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Political instability on the horizon

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Overview

India faces a real risk of a fragmented verdict that would produce a weak coalition government following national elections that must be held by May 2009. Neither the ruling Congress Party nor the opposition Bharatiya Janata Party (BJP) may win enough seats to dominate a multiparty coalition. The stage will then be set for an extended period of political instability and policy uncertainty, as well as the prospect of another, early election. This would stymie the government's efforts to deal with the economic slowdown and simmering tensions with Pakistan.

For now, the Congress Party is ahead of the BJP in the race for national office, mainly because it has more potential alliance partners that could help boost its parliamentary tally. However, the contest remains close. A weak coalition government centred on regional and Communist parties would be less likely to take reforms forward in education, administration and the financial sector or to implement a nationwide Goods and Services Tax.

Amitabh Dubey, Director of India Research, +91 99999 10781

Core Case

A strong performance by regional parties could lead to political instability at the centre

Assumptions and Evidence

Evidence of the central importance of regional parties and links to previous TS research on politics and governance

Core Case

The risks of a divided electoral verdict

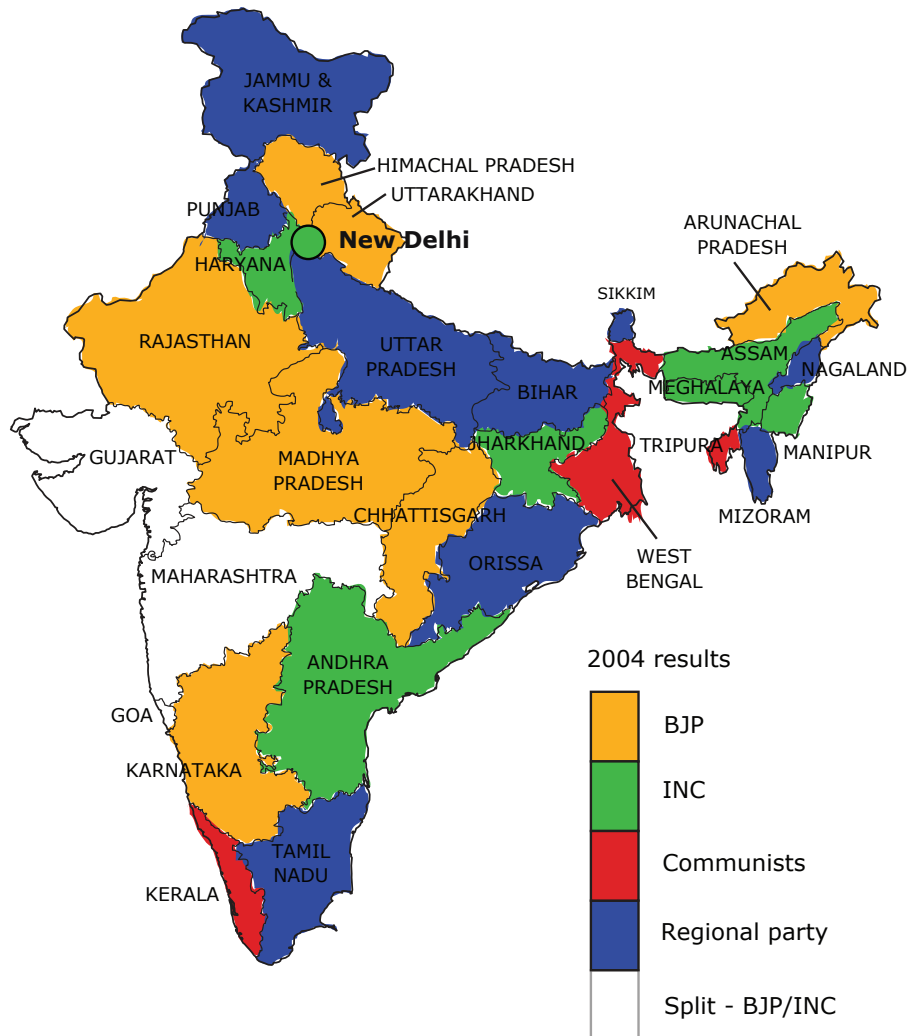
A weak coalition government emerging from the forthcoming elections will further exacerbate the key risk facing the Indian economy: the government's inability to implement policy across the board. As we explained in [Vulnerable India](#), unreformed administrative machinery constitutes a serious impediment to the government's ability to govern, affecting everything from carrying out a fiscal stimulus package to putting into place capabilities to deal with terror attacks and other security threats. This is not only because alliance partners might veto specific policies but also because political instability would distract leaders and undermine policy continuity. In addition, a weak coalition would be unlikely to go through with the politically charged administrative reforms that are required to improve governance and policy effectiveness. It is entirely possible that India will enter into a period of short-lived coalitions and frequent elections that would sap leaders' concentration and impede decision-making.

Here we focus on the likely outcome of the elections that must constitutionally be held by mid-May 2009. The key question is whether a relatively stable multiparty coalition that offers policy continuity will emerge. A coalition led by either the incumbent Indian National Congress or the main opposition Bharatiya Janata Party (BJP) would follow broadly similar economic policies. But if the two national parties perform poorly, a "third front" coalition of regional parties could emerge that would in all likelihood prove unstable and short-lived, as it has done in the past.

Some caveats are in order. Making predictions regarding India's geographically diverse, multiparty electoral system can be hazardous, as pollsters discovered when the Congress Party defied all predictions to inflict a shock defeat on the BJP in 2004. Indian national elections are particularly difficult to predict because they are the result of 25-30 regional contests. Pollsters and pundits have even been embarrassed at the state level: in May 2007 the Bahujan Samaj Party (BSP), led by the Dalit (former "untouchable") caste, won an absolute majority in Uttar Pradesh, India's largest state, despite uniform predictions of a hung state assembly (see our May 2007 note [A shock to the system](#) that looks at the BSP's national prospects). Making a definitive prediction is still premature as candidates have yet to be finalised for various parliamentary seats and election campaigns have only just begun.

That said, some things are clear. The party that wins the most seats in the Lok Sabha (the lower house of parliament) will have the first opportunity to form a coalition government. In 2004 the Congress Party won 145 seats, only seven more than the BJP but enough to form the government. A relatively stable coalition government would require either the Congress Party or the BJP to win around 150 of 543 parliamentary seats. Since the rise of regional and lower-caste parties 15 years ago, neither national party has been able to garner more than 180-odd seats, let alone win an outright majority (see the "Assumptions and Evidence" section for the relative performance of national and regional parties in recent elections). A strong performance by regional parties would marginalise both national parties and could result in a "third front" coalition government with the Communists.

Chart 1: Map of 2004 election results



Source: Electoral Commission of India.

BJP alliance falters

At this point, the Congress Party looks better positioned than the BJP to win a plurality of seats in the Lok Sabha. One might have expected the BJP to be leading the race given a weakening economy, popular anger at the government's national security failures following repeated terror strikes including the November 2008 Mumbai attacks and voter disenchantment with the incumbent government that is a hallmark of Indian electoral politics. In the last 20 years, five of six national governments have been voted out. Three of five state governments have been voted out since 2004.

But the BJP's prospects are being constrained by a shortage of allies and a lack of opportunities for growth. Key allies from the 2004 elections appear to have deserted the BJP (as the table

below shows). It has gained only one new ally - the Rashtriya Lok Dal - that has some influence in the western part of Uttar Pradesh.

Table 1: The BJP's alliance choices, 2004 vs. 2009

| Party | State | BJP alliance seats in 2004 | Total parliamentary seats in state | Alliance choice in 2009 |
|--|-----------------|----------------------------|------------------------------------|-------------------------|
| All India Anna Dravida Munnetra Kazagham | Tamil Nadu | 0 | 39 | Communists |
| Asom Gana Parishad | Assam | 4 | 14 | BJP |
| Biju Janata Dal | Orissa | 18 | 21 | BJP, but could switch |
| Indian National Lok Dal | Haryana | 1 | 10 | BJP |
| Janata Dal-United | Bihar | 11 | 40 | BJP, but could switch |
| National Conference | Jammu & Kashmir | 2 | 6 | Congress Party |
| Shiromani Akali Dal | Punjab | 11 | 13 | BJP |
| Shiv Sena | Maharashtra | 25 | 48 | BJP |
| Telugu Desam Party | Andhra Pradesh | 5 | 42 | Communists |

Source: Election Commission of India

The lack of sufficient pre-poll agreements hurts the BJP in two ways. First, it prevents the pooling of votes by the party and its allies that could win them a greater number of parliamentary seats than the Congress and its allies. Second, it means that even if its allies perform strongly on their own steam, they will not have granted the BJP any seats as part of a pre-poll alliance, reducing its own total tally in comparison with a formal alliance. This is important because the gap between the Congress and BJP tallies is expected to remain thin.

The BJP has to overcome three other disadvantages as well:

1. The party's growth is blocked in southern India. The electoral decimation of its Andhra Pradesh and Tamil Nadu state allies played a big role in the BJP's surprise defeat in 2004. This time around, the two parties concerned, the Telugu Desam Party (TDP) and the All India Anna Dravida Munnetra Kazagham (AIADMK), have chosen to make seat-sharing agreements with the Communists under the "third front" banner. This limits the BJP's ability to profit from heightened anti-incumbency sentiment and consequent expected losses by the Congress Party and its allies in Andhra Pradesh and Tamil Nadu. The Congress alliance won 75 of 81 parliamentary seats in these two states in 2004.

Of course, it is entirely possible that the two state parties will abandon the Communists for the BJP once the elections are over, but the absence of a pre-poll alliance limits the BJP's ability to exploit expected Congress alliance losses in southern India. The party is strong in Karnataka state, but it won a majority of seats there in 2004 and will find it hard to improve on that performance. That state, of which Bangalore is its capital, has three strong parties: the BJP, the Congress and the Janata Dal-Secular (JD-S) party. If Congress Party negotiations with the JD-S for an alliance succeed, the combined vote of the two parties would exceed the BJP's total and

deal it an electoral blow.

2. Growth in the north will also be limited. The BJP and its current allies will find it difficult to advance politically in new areas to compensate for expected anti-incumbency losses in areas that they won in 2004, particularly in the larger states. The BJP remains strong in, for example, Chhattisgarh, Karnataka and Madhya Pradesh but further growth prospects are weak in these states where it had previously performed well, winning 53 of 68 parliamentary seats in 2004. Internal BJP surveys project a strong repeat performance in these states following a good showing in the recent state polls, but any change will be for the worse. This is because even though the party won state elections in these areas in 2008, its victory margins stagnated or shrank.

Table 2: Vote swing in 2008 state elections

| State | Winner | Vote share (per cent) | Vote swing from previous election (per cent) |
|----------------|----------------|-----------------------|--|
| Chhattisgarh | BJP | 40 | 1 |
| Delhi | Congress Party | 40 | -8 |
| Madhya Pradesh | BJP | 38 | -5 |
| Rajasthan | Congress Party | 37 | 1 |

Source: CNN-IBN

The BJP and its allies are widely expected to suffer electoral reverses due to anti-incumbency sentiment in Punjab, Rajasthan and Orissa where they won 50 of 59 parliamentary seats in 2004. They will likely gain in Assam, Bihar, Gujarat, Haryana and Jharkhand where they won only 31 of 104 seats in 2004 and where anti-incumbency is expected to benefit them, but these gains may just about balance losses elsewhere. The BJP's decline in Uttar Pradesh is particularly painful for the party: it went from 52 of 80 parliamentary seats in 1998 to 10 seats in 2004. Its growth prospects there appear dismal because many upper-caste voters have shifted allegiance to the BSP.

The election could well pivot on Bihar. There, the BJP and its regional ally, the Janata Dal-United (JD-U) party, are expected to make big gains following their decisive victory in 2005 state elections after having won only 11 of 40 seats in 2004. But two things could derail this momentum. One is that the BJP-JD-U alliance won the 2005 state elections because one of the smaller partners in the Congress alliance fought elections separately. However the Lok Janashakti Party has now rejoined the alliance with the Rashtriya Janata Dal and the Congress Party, and their combined vote in the 2005 state elections was 4 per cent higher than that of the BJP and JD-U. This margin could be decisive in India's first-past-the-post electoral system. Second, the JD-U remains a reluctant partner because its alliance with the Hindu nationalist BJP repels potential Muslim voters. An unlikely yet still possible Congress-JD-U alliance could prove even more devastating for the BJP, since the party lacks any other feasible allies in the state.

3. Voters are not responding to message. Finally, the party's strategy of attacking the government for the economic slowdown and for being weak on terrorism has not so far borne fruit. The BJP's attempt to win votes in the November 2008 state elections in four key states by painting the Congress Party as weak following the Mumbai terror attacks did not gain any apparent traction since voters seem not to have blamed the ruling party for the attacks, preferring political unity on the issue. Even the educated urban voters of Delhi, who had reasonably been seen as most receptive to such a message, voted instead for the Congress Party and its popular

Chief Minister Sheila Dixit. The Congress Party's vote share actually dropped 8 per cent to 40 per cent in line with the anti-incumbency hypothesis, but the BJP failed to attract those votes. They went instead to third parties such as the BSP: further evidence that the anti-terrorism plank did not work. These issues may prove more salient in a national - as opposed to a state - election but the record so far is discouraging for the BJP.

Congress ahead by a hair

None of this should suggest that the Congress Party is in a much stronger position, and it too faces constraints on its growth of vote share. But the key advantage that the Congress Party holds over the BJP is the possibility of wooing a wider set of allies that could deliver stronger gains in seats. Uttar Pradesh, which accounts for 80 of 543 parliamentary seats, is possibly the most important state for the party. Both the Congress and the BJP have been marginalised there by the local Samajwadi Party and BSP which respectively won 35 and 19 seats in 2004, compared with only 10 for the BJP and nine for the Congress. The BSP could win 45-50 parliamentary seats today in a four-way contest, becoming the third largest party in India, if it repeats its strong performance in the 2007 state election.

However, a pre-poll alliance between the Congress Party and the Samajwadi Party stands a good chance of damaging the BSP's chances since the combined vote for the two former would comfortably exceed the latter's. More important for the Congress, such an alliance would also minimise the BJP's already weak prospects in the state. But although the Samajwadi Party stepped in to support the Congress coalition after the Communists backed out in July 2008 over the US-India nuclear deal, hard bargaining has prevented the two sides from finalising a seat-sharing agreement so far. Clearly, the logic of this tie-up is compelling. A countervailing BJP-BSP alliance would be even more formidable, but past alliances between these two parties have ended badly. The BJP appears unwilling to make the political concessions that would likely be required to get BSP leader Mayawati Kumari on board.

The Congress Party is similarly positioned to make deals with the JD-S in Karnataka and the Trinamool Congress in West Bengal, thus further increasing its tally. Less likely but still possible are pre-poll agreements with former BJP allies such as the JD-U in Bihar state and the Biju Janata Dal in Orissa state. On top of this are expected gains in Kerala where the Congress Party won zero of 20 seats in 2004 but its prospects now look better as a result of infighting within the state's Communist-led coalition.

The bottom line is that neither national party has made major advances in expanding its vote base. Congress could find itself unable to benefit from its "structural" advantage, especially if voters begin to blame it for slowing growth and rising unemployment or another terror attack. However, the BJP faces a higher risk of losses because of its alliance disadvantage.

The danger of further fragmentation

The danger, however, is that neither national party performs sufficiently well in the coming elections, giving way to a multitude of regional parties and a fragmented verdict. This could occur if local parties in the key states of Andhra Pradesh and Tamil Nadu in the south and Uttar Pradesh and Bihar in the north - which account for 201 parliamentary seats - together win more seats than either the Congress Party or the BJP. In theory this could benefit the BJP since the TDP, JD-U and the AIADMK have had prior understandings with the BJP, but in practice they would likely bid for a "third front" coalition.

If these regional parties managed to woo Congress allies such as the Nationalist Congress Party in Maharashtra or BJP allies such as the Asom Gana Parishad in Assam, then they could rely on the Communist parties' support to force either one of the two national parties to support a "third front" regional party-led coalition from the outside. This occurred in 1996 when a weakened Congress Party was forced to support a regional party-led "United Front" government - that coalition, however, lasted just two years as compared to a normal tenure of five years.

Alternatively, there could be a coalition built around an anaemic Congress Party (since the Communists are unlikely to support a BJP-led government) in which regional parties carry a great deal of weight.

A fractured verdict would allow even small regional parties to bully and blackmail the national party at leisure, and could lead to policy paralysis and instability. During the 1996-98 period, the United Front government actually proposed fairly cohesive policies, but its effectiveness was limited by infighting and bullying by the Congress Party that resulted, among other things, in the replacement of Prime Minister Inder Kumar Gujral by Haradanahalli Doddegowda Deve Gowda, and eventually in the government's fall. Even the current government would have collapsed early had the Samajwadi Party not stepped in to substitute for the Communists in July 2008 after the latter withdrew their support.

From the investor's point of view, there are two significant risks:

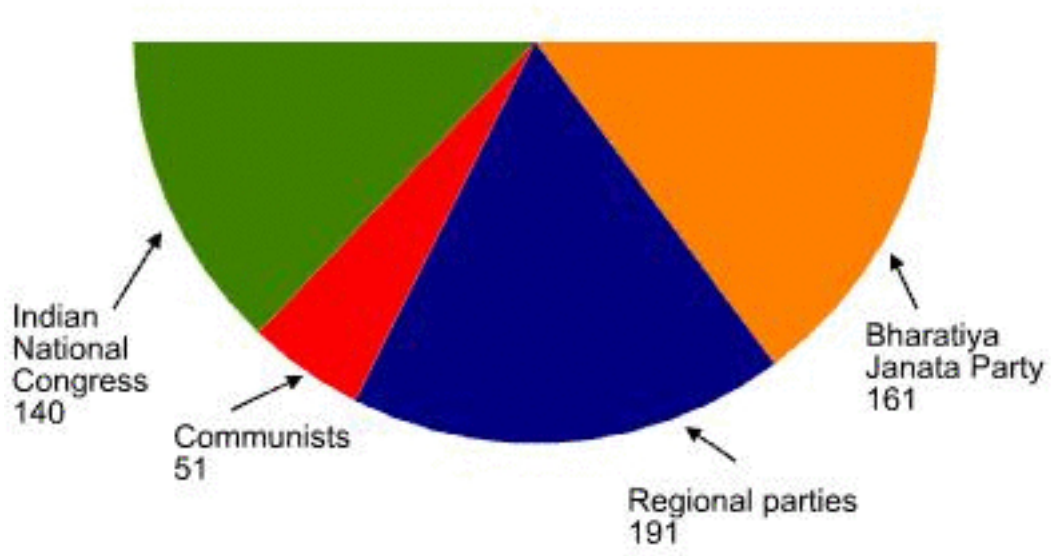
1. **Communist veto.** The Communists in such a scenario would demand a veto over crucial economic and foreign policy decisions. This would place limits on strategic ties with the US and ensure a halt to financial sector deregulation, FDI in education and other areas of liberalisation. The Communists are not the only impediment to economic reforms, as we explain in [Left outflanked](#), given wider political opposition to economic policies that hurt voters and consumers even within the two national parties. However, their influence will be even stronger if the national parties perform poorly.
2. **Inconsistent policies.** Second, and even more important, policies that require the consistent application of central government pressure on states - such as the nationwide value-added Goods and Services Tax (GST) that is due to be implemented by 2010 - and reforms in the judiciary and the police to improve governance would falter. The point is not that a regional party-led government would be an unmitigated disaster, but that it could well prove unstable and less likely to offer a sustainable policy agenda.

We emphasise again that it is still too early to make definitive observations about the elections since candidates have yet to be finalised and electoral campaigns are only in the early stages of their launch. With elections more than two months away, events could drive voters in unpredictable directions. Although the ruling Congress Party is leading the race at this point, a strong performance by regional parties could still result in a less stable "third front" government.

Assumptions and Evidence

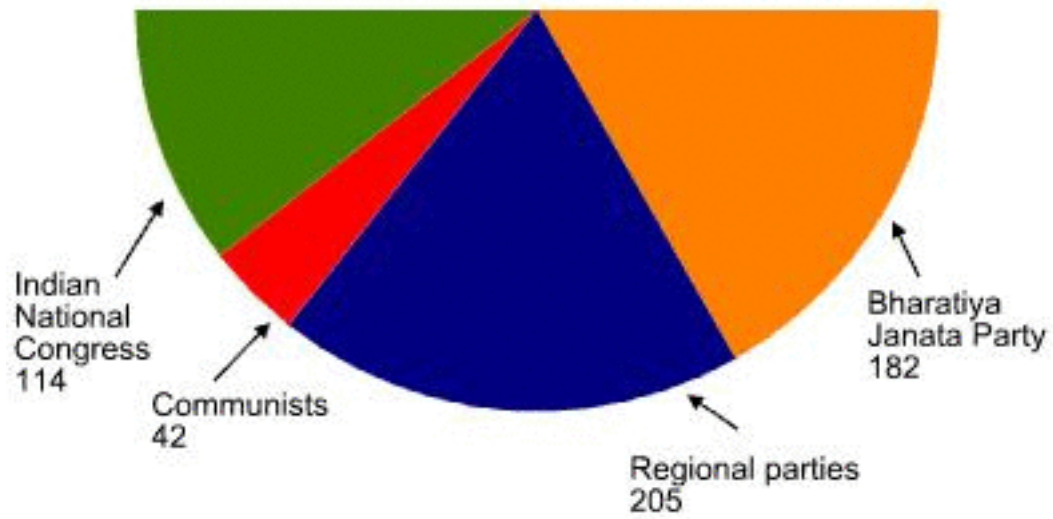
Charts showing the importance of regional parties and Communists in three previous Lok Sabha elections:

Chart 2: 1996 Lok Sabha election results



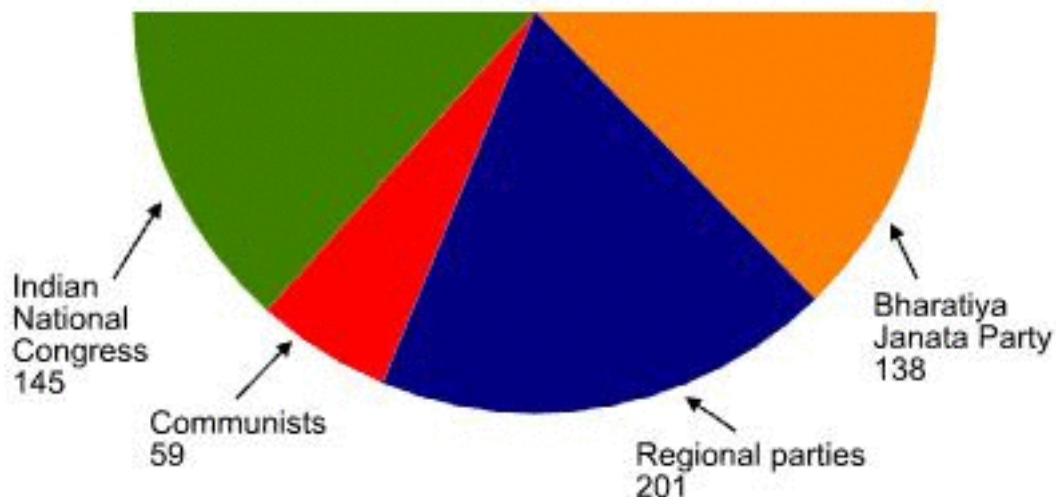
Source: Election Commission of India.

Chart 3: 1999 Lok Sabha election results



Source: Election Commission of India.

Chart 4: 2004 Lok Sabha election results



Source: Election Commission of India.

Links to previous Trusted Sources research covering the theme of governance in India:

[Vulnerable India](#), 13 Jan 2009

Poor governance and weak institutions undermine the government's economic and political agenda

[Judging the judiciary](#), 09 Jul 2008

Gains from judicial independence are undercut by lack of accountability, damaging India's economic potential

[Left outflanked](#), 21 Dec 2007

The governing coalition's Communist partners are irrelevant to the progress of reform

[A shock to the system](#), 17 May 2007

Lower-caste election victory threatens national parties

[The BJP's Muslim problem](#), 24 Apr 2007

India's stability rests on the equilibrium between BJP ideology and opportunism

Contact us

If you would like to discuss any of the points made in this note, or ask further questions, please feel free to contact the authors:

Amitabh Dubey, Director of India Research
ad@trustedsources.co.uk
+91 99999 10781