

GEOPOLITICAL ALERT: OUTLOOK FOR GLOBAL BUSINESS AFTER INDIA'S ELECTION

JUNE 2024

India's election resulted in a shift in the domestic political landscape, with no political party attaining a clear majority in the 543-seat Lok Sabha.

- Prime Minister Modi's Bharatiya Janata Party (BJP), which won by landslides in 2014 and 2019, failed to secure a majority to govern on its own in the national election. The BJP has formed a coalition government with regional allies and is retaining 25 of the 30 top ministerial portfolios in the new coalition. Modi was sworn in to his third five-year term as Prime Minister on June 9 and joined the G7 leaders meeting in Italy on June 13-14.
- More than 642 million Indians voted – a larger amount than the combined electorates of the G7 nations. Voter participation among women increased this year, with 312 million casting ballots.
- Economic issues such as unemployment and inflation were the strongest influences on the election outcome. Social justice and environmental issues also gained more prominence in 2024 over previous elections.
- Prime Minister Modi has made revitalizing the Indian economy and increasing foreign investment the cornerstone of his agenda. As he begins his third term, he and the BJP are seeking to build on the economic gains generated in recent years. There are expectations the government will prioritize capital expenditures on power generation, clean energy and infrastructure, including transportation and the national rail system. Other policy areas to watch include tax, labor and land reforms, digitalization and the continued positioning of India as an attractive manufacturing and supply chain market to foreign investors.

India's Economy

- India's gross domestic product (GDP) grew by 8.2% in the fiscal year ending in March 2024, underscoring the strength of the economy and India's status among emerging markets.
- The International Monetary Fund (IMF) forecasts growth of 6.8% for 2024-25, while India's Central Bank is forecasting 7.0% growth. But despite high growth, about half of India's population works in the relatively unproductive agriculture sector. Unemployment, particularly among youth, remains high.

GLOBAL BUSINESS: WHAT TO WATCH

Global companies and markets will be monitoring the early actions of the new cabinet and debate of the Union budget in July to analyze if the Modi doctrine will remain favorable for business and enhance India's presence on the global stage.

- The Prime Minister's first task will be to convince rivals to continue embracing his economic and social agenda over the next five-year term. Coalition partners could help the Modi-led government advance its efforts on land and labor reform.
- Foreign investors will monitor for policy signals as the new government takes shape. Before the election, the BJP was targeting foreign direct investment (FDI) growth levels as high as \$100 billion, up from current levels of \$70 billion. India is one of the world's most active FDI destinations, ranking as the 8th-largest recipient of FDI in 2023 and the 3rd-largest in greenfield investments. India has also had success in positioning itself as a market for global supply chain diversification.
- Privatization will be a priority, as the government seeks to divest from public sector companies. The government has recently divested from state firms in the insurance, energy, aeronautics, transportation and tourism sectors.

PRIORITIES IN KEY ECONOMIC SECTORS

- **Technology and telecoms:** Data protection and a digital law are likely to be strengthened and policies are likely to be adopted to promote semiconductor and electronics manufacturing; completion of the 5G spectrum auction, 100% broadband connectivity and New Telecom Act rules are also expected.
- **Agriculture and food:** Initiatives to expand the production of cereals, oilseeds and pulses to reduce import dependency; new investments in food parks and food processing; expanded government income initiatives across the country's rural belt and investments in agricultural infrastructure.
- **Healthcare:** Reduce out-of-pocket health costs and expand access; reduce India's dependency on imported drugs from China; support healthcare R&D and incentivize private sector investments in underserved health areas.
- **Trade and commerce:** Adopt a national e-commerce strategy; expand export hubs; negotiate free trade agreements; regulate cross-border data flows and support small businesses.

- **Finance:** Strengthen consumer protections in the insurance sector; privatize banking assets; improve credit access for small and medium-sized businesses and adopt a legal framework for corporate government in banks.
- **Aviation:** Review bilateral rights for foreign carriers; privatize airports and invest in regional connectivity for underserved and remote areas.
- **Energy:** Invest in renewable energy, including wind, solar and hydrogen; implement battery storage systems and promote green manufacturing.

GEOPOLITICS AND INTERNATIONAL RELATIONS

- **The United States** is encouraging stronger commercial ties in areas such as semiconductors, critical minerals, technology, defense and space. Bilateral trade between India and the U.S. reached \$118.28 billion in 2023-24. The Biden administration says the U.S. will continue to express concerns about human rights in India, but political analysts suggest it will be a quiet discussion as the U.S. simultaneously embraces India as a counterweight to an expansionist China.
- **China** has been increasing defense cooperation with India's neighbors, including Pakistan, Nepal, Bangladesh, the Maldives and Sri Lanka. U.S.-India defense ties are expanding. The United States is replacing Russia as a significant supplier of defense equipment to India, as well as a regional military exercise partner, and the two countries have signed technical agreements for India to access high-end U.S. defense technology.
- This year is the 20th anniversary of **the European Union-India Strategic Partnership**. In 2023, the EU overtook the United States as India's 3rd largest trading partner. India is negotiating free trade agreements with the European Union, United Kingdom and Gulf Cooperation Council (GCC), but progress to finalize agreements will require India to adopt a number of economic, labor and environmental reforms.
- India will continue to be a voice for the **Global South**, advocating for reforms among multilateral institutions. Prime Minister Modi has stressed the need for collective action to reshape the global order on issues such as development, poverty alleviation, pandemic preparedness and climate finance. Modi is also advocating for a stronger role for Africa in global affairs and has supported the African Union's permanent membership in the G20.

WHAT OTHERS ARE SAYING

The following are excerpts from the articles linked.

"After a decade of electoral near-invincibility that combined economic success with a narrative of Hindu supremacy, Modi's party was reduced to 240 seats nationwide. He was able to form a third government only with the help of allies, some of whom have a reputation for political fickleness."

[Reuters](#), June 14, 2024

"Both the Bharatiya Janata Party (BJP) led NDA and the opposition INDIA bloc continued their attacks and counter-attacks in order to garner voters, social media emerged as a key battleground and mega stage for parties to reach millions with just a click. Political parties used social media platforms, including YouTube, Facebook and X to livestream roadshows, rallies and media conferences to reach the masses in real time, without relying solely on traditional TV news channels ... An army of social media teams used their creativity to start trending hashtags, participate in meme fests and convey messages to voters."

[Times of India](#), June 14, 2024

"In what opposition parties have declared as a victory for pluralism, voters in the world's largest democracy partially rejected Modi's populist vision for a Hindu-first nation."

[CNN](#), June 5, 2024

"The election result suggests that Indians have high expectations for their leaders and have again used the world's largest democracy to warn those leaders to do better. The question now will be whether Mr. Modi takes this election warning to heart or retreats into even more sectarian and authoritarian methods."

The Wall Street Journal, [editorial](#), June 4, 2024

"Mr. Modi remains popular with India's business tycoons, but investors need to find out which companies will stand to benefit from a new government ... Historically, Indian companies have done just as well during periods of coalition government."

[The New York Times](#), June 4, 2024

"Mr. Modi's favoured style is strongman executive rule with little debate in the cabinet or parliament. Now he will have to negotiate and make compromises. That will complicate policymaking, particularly a 100-day agenda that was expected to implement a currently stalled set of labour reforms and revamp policies intended to boost the manufacturing industry ... Mr Modi may now feel he needs to pay more attention to the immediate economic needs of groups whose votes his party failed to win by unleashing a new wave of welfare schemes."

[The Economist](#), June 4, 2024

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