



BJP FURTHER CONSOLIDATES POWER IN INDIA

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SUMMARY

- Prime Minister Modi's Bharatiya Janata Party (BJP) experienced landslide wins in several state elections last week, particularly in the political bellwether states of Uttar Pradesh and Uttarakhand.
- These wins indicate a resounding endorsement of Modi's pro-poor and anti-corruption agenda, and reject the widely expected blowback from the prime minister's demonetization policy.
- The BJP will be forming governments in four out of the five states where elections were held, including an unexpected coalition in Manipur.
- Mr. Modi's party will gain seats in the Rajya Sabha, India's upper house, but will not cross the 123 seats required for a majority in the near future.
- Political stability and consolidation of power by the BJP raises expectations of continued economic reforms to sustain India's rapidly growing economy.

ABOUT ASG

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UNPRECEDENTED ENDORSEMENT OF THE PRIME MINISTER'S POLICIES

Labeled as a referendum on Prime Minister Narendra Modi's demonetization efforts, the Bharatiya Janata Party's (BJP) state elections victory last week makes clear that the Modi phenomenon is stronger than ever. The elections have been such a focus that India's Budget Session of Parliament, which resumed on March 8 and is usually covered with excitement, has been a sideshow for the last few weeks.

State assembly elections were held in Uttar Pradesh (UP), Uttarakhand, Goa, Manipur, and Punjab, with the BJP expanding its political foothold in four of the five states. Building on the party's strong presence in India's prosperous western states and conservative heartland, the BJP was able to leverage Mr. Modi's national popularity to secure unprecedented victories in Uttar Pradesh and Uttarakhand. While it failed to emerge as the single largest party in Goa and Manipur, the BJP cobbled together enough support from smaller parties in both states to form BJP-led governments. Punjab was the only state taken by the opposition, where the Indian National Congress (INC) won 77 of 117 seats in the state assembly. The INC's outright majority signals both the potential for the party to regain its dwindling popularity and an unexpected disappointment for the upstart Aam Aadmi Party.

These elections were highly anticipated by opposing political parties and were [positioned as a referendum on Mr. Modi and his policies](#). The prime minister embraced this challenge, campaigning heavily across key

states and ultimately winning the largest majority of any political party in UP since 1977. The BJP's significant win in UP - the most populous state in India and a historic stronghold for the INC - can be attributed to Mr. Modi's popularity. The BJP's success repudiated the opposition parties' claims that the recall of 500 and 1,000-rupee currency notes in November 2016 was a vastly unpopular decision that would have negative political ramifications for the prime minister. Instead, Mr. Modi's bold choices appear to have helped convert traditional INC constituents, including the unemployed poor, into BJP voters.

The shift in power in Uttar Pradesh and Uttarakhand will help the BJP-led National Democratic Alliance (NDA) - a center-right coalition of political parties - boost its number of representatives in the Rajya Sabha, India's upper house of Parliament. While the NDA will enjoy greater strength in numbers when both states' Rajya Sabha seats come up for reelection next year, the coalition will not reach the majority mark of 123 seats before the next national election in 2019. Out of the 79 seats across different states that are up for reelection before 2019, the BJP and its allies hold 23 and the INC holds 21.

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This election victory clears the path for the BJP in the run-up to the general elections in 2019. The INC, which has ruled India at the federal level for the majority of the country's history, has been further pushed to the margins. By the end of 2016, it held power in only seven of the country's 29 states, while the BJP ruled in 13.

BUSINESSES CAN EXPECT SIGNIFICANT ECONOMIC REFORMS

While there are concerns that the victory will embolden hard-liners in the BJP, it is widely expected that the prime minister will focus on a pro-development agenda that seeks to generate economic opportunities for India's rising middle class.

WITH LONG-TERM POLITICAL STABILITY ALL-BUT-GUARANTEED IN INDIA, COMPANIES SHOULD EXPECT A ROBUST, AND LONG-TERM PUSH FOR REFORM THAT WILL CONTINUE TO PROPEL INDIA'S ECONOMY.

With over a million new job-seekers entering the country's labor force every month, Mr. Modi is expected to push through land and labor market reforms and clean up inefficient state-run banks to boost private sector investment.

The lack of a clear majority in the Rajya Sabha means that the BJP will have to garner support from across the aisle, but long-stalled structural reforms will be back on the agenda. With long-term political stability all-but-guaranteed in India, companies should expect a robust, and long-term push for reform that will continue to propel India's economy.

ASG's South Asia Practice has extensive experience helping clients navigate markets across the region. For questions or to arrange a follow-up conversation please contact [Uzair Younus](#).

