

India in 2021

At the Crossroads

ABSTRACT

A positive start to 2021 ended abruptly when the Delta variant of COVID-19 swept over India, killing millions. Since peaking in May, the pandemic has abated, and the government has vaccinated a large share of the population. The Bharatiya Janata Party continues to dominate the country's politics, having centralized power further despite a lackluster performance in state elections. The economy recovered vigorously from its COVID-induced recession of 2020, but it is unclear whether growth will return to the 8–9% annual rates witnessed in the 2000s. India is more bogged down in its neighborhood than before: it has been unable to retrieve the territory it lost to China last year, and the fall of Afghanistan to the Taliban threatens an increase in terrorism in Kashmir. The country is at a crossroads, and much will depend on how the relatively unfettered senior leadership of the BJP responds to these challenges.

KEYWORDS: pandemic, BJP, economic contraction, Modi, China, Afghanistan

India's COVID-19, economic, and security crises, which arguably started in 2020 (Sridharan 2021), have continued apace. In this article, we outline the broad political, economic, and societal developments in India in 2021. The multiple crises the country faces place India at a crossroads. The senior leadership of the Bharatiya Janata Party (Indian People's Party, BJP) dominates the country's politics and is relatively unfettered in its ability to shape

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the country's future. Much will depend on how they respond to the challenges India faces.

PUBLIC HEALTH AND THE SECOND YEAR OF COVID-19

India opened 2021 on a positive note, as its COVID-19 infection rate continued to decline following the first major wave of infections and deaths, which peaked in September 2020. The country was set to become the world's largest manufacturer of the low-cost AstraZeneca COVID-19 vaccine, which was approved for distribution in Europe by late January.

The optimism would not last. The virus's highly infectious Delta variant, which was originally discovered in India in late 2020 and eventually became the dominant strain across the world, fueled a second wave of infections that peaked in May 2021. The virus devastated the country. As COVID-19 infections rolled across India in the first half of the year, hospitals ran out of life-saving oxygen, dead bodies washed up on the banks of the Ganges, and long lines stretched out to cremate the dead. There was substantial variation in COVID-19 deaths across the country, with higher tolls reported in the southern and western states and lower tolls in the north.

Experts estimate that COVID-19 killed 3.4 to 4.9 million Indians between the start of the pandemic and June 2021 (Anand, Sandefur, and Subramanian 2021). These estimates are approximately 10 times the size of the official death count. Part of this discrepancy is due to weak state capacity. Even before the pandemic, only 92% of deaths in India were officially registered, and of those, only one in five listed any cause of death. But deliberate undercounting of COVID-19 deaths is also a factor. For example, contrary to WHO guidelines, COVID-19 deaths are frequently recorded as due to underlying conditions rather than to COVID-19 itself.¹

Political decisions exacerbated the second wave of COVID-19. Prime Minister Narendra Modi of the BJP started 2021 by boasting that the country had "saved humanity from a big disaster by containing corona effectively."²

1. Varsha Bansal, "The Reasons to Believe India's COVID Tragedy Is Worse than It Looks," *The Wire* [India], May 15, 2021, <<https://science.thewire.in/health/the-reasons-to-believe-indias-tragedy-is-worse-than-it-looks/>>.

2. PMINDIA, "PM's address at the World Economic Forum's Davos Dialogue," January 28, 2021, <https://www.pmindia.gov.in/en/news_updates/pms-address-at-the-world-economic-forums-davos-dialogue/>.

Shortly thereafter, it surged. Despite this, state elections, featuring large rallies that flouted curbs on public gatherings and mask mandates, were held in Assam, Kerala, Puducherry, Tamil Nadu, and West Bengal in March and April of 2021. The Kumbh Mela, a large Hindu religious gathering held every 12 years, was permitted to take place in April, contrary to COVID-related mobility restrictions. An estimated 6 million people attended the event, with few precautions, and then returned to their homes across the country.

India's COVID-19 vaccination campaign got off to a slow start, mainly due to substantial bureaucratic delays in placing orders for vaccines, but also due to vaccine exports for commercial and diplomatic purposes (more on this later). By the end of October, the country had administered over a billion doses of COVID-19 vaccines; approximately 22% of the population was fully vaccinated, and 53% had received at least one dose. At the current rate, the adult Indian population is expected to be fully vaccinated by March 2022. Although India's vaccination rate is well below the average among OECD countries, it is higher than that of many developing countries. This should help it weather the continuing health crisis.

DOMESTIC POLITICAL DEVELOPMENTS

In 2021, Varieties of Democracy downgraded India from a “mostly free” democracy to an electoral autocracy. This followed a similar downgrade by Freedom House from “free” to “partly free.” The weakening of India's democracy coincides with a worldwide “democratic recession,” in which countries as diverse as Brazil, Poland, Turkey, and the United States have all seen their democracies erode to some extent. India's democracy has been weakening for several years (Sridharan 2020, 2021).

The BJP continues to dominate the Indian political landscape. It retains its majority in the Lok Sabha (lower house), and its tally in the Rajya Sabha (upper house) marginally increased from 92 seats to 97 seats as of the end of 2020. This is still well short of the half-way mark (123 seats), which impedes the government's ability to pass ordinary legislation and constitutional amendments. Within the BJP, the senior leadership—Modi and his faithful lieutenant and the minister of home affairs, Amit Shah—dominate the party. While the BJP used to take pride in a robust inner-party democracy, there is presently no sign of viable opposition to Modi from within the party. The Rashtriya Swayamsevak Sangh (National Volunteer Organization, RSS), the

social service organization that delivers votes to the BJP and occasionally checks it, also seems less able or willing to hold the BJP to account.

In 2021 the BJP governed 17 of India's states and territories, the same as in 2020. Elections to the legislatures of Assam, Kerala, Tamil Nadu, West Bengal, and Puducherry—accounting for 19% of the country's population—were held in March and April, five years after the previous state elections. India's state elections are important not only because state governments control the bulk of the nation's fiscal resources, but also because the upper house of the Indian parliament is elected by state legislators.

The elections were a mixed bag for the BJP, which re-formed the government in Assam, as the leader of the National Democratic Alliance, but failed to overcome regional parties and remained in the minority in the other four states. In the largest of these five states, West Bengal, the BJP's share of the vote increased from 10% to 38% even as the All India Trinamool Congress (All India Grass-Roots Congress, TMC) retained power. The BJP failed to make inroads in Kerala, where the incumbent Left Democratic Front was able to form the government again, and in Tamil Nadu, where one regional party (Dravida Munnetra Kazhagam, or Dravidian Progressive Federation) replaced another (All India Anna Dravida Munnetra Kazhagam).

Elections in five more states are scheduled for February and March of 2022. The BJP heads the government in four of them—Uttar Pradesh, Uttarakhand, Goa, and Manipur—while the Indian National Congress rules Punjab. The elections in Uttar Pradesh—India's largest state, with 235 million people, 17% of the country's population—are particularly important. Informal campaigning for the vote has started, with the opposition making as yet unsuccessful efforts at coordinating against the incumbent BJP. The BJP has tried to court voters by increasing the price at which it procures sugarcane and by polarizing the electorate with incendiary speeches. For example, the chief minister of Uttar Pradesh, Yogi Adityanath, accused Muslims of “cornering most of the state-subsidized grain rations.”³ In July, the prime minister expanded his cabinet by 50%, to 77 members, with 20% of cabinet members coming from Uttar Pradesh.

The BJP's continued dominance in national politics has been facilitated by the weakness of India's institutions of accountability. The parliament, for

3. Tarushi Aswani, “The BJP Is Playing the Communal Card Again,” *The Diplomat*, September 21, 2021, <<https://thediplomat.com/2021/09/the-bjp-is-playing-the-communal-card-again/>>.

example, has been unable to hold the government to account. Its performance somewhat improved in 2021, insofar as the BJP had severely curbed parliamentary sittings for much of 2020 due to COVID-19. That said, in 2021 the government has largely bypassed parliamentary committees—the main deliberative fora in which the opposition weighs in on proposed legislation. None of the 15 bills introduced in the latest session of parliament were referred to a committee, and only 12% of the bills introduced since the election of the current house have been referred to committees. (In contrast, between 2014 and 2019, 27% of bills were referred to parliamentary committees; before that, 60–70% were.) All 15 of the bills introduced in the latest session of parliament were passed with scant debate—an average of 34 and 46 minutes in the lower and upper houses, respectively—and with little opposition support. Partly due to their diminished powers, opposition parties routinely disrupt parliamentary business; the lower and upper houses sat for only 21% and 29% of their scheduled times in 2021.⁴

India's courts, which had gone online due to COVID-19, gradually resumed in-person hearings through 2021, with the Supreme Court doing so in September. The Supreme Court has 50 constitutional matters before it that it has not decided, and it is also struggling to keep up with its routine appellate work. That said, in May a constitutional bench of the court reiterated the principle that no more than 50% of government jobs can be reserved or set aside for minorities. Although case filings slowed during the pandemic, decisions also slowed, increasing the number of pending cases in the Supreme Court to 69,900, and in the judiciary as a whole to an all-time high of 45 million. The judiciary's case disposal rate is approximately 30–60% of the case filing rate, so the number of pending cases is expected to increase over time.

A major cause of the backlog of cases is the lack of judges. India has 21 judges per million people; the United States has five times as many. The problem has worsened due to disagreements within the judiciary and between the government and the judiciary on judicial appointments. The August appointment of nine Supreme Court judges, three of them women, brings the court's size to 33 judges, which will help address this issue at the very top. At 11%, the representation of women in the Supreme Court is now at its highest ever.

4. PRS Legislative Research, "Parliament Functioning in Monsoon Session 2021," <<https://prsindia.org/sessiontrack/monsoon-session-2021/vital-stats>>, accessed October 28, 2021.

Despite its staggering case backlog, and in keeping with its activist bent, the Indian judiciary continues to take over various executive functions, for example directing the government of India to supply oxygen to Delhi's hospitals, and mandating lockdowns in five cities in Uttar Pradesh. The courts have been less zealous in protecting people's fundamental rights, such as the right to bail and freedom of speech. For example, the judiciary did not intervene when in September Rajasthan (a state of 68 million people) shut down the mobile internet for 12 hours just to reduce cheating in a teacher recruitment exam. India has experienced 548 internet shutdowns in the past decade, the most of any country—and 41 of them were in the first 10 months of 2021.⁵

The performance of the Election Commission of India, responsible for the conduct of free and fair elections, was uneven in 2021. On the one hand, it successfully met its constitutional mandate of holding elections for five of India's state legislatures during the pandemic. On the other, it came under fire for alleged unevenness in the implementation of the Model Code of Conduct, which regulates the behavior of candidates and parties during elections. For example, in the politically important state of West Bengal, it was seen as being unduly harsh with the incumbent TMC but lenient with the BJP. The commission was also accused of staggering polling in West Bengal into eight phases—this is usually done for security reasons—to favor the BJP. The commission's strictures on social distancing, mask wearing, and mass gatherings were flouted by all parties, causing a senior judge to argue that it “should be put up for murder charges.”⁶ Partly in response, rules have been tightened for subsequent elections, but it remains to be seen whether they will be enforced.

Another potential check on the government is India's federal system, which in theory grants states substantial autonomy. However, the centralizing tendencies of the BJP and the COVID-19 pandemic have undermined the country's federal character. In an explicit power grab, the Center introduced and passed legislation that weakened the autonomy of the National Capital Territory of Delhi. The Center also announced that it was going to

5. Software Freedom Law Center India, *Internet Shutdowns*, <<https://internetshutdowns.in/>>, accessed October 30, 2021.

6. Eklavya Dwivedi, “Unfair to the Election Commission,” *Indian Express*, May 9, 2021 <<https://indianexpress.com/article/opinion/columns/madras-hc-election-commission-covid-surge-7308627/>>.

vaccinate all Indians, only to renege on the plan and ask the states to take the lead in vaccinating people—and to then recentralize the vaccination drive again. State autonomy has also been severely hampered by a massive reduction in revenues, due to the combined effects of the pandemic and the Center’s failure to honor its commitment to make up for the shortfall due to move to the Goods and Services Tax it pushed for in 2017.

The weaknesses of India’s checks and balances can be seen in the response to what was a major scandal in other countries. A report released by over 17 media organizations in July revealed that the phones of hundreds of business executives, government officials, academics, human rights activists, journalists, and lawyers around the world had been hacked using software (Pegasus) sold to governments by an Israeli company. In addition to sharing users’ private data (including passwords), hackers could allegedly control a phone’s camera, microphone, and GPS function to track the target, a gross violation of individual privacy. The list of 161 Indians allegedly hacked included a former chief election commissioner who had tried to sanction the prime minister for alleged electoral violations in 2020.⁷ The Indian government denied purchasing the software, claiming that “there has been no unauthorized interception by government agencies.”⁸ The parliament has failed to discuss the issue, and media coverage has petered out, but in October the Supreme Court appointed an expert group to look into the matter.

THE ECONOMY

The Indian economy has begun to rebound from its COVID-induced contraction, with real GDP growth predicted to reach 9.5% this fiscal year (April 1, 2021 to March 31, 2022), as compared with a contraction of 7.3% in the prior year (International Monetary Fund 2021). Unemployment dropped from its peak of over 20% in April and May 2020—when COVID-19 caused the government to introduce a lockdown—to around 12% in May 2021, although the workforce participation rate has also decreased in this period.⁹

7. Kabir Agarwal, “Ashok Lavasa Placed on Snoop List as EC after Flagging Modi’s 2019 Poll Code Violations,” *The Wire* [India], July 19, 2021, <<https://thewire.in/government/pegasus-project-ashok-lavasa-narendra-modi-amit-shah-model-code-of-conduct>>.

8. *The Guardian*, “Response from NSO and Governments,” July 20, 2021, <<https://www.theguardian.com/news/2021/jul/18/response-from-nso-and-governments>>.

9. Trading Economics, “India Unemployment Rate,” <<https://tradingeconomics.com/india/unemployment-rate>>, accessed October 28, 2021.

Poverty has sharply increased, despite expansions in spending on a rural workfare program and direct transfers to farmers. Lockdowns have become more localized and less frequent over time, which has spurred economic activity.

Partly reflecting these improvements, foreign direct investment into India has continued to surge from a record high last year. Part of this surge has been driven by the creation of more than 33 billion-dollar companies, or “unicorns,” several of which are in the financial technology or “fintech” sector. Consistent with their performance the world over, Indian stock markets have boomed, reaching all-time highs at the time of writing. And as this has occurred, inequality in India, as elsewhere, has worsened.

India’s GDP is expected to return to a pre-pandemic level in the last quarter of 2021. This is somewhat behind the G20, who reached it in the first quarter. India’s recovery has been slower partly because the government’s compensating fiscal stimulus has been less generous. The Indian government also has arguably had less room for fiscal expansion than other countries: its fiscal deficit (7.4% in 2019/20) and debt (74%) were already high before the pandemic.

A particular concern is that Indian schools—serving 250 million students—have been shut for much of the pandemic. This began to change in August and September of 2021. At the time of writing, most states had resumed in-person instruction for high schools, but only 13 of 28 had resumed in-person instruction in primary schools. Online instruction has likely produced learning losses, increased dropout rates, and exacerbated inequalities, as children from wealthier families are better equipped to cope with remote instruction. The lack of socialization and nutrition (in the form of mid-day meals provided in school) will have long-lasting effects.

It is unclear whether India’s growth rebound is sustainable, insofar as it has so far been driven by increased capacity utilization rather than new investments. Private-sector investments are stymied by India’s public-sector-dominated banks, which have high nonperforming assets and are therefore loath to lend. This problem is likely to worsen as loan repayments and rules to recognize “bad loans”—which had been suspended due to COVID-19—resume. The government’s latest attempt at addressing this long-festered problem—the recapitalization of some banks, and the creation of a “bad bank” to which banks can sell their nonperforming assets—has yet to make an impact.

India's economic growth rate has not recovered from the global financial crisis of 2007–2008, with real economic growth decelerating in the decade since to 6% per year, from 8% per year in the decade prior. An important and open question is therefore whether India is returning to the pre-pandemic growth rate or to the higher growth rates it was able to achieve before the crisis.

To foster higher growth in the medium term, the government has undertaken some structural economic reforms. These have included raising the foreign direct investment “cap” in insurance from 49% to 74%, and a new policy to privatize or close government enterprises except for those in the four strategic sectors of atomic energy, space, and defense; transport and telecommunication; power, petroleum, coal, and minerals; and banking, insurance, and financial services. The government aims to raise USD 24 billion via privatization in 2021, including by selling stakes in two public-sector banks and the mammoth Life Insurance Corporation of India. It has begun to execute this ambitious program with the high-profile sale of Air India, the national carrier, for USD 2.4 billion. This sale is significant because the company has been loss-making since 2007 and the government has been trying to privatize it in fits and starts since 2000.

While these structural reforms are expected to increase the country's long-term growth, some recent measures could limit it. For example, the government has begun to pursue industrial policy in the form of production-linked incentives and tariff hikes for select (frequently capital- rather than labor-intensive) industries. While such policies might give a short-term fillip to growth, the medium-term consequences of “picking winners” could be dire, as India's troubled history with industrial licensing suggests. In a similar vein, a bold move to reform India's farm laws and cut agricultural subsidies was introduced in 2020, only to be put in abeyance in 2021 in response to farmer protests. The government's continued suspension of its new bankruptcy code, which would allow the redeployment of unproductive assets, will also be a drag on growth. Yet another example of the government's turn away from free markets is the move to set up a new development financial institution or industrial bank, which would direct credit to projects the government deems worthy.

More broadly, whereas the Indian economy has consistently (though sporadically) liberalized since 1991, observers worry that recent moves reflect an erosion and indeed a reversal of the political consensus that liberalization is

good for the poor. Such a reversal will have long-term consequences for the Indian economy, which is at a crossroads: the government can choose to continue on the path of liberalization or reverse it, as it has chosen on a number of fronts.

INTERNATIONAL RELATIONS

India's second COVID-19 wave coincided with a "vaccine diplomacy" campaign, wherein the government leveraged substantial domestic vaccine manufacturing capacity (by some measures, India is the world's largest manufacturer of vaccines) to gift and sell vaccines to the world. In the first three months of 2021, India supplied 64.5 million vaccine doses (mainly of the AstraZeneca vaccine, manufactured in India under the name Covishield) to 85 countries. India was particularly generous to some of its neighbors, especially Bangladesh, Bhutan, the Maldives, Nepal, and Sri Lanka. Some 28 million of these doses were supplied to COVAX, a multilateral initiative to distribute vaccines to 92 developing countries.

While these efforts were lauded, they came to an abrupt halt in late March, as COVID-19 cases and deaths in India surged. Amid an outcry at home and abroad, vaccine supplies were diverted to the domestic population. India's inability to help neighboring South Asian countries as planned gave China an opportunity to increase its growing influence in the region. Vaccine exports resumed around the end of October, albeit at a low level. They are expected to accelerate in 2022, as India's domestic needs become less urgent.

Even as India sought to cultivate friendly relations with other countries through vaccines, it has increasingly been bogged down in its neighborhood. Tensions with China remaining high since they escalated in June 2020, when fighting along the de facto India–China border in Ladakh (the "line of actual control") killed 20 Indian soldiers and an unknown number of Chinese soldiers. Thirteen rounds of talks between the countries until October 2021 have led to the setting-up of a buffer zone and the disengagement of soldiers at some points along the border. But a broader settlement remains elusive. Talks appeared to break down in October, and India test-fired its Agni V missile in an apparent "warning shot" to Beijing.¹⁰ Observers have noted that

10. Shan Li, "India's Missile Test Seen as Warning to China after Breakdown in Border Talks," *Wall Street Journal*, October 28, 2021, <<https://www.wsj.com/articles/indias-missile-test-seen-as-warning-to-china-after-breakdown-in-border-talks-11635433146>>.

previous attempts at de-escalation with China have taken years. Indian politicians say they want to restore the status quo ante quickly, but China remains in control of approximately 300 square kilometers of Indian territory.

As a part of its response to these developments, India has intensified its engagement with the Quadrilateral Security Dialog or Quad, a “strategic dialog” between India, Australia, Japan, and the United States. The Quad is widely perceived as an effort to counter China. Its heads of government met virtually in March, where they emphasized the importance of “the rule of law, freedom of navigation and overflight, peaceful resolution of disputes, democratic values, and territorial integrity,” and pledged to join forces to help fight COVID-19.¹¹ The group conducted joint military exercises off the coast of Guam in August and is due to meet in person again by the end of 2021. These developments are perceived to have “reinforced India’s gradual foreign-policy shift toward the United States and the West.”¹²

The collapse of the US-backed Afghan regime and its swift replacement by the Taliban in August 2021 was a major setback for India. India had supported the previous Afghan regime and was the largest regional provider of foreign aid to the country between 2001 and 2021. Frosty relations with the Taliban predate 2021: India did not recognize the previous Taliban regime and was particularly aggrieved by the material support given by the Taliban to the hijackers of Indian Airlines Flight 814 in 1999. The Taliban are supported by Pakistan and China, the two countries that India has gone to war with since Independence. The Afghan takeover has therefore substantially curbed India’s influence in the region. It also threatens India’s security, as those who fought the previous Afghan regime and its American allies might be redirected to Indian Kashmir. Despite this fraught history, in October India joined other countries in calling for a UN donor conference to help rebuild the country.

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11. The White House, “Quad Leaders’ Joint Statement: ‘The Spirit of the Quad,’” March 12, 2021, <<https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/12/quad-leaders-joint-statement-the-spirit-of-the-quad/>>.

12. Ash Jain, “Why the Quad Summit Was a Strategic Success,” Atlantic Council, September 30, 2021, <<https://www.atlanticcouncil.org/blogs/new-atlanticist/why-the-quad-summit-was-a-strategic-success/>>.

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