) toward attacks on Muslim and Christian minorities must be noted. Some progress has actually been made in the treatment of separatist conflicts, especially in Kashmir and the Northeast, through attempts to integrate the rebel forces and return to democratic normalcy.

(2) *Market economy*: The usual indicators of development reveal significant improvement for India during the period under study. Economic growth has slowed but still remains considerable. The current account deficit and inflation fell, while exports saw robust growth. The share of the population living in absolute poverty continued to fall, although there is no consensus on its magnitude, but this decline has slowed as well. Despite the deficiencies in governmental social services described above, social indicators have improved, although regional disparities are growing. There was a slight deterioration in income distribution; however, this is almost entirely due to the differing rates of growth among the states.

Economic reforms advanced in several areas—privatization, the reduction of quantity-based trade quotas, patent law, the regulation of stock markets—while progressing only hesitantly in others—state banks, labor market, bankruptcy law—or stalling at the announcement stage. Finally, several states have introduced reforms as well, supported by financial incentives and sanctions from the central government.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP Index	UN Education Index	Political Representation of Women	GDP per capita (\$, PPP)
1998	0.563	0.847	0.51	0.55	8.9	2,077
2000	0.590	0.574	0.56	0.57	9.3	2,840

Source: UNDP, Human Development Report, 2000, 2003.

Table: Development of macroeconomic fundamentals (1998-2002)

	1997/98	1998/99	1999/00	2000/01	2001/02
Growth of GDP in %	5.0	6.8	6.4	5.8	5.4
Export growth in %	6.0	2.2	10.8	21.0	-2.2
Import growth in %	6.5	-1.2	17.2	1.7	1.1
Inflation in % (CPI)	8.3	8.9	4.8	2.5	5.2
Unemployment rate	10.1	11.1	10.9	11.3	11.4
Budget deficit in % of GDP	10.2	9.9	11.3	11.0	9.9
Current account balance in bn \$	-15.5	-4.03	-4.70	-2.58	1.35

Sources: International Monetary Fund, India: Recent Economic Developments and Selected Issues, Washington, D.C., Oct. 2001 and Sept. 2002; Reserve Bank of India, Annual Report for the Year Ended June 2002, New Delhi, 2002.

5. Transformation management

5.1 Level of difficulty

Consolidating democracy was only moderately difficult in light of the long participatory tradition, the deep roots of the democratic institutions, the lack of decisive “veto actors,” and cross-cutting cleavages, with a high plurality that favors political stability. This does not apply to the economic and social transformation: Until the early 1990s, the country was sealed off from the global market, foreign investments played a minimal role, and the economy was regulated excessively, suffocating innovation and creating only limited new jobs. World economic conditions were comparatively unfavorable, tempered by India’s avoidance of the effects of the Asian financial crisis thanks to its still-limited liberalization of capital movements and only moderate short-term debt.

India ranked poorly in terms of social indicators. The education sector was underfinanced and, while it produced sufficient numbers of qualified specialists, it did not resemble anything approaching universal schooling. Ongoing transformation requires a clear reduction of excessive budgetary deficits, a clear increase in the social budget to provide universal elementary education and cover the costs of epidemiological transition, the promotion of agriculture and strengthening the competitiveness of small and medium-sized enterprises.

This program requires unpopular reforms that must be implemented by a fragile ruling majority whose members have exhibited only limited consensus on such reforms. The intensity of social conflicts is great, although alleviated by the fact

they have no common focal point but are rather marked by great regional variations and do not undermine overall social stability. An exception is the religious conflict, of course, which so far has been concentrated in the north and west, and particularly in cities that have little civic cooperation.

5.2 Reliable pursuit of goals

The government has been reliable in achieving transformation. The goals it has announced for the required second wave of structural reforms are the elimination of subsidies for the small enterprise sector, the deregulation of labor and agricultural markets, the end of government price controls, incentives for private investment in infrastructure expansion and the dismantling of administrative intervention in licensing foreign direct investments. The government has written these measures into its five-year plan and has also submitted and adopted relevant cabinet bills in a timely fashion. The same applies to the expansion of the health and educational systems. Economic transformation is also cushioned by the expansion of social networks and severance payments for laid-off workers. However, progress in reform follows political cycles and the path of least resistance. In view of the number of players that must be involved and the severity of the task of transformation, this may not be adequate to achieve these objectives.

5.3 Effective use of resources

The government of India does not use the financial and human resources available for its policy of transformation effectively. The budget deficit is currently massive: 13 % of GDP, including the state and shadow budgets. To a limited extent, this deficit can be attributed to deficits of state enterprises and to increasing defense expenditures that could be reduced with a more constructive foreign policy toward Pakistan. To a greater extent, it is based on unproductive subsidies—mainly for electricity, water, food, and oil—that undermine the efficiency of the economy and increase the capital service burden. Beyond that, these high deficits jeopardize the financing of private investments.

In terms of raising capital, the funds available will be diminished by the almost complete exemption from taxation enjoyed by agriculture and the informal economy. Finally, expenditure management is faring badly as well: public funds are trickling away, much too little is invested in maintaining plant, and unrealistic estimates of expenditures and capital requirements yield to arbitrary cuts over the course of the fiscal year. A new law on budgetary discipline is now supposed to bring improvement and gradually reduce the deficit down to 2 % of GDP in 2006. On the positive side, the courts are waging a decisive battle against corruption that has cost several politicians their jobs.

5.4 Governance capability

Economic reforms move in fits and starts. Driven by looming insolvency, reforms initially were promoted by a small team that was able to exert only moderate pressure. They were favored by a growing middle class and a new class of innovative entrepreneurs who did not feel their interests were represented sufficiently in the state economic model. Over time, these economic reforms have created a new class of beneficiaries which, in turn, has stepped forward to support further reforms.

The government has made clever use of incentives for subgroups of potential reform opponents, splitting and weakening the opposition in the process. Examples include the gradual and selective lifting of import licenses, import quotas, subsidies for the small business sector, and the gradual increase in the permissible share of foreign capital in certain sectors. The government has let commissions advance more radical proposals, e.g., for restructuring the banking sectors or reforming dismissal protection, only to ultimately implement more moderate versions.

Reforms have been managed in keeping with the weak consensus for reform in Indian society. The same may be true for the poor allocation of government funds and subsidies discussed above. The current government must be given lower marks for skill in organizing democratic consolidation. Unfortunate initiatives to reform the constitution and to ensure partial neutrality for political civil servants gave the impression that the parliamentary majority was being used to undermine the country's secular political heritage.

5.5 Consensus-building

It has already been stated that democratic processes and principles are not generally questioned. However, dissent arises with regard to the question of how strong social plurality and the concessions made to minorities should be, while the government has hesitated to rein in overzealous groups, such as the temple activists in Ayodhya. All of the large parties view the integration of potentially separatist groups into the mainstream as a worthy goal, and in recent years relative skill has been applied to this objective whenever attempted military solutions to the problem have proven unsuccessful, as in Kashmir and Northeast India. The dominant party, the BJP, has pursued a more moderate political course since taking power; however, this does not always hinder it from backsliding into Hindu radicalism for tactical reasons.

Consensus with regard to market transformation is evident to the extent that no significant group favors a return to Nehru-style socialism; rather, all favor the primacy of investor-friendly market principles. That does not preclude at times

vehement controversies about the tempo and spheres in which additional reforms would be desirable, primarily concerning the liberalization of trade and foreign investment, as well as the scope of privatization. Groupings close to the BJP that take umbrage at what they consider the government's overly liberal course, especially the RSS, have, however, been overruled. Resistance to individual reforms continues to slow the tempo of their implementation.

5.6 International cooperation

International collaboration plays only a marginal role in economic and social progress in India because external transfers provide only a fraction of domestic investments. The Indian government has occasionally expressed its desire to become independent of developmental aid and takes a self-confident stance toward donors. This is apparent, for instance, in the relative aplomb with which it accepted sanctions after India's nuclear tests in 1998. However, this does not rule out the government's assuming a cooperative stance, both centrally and at the state level. For instance, several states have used aid from the World Bank and the Asian Development Bank to advance significant reforms in the energy, health and educational sectors. In principle, the possibilities for unilateral political dialog with India are still quite limited.

The Indian government has proven to be a reliable partner in the fight against international terrorism, whereby it is, of course, also pursuing its own agenda by expelling Kashmir rebels or those under foreign control. India has moved closer to the West in this area, entering into a strategic partnership with the United States (in March 2002) without cutting off its historical ties to Russia, with which it also agreed to a strategic partnership.

In international trade issues as well, the Indian government has been an increasingly cooperative, if still difficult, partner, attempting to block the launch of a new trade round. Specific issues include revision of the patent law and elimination of quantity-based import quotas. Willingness to cooperate on the nuclear issue is less marked, although the Indian government began to soften its status-oriented attitude and continued negotiations with China to resolve their border conflict.

Its formerly hegemonic attitude towards neighboring states, which particularly affected its smaller neighbors, gave way to a greater willingness to take consideration of their wishes. The tendency toward interventionism, classically in Nepal and Sri Lanka, has given way to appreciable caution. In the case of Pakistan, however, this judgment must be qualified substantially: The tendency to make threats and break off relations still dominates, even in the case of smaller disturbances. Still, India concedes this neighbor's own right to adequate self-defense.

6. Overall evaluation

(1) *Originating conditions*: India's starting point for transformation must be judged as positive in the political arena: a long participatory tradition; a generally positive attitude toward democratic processes among the population; parties with solid, functioning institutional bases; and a relatively efficient administrative bureaucracy shielded from excessive political influence all afforded favorable prerequisites for democratic progress. These have been eroded in the mean time by frequent suspension of disagreeable state governments, intimidation of the judiciary, the de-institutionalization of parties, and as a consequence of the massive political mobilization of members of lower castes who could no longer be integrated into the existing political system.

The starting conditions were less favorable in the economic sphere: excessive import substitution and state regulation of the economy had crippled economic dynamism, brought only modest social results, and created an army of beneficiaries of the command economy anxious to maintain their status, all of which made reforms extremely difficult. The gravity of the foreign trade and payments crisis in 1990–91, however, may have helped to create a consensus for reform.

(2) *Current status and evolution*: India has made enormous progress on the road to economic transformation and, economically speaking (e.g., with regard to the investment regime or the room for maneuver available to private enterprises), has become quite a free country in many respects. Compared with the first wave of reforms, however, the reforming zeal appears to have slowed significantly in the second wave. This second round comprises more difficult structural changes, and is also compromised by the instability of the governing coalition and resistance from its radical sympathizers. A whole range of areas remains barely affected by reform, if at all, with negative consequences for economic dynamism, which is nonetheless significant.

Progress has continued in political transformation since 1998, despite international fears to the contrary. The government returned to its previous dual strategy in dealing with secessionist groups: offers of autonomy combined with the exclusion of extremists. The independence and influence of the judiciary in social developments has increased substantially thanks to the higher courts' own efforts; the government has become more stable and shelved projects that could jeopardize social peace. That does not preclude the government's indulgence of extreme Hindu nationalist forces (e.g. Gujarat) when this promises to be politically expedient.

(3) *Management*: Transformation management has been adequate in general, especially under the assumption that more radical reforms would have undermined their acceptance. This applies to the gradual, cautious implementation

of privatization; to reforms of foreign trade, of labor and real estate markets; and to the social security network. Available resources were not used very efficiently, however, being expended instead on unproductive subsidies or excessive wage increases for the civil service. Efforts to mobilize funds were generally not made for political reasons, as a consequence of which the budget deficit rose excessively. The government must be given high marks for its skillful management of political transformations. In view of its unstable, fragmented and contradictory base, it had few alternatives to moderation.

7. Outlook

All observers rate the economic transformation as unequivocally positive. It has made India a country that could do well in globalization if the reform tempo picks up again. The country's widely diversified range of production, its army of well-educated technicians and computer experts, and its continuing large capacity to absorb foreign capital all count positively. If the sectors that have not yet been reformed, agriculture and small industry, were to be drawn into the reforms, a more rapid decline in absolute poverty would be possible.

Politically, India has returned to the positive *status quo ante*. The erosion of party institutions, federalism and judicial independence has been checked. This is no small accomplishment during times marked by the significant political mobilization of new social strata and continuing high levels of social violence.