

**India**

ON THE ROAD: POLLS SIGNAL SWING AGAINST MODI'S BJP

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If the last major state elections being held just five months before the 2019 national polls can serve as a barometer, then Prime Minister Narendra Modi's re-election bid will be a tough race. We travelled last week through several parts of Madhya Pradesh and Rajasthan – two of the five states currently holding elections. At present, Modi's Bharatiya Janata Party (BJP) is in power in those two states and is fighting head-to-head with the main opposition Congress.

- There is a real possibility of a BJP loss in all three states currently governed by the party in its Hindi heartland stronghold of Rajasthan, Madhya Pradesh and Chhattisgarh, and such an outcome will spook investors who have been counting on Modi's re-election next year.
- The pace of implementation of the BJP's myriad welfare and development programmes is frustratingly slow, causing voter discontent.
- Corruption at the lower levels of government and administration is rampant, while economic progress remains sluggish, with basic services such as good roads, water supply and teaching staff at government schools still lacking in many areas.
- Modi's 2014 national election campaign motto of "Better Days" seems to be backfiring; his current campaign is negative, focused on attacking the opposition, rather than fighting on a pro-development plank.
- A BJP defeat in the state polls will likely increase pressure on Modi to ramp up spending with all the resulting macroeconomic risks and market volatility.
- A strong showing for the Congress will give it the momentum to form alliances with smaller, regional parties; a united opposition will likely prove a major challenge to the BJP in the national elections next year.

Increased odds of a BJP rout

The consensus estimates of the group of 14 journalists and analysts with whom I travelled during a five-day tour of Madhya Pradesh and Rajasthan suggest that the BJP will probably lose power in both those states – narrowly in the former and by a large margin in the latter. The buzz we heard when we arrived in Bhopal – the capital of Madhya Pradesh, a state that borders Chhattisgarh, where voting had just finished on 20 November – was that the Congress had witnessed a last-minute surge and had likely won in that state.

The results in all three of these states in the Hindi heartland stronghold of the BJP will be announced on 11 December, along with the results of polling in the southern state of Telangana and the north eastern state of Mizoram. Voting in Madhya Pradesh was held on 28 November and is due in Rajasthan on 7 December. Opinion polls just a month ago had shown the BJP ahead in Madhya Pradesh and Chhattisgarh but the Congress leading in Rajasthan (see our 22 November 2018 report [State election turning point](#)).

The odds of a BJP defeat in all three states have now increased – and even the informal betting market suggests the Congress will win Madhya Pradesh, Rajasthan and Telangana, although it indicates a neck and neck race in Chhattisgarh. This is a reversal of the situation in early November, when only Rajasthan seemed to be heading towards the Congress. A week is a long time in politics, and Prime Minister Modi began his election campaign in Rajasthan only on 25 November, the last day of our visit to that state.

However, voter sentiment in Rajasthan appears to have shifted too far away from the BJP for Modi to swing it back to his party's favour. At his first Rajasthan election rally, which took place in Alwar, 160km northeast of the state capital, Jaipur, and which we attended, Modi drew large crowds of around 10,000-15,000 people. But a local newspaper reporter we met following his speech said that the crowds were far larger five years ago, when he had campaigned for the 2013 state polls in Rajasthan. The reporter claimed that many of the people had been bussed in from faraway towns and villages to attend the rally; and although passers-by who overheard our conversation strongly denied that they had been paid to come to listen to Modi's speech, we were stuck behind busloads of people for 30km outside Alwar when we drove back to Delhi.

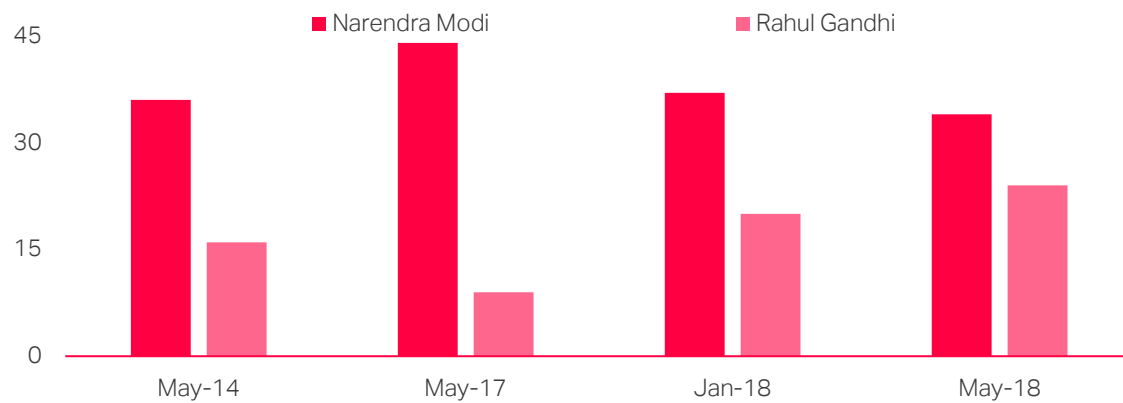
Modi's speech in Alwar had a negative slant, focusing on issues of caste and class and devoting little time to topics on economic development. To be sure, his jibes against the "entitled" leadership of the Congress party (a reference to the Gandhi dynasty) drew applause and laughs from the crowd, but there was a muted response to his comments on the work of the BJP government in Rajasthan. Even as he criticised the arrogance of the Congress leadership, Modi referred to himself in the third person for the entire duration of the speech, which was odd and deepened the perception among us that the BJP, too, is a party currently centred around the persona of one dominant leader.

Modi eyes the national polls

The Prime Minister's emphasis on attacking the Gandhi dynasty suggests that his strategy for the 2019 general elections will be to pitch himself against Congress President Rahul Gandhi. As the chart below shows, Modi's personal popularity far exceeds Gandhi's, although the gap has been closing this year. State elections in India are often based on local and regional issues, such as how much connect the chief minister of a state has with the

people or a state legislature candidate has with the population of his or her own constituency. This was confirmed in our conversations with many voters as well as with local party leaders. Modi's personal popularity will matter far more in the national elections.

Voters' spontaneous preference for Prime Minister (%)

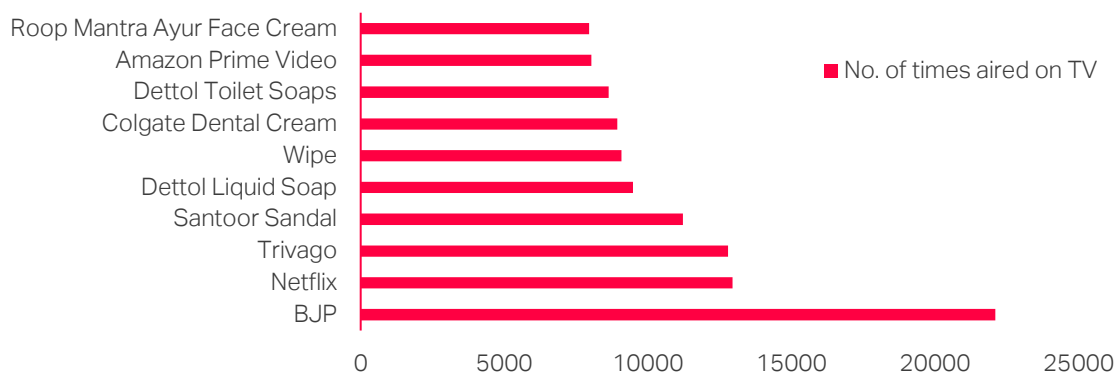


Source: Lokniti-CSDS-ABP News Mood of the Nation Survey, May 2018.

It is to the BJP's advantage that, as is well known, it has access to much larger funds to use for its publicity campaign than does the Congress. For example, the chart below shows the BJP as the top spender on television advertising as the campaign for the current round of elections picked up in mid-November. Among the campaign posters we saw in the states, the BJP outnumbered the Congress. It is also far more active on social media, such as Whatsapp, than the Congress.

However, on many of the posters we saw plastered across building walls in Madhya Pradesh, the photograph of the local candidate and Chief Minister Shivraj Singh Chouhan was far bigger than that of Modi or BJP Party President Amit Shah. This is in stark contrast with the 2015 Bihar state elections, in which Modi and Shah's photographs were far more prominent than those of local candidates. The BJP's Bihar campaign was judged to have failed because the party ran a national campaign against a united opposition alliance focused on local issues.

Top advertisers (10-16 November 2018)



Sources: BARC India, The Economic Times.

The cost of a BJP defeat

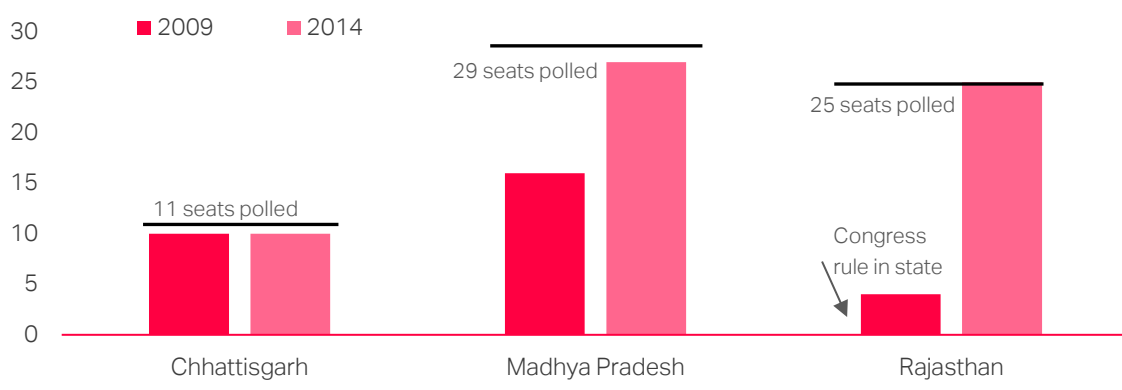
The repercussions of a BJP defeat in the state elections currently under way will be serious, coming as they do just months before the national polls. For one, a BJP loss in more than two states will give the Congress a boost to rally regional parties around itself. We have pointed out the risks of a united opposition to the BJP's current dominance in India's politics (see our 24 August 2018 report [Political competition adds to economic risk](#).) An alliance of regional partners even helped defeat the BJP in its stronghold of Gorakhpur, the hometown of Uttar Pradesh (UP) Chief Minister Yogi Adityanath, just a year after the ruling party swept the UP state elections in a landslide victory.

Another major consequence of a big BJP defeat will be that the party will likely have a smaller number of seats from its Hindi heartland bastion in the April-May national polls.

To some extent, voter discontent against the BJP in these state elections is likely to translate into a vote against the party in the national elections, too, despite Modi's personal popularity. Since 2014, the year it came into power in New Delhi, the BJP has expanded its national reach, gaining control over 21 of India's 29 state legislatures from just seven beforehand. The current state elections may signal the reversal of that trend.

This will have implications for both houses of the parliament. In the lower house, where the BJP won a majority in the 2014 national elections, the party gained 62 of the 65 parliamentary seats up for grabs in Chhattisgarh, Madhya Pradesh and Rajasthan. By contrast, the BJP won only 30 of those 65 seats in the 2009 general elections with major losses in Rajasthan, where a Congress government had come to power in the 2008 state polls (see chart below). To be sure, voting patterns in the state elections do not always match those of the national elections, but the BJP does need to do well in its traditional stronghold of the Hindi heartland to be able to return with a majority in the parliament. Furthermore, a loss in these states will reduce the BJP's chances of gaining a majority in the upper house of the parliament as its representation in the state legislature determines the number of seats in the upper house to which it can nominate party members.

Seats won by the BJP in the 2009 and 2014 national polls*



Source: Election Commission of India.

*Note: The BJP was in power in Chhattisgarh and Madhya Pradesh before both the 2009 and 2014 national elections but ruled in Rajasthan only before the 2014 elections.

The anti-BJP vote in the states

In the state elections currently under way, voters appear to be casting ballots against the BJP's policies rather than in favour of the Congress, which means that the polls are for the BJP to lose rather than for the Congress to win. In the states of Madhya Pradesh and Chhattisgarh, the BJP has been in power for three terms, or 15 years in all, which stacks up the probability of anti-incumbency sentiment kicking in. Voters in Rajasthan are more fickle, having alternated between the Congress and the BJP for the past four terms.

Voter fatigue in these states is due to disappointment with both state-level governance and the national government's policies. Two years after Modi's shock demonetization drive, many voters still complain of the economic pain they suffered. The double whammy to the economy from the adjustment to the new GST regime just eight months after the cash notes ban further hurt voters. As one local newspaper editor in Bhopal told us: "Even an ordinary cycle rickshaw puller will say that the GST has killed him." This sentiment echoes what we found out on the ground during a visit to UP a year after demonetization, and months after the GST rollout, with many voters blaming the GST for a drop in their incomes, even though some did not need to register for the new tax system.

The traditional BJP voter base of shopkeepers we met in the town of Itarsi, a three-hour drive south of Bhopal, had conflicting views about the impact of GST. One jewellery shop owner claimed that after a negative impact lasting six to eight months, business was now running smoothly although he did admit that over the past year, there had been no growth in his turnover. An employee in the same shop said that business had fallen 40% since the GST implementation in July 2017. That same figure was given to us by a garment seller whose shop was down the street from the jeweller's.

In Madhya Pradesh, Chief Minister Chouhan still enjoys great popularity in his constituency of Budhni, which is adjacent to Itarsi: many voters there refer to him in Hindi as "uncle". However, we were surprised by the poor condition of the road connecting Chouhan's constituency and the neighbouring areas to Bhopal, which has been his home for the past 15 years. That road was full of potholes and we had narrow escapes from speeding trucks and buses on the narrow highways.

When we arrived back in Bhopal – tired and with sore backs – we met with the potential Congress chief ministerial candidate Kamal Nath, who seemed high on energy despite a long day of campaigning, and optimistic about his party's fortunes in the Madhya Pradesh elections. Indeed, many of the Congress leaders we met in both Madhya Pradesh and Rajasthan predicted a majority number of seats for their party, pointing to the BJP's failure to provide adequate jobs, the damage to small traders' businesses owing to demonetization and the GST, and the long list of promises made by the BJP that the party has been unable to fulfil.

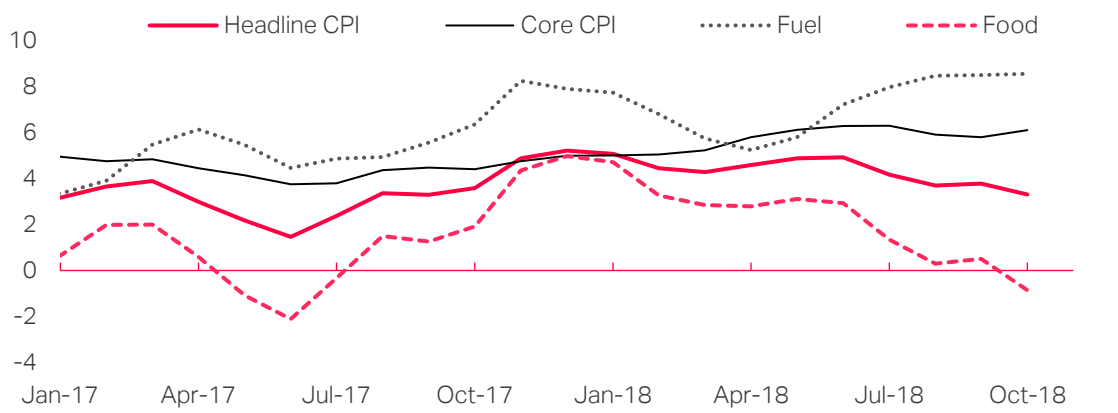
The constant supply-demand mismatch

Even the BJP leaders we met in both states acknowledged the fact that fast-rising aspirations are not being met. "All the schemes announced by the government are incomplete," said one BJP leader we met in the Rajasthan city of Kota. "Whoever you give a glass of water to, make sure you give him the full glass, and not half." He was referring to the various development schemes, including the construction of toilets in poor households, for which the government provides funds.

As we had found out in a Madhya Pradesh village that we had visited just one day earlier, toilets had been built for just a handful of houses and the women residents we spoke with complained of no water supply. "It is a toilet by name, not by function," said one voter. The women also spoke of rampant corruption by administrators in the handing out of funds to construct the toilets. One woman in the village (located in the Narsingharh constituency, 80km northwest of Bhopal) protested against the bribe that the district level officers had demanded to issue voter identification cards for herself and her children. "We don't have money to eat, there are no jobs, no factories here... how can we give money to get voter cards made?" she asked. "We have to give a commission for any work to be done," said another woman who was standing next to her.

Rural distress was glaringly obvious even though many observers acknowledge that Madhya Pradesh Chief Minister Chouhan has tried to frame favourable policies towards farmers. However, food prices are low – as evidenced by persistently low food inflation, which, in turn, means that the returns for farmers for their crops are limited. Despite the sharp increase in minimum support prices for many crops announced by the Modi government earlier this year, none of the farmers we met seemed happy. At a wholesale agricultural market in Chachaura-Binaganj, almost 70km further north of Narsingharh, farmers who had come to sell their produce said they were not getting good prices for vegetables and products such as garlic and coriander. On the other hand, many of the poor grumbled about the rise in fuel prices and other input costs that had left a hole in their pockets.

CPI inflation (% yoy)



Sources: Central Statistics Office, TS Lombard.

To be sure, some BJP supporters in the wholesale market credited the government for enabling funds to be transferred electronically and directly to their bank accounts.

However, as we witnessed on the following day in Kolaras, another town close to the Madhya Pradesh-Rajasthan border, bureaucracy and the banks can break the trust of the people. One man we met said that getting money from the banks was not an easy process and hinted at corruption by bank officials. We decided to walk into a nearby branch of the State Bank of India, the country's largest bank, which is also government-owned, to enquire why people face problems in getting their cash. The bank officials claimed it was due to technical problems, such as the way cheques are signed.

Whatever the reason may be, voters seem unhappy with the way the state functions and this leads to frustration despite government efforts to improve efficiency and transparency. "People haven't all got the benefits of the schemes," said a BJP leader in nearby Shivpuri, even as she claimed that her party will still win the Madhya Pradesh election, albeit with a "wafer-thin

majority". As we crossed over the border to Rajasthan, we found several more instances of voter discontent. In the village of Mundiya, people complained of negligible development, government schools that lacked teachers and limited employment opportunities that meant men had to travel to the city of Kota, 100km away, or even further to the state of Gujarat in order to find jobs.

Indeed, the Rajasthan state poll seems to be a foregone conclusion with an overwhelming number of voters we spoke to saying that they will choose the Congress ticket. Even many of those who said they will vote for the BJP believed that the Congress will still form the government in the state. The margin of victory, however, will show whether it is a vote for the Congress or just a manifestation of anti-BJP sentiment in the states.

Conclusion

The ongoing state elections will determine whether Modi's re-election bid in the April-May 2019 national elections will succeed easily or whether he will face a tough fight. As my colleague Amitabh Dubey pointed out in his [note](#) last week, a strong or even mixed outcome for the BJP – defined as a win in at least two of the three Hindi heartland states – will be welcomed by investors, as it will indicate that Modi's party can overcome political headwinds.

However, the findings from our visit to Madhya Pradesh suggest that the BJP may lose in that crucial state – even though the Congress requires a large vote swing in its favour to claim victory. With Rajasthan expected to go to the Congress and the buzz that Chhattisgarh, too, is likely to have voted out the BJP government, a 0-3 defeat for the BJP will be a shock to the markets. Moreover, it will lead to a serious rethink of poll strategies for the BJP, raising the risk of macroeconomic instability if it decides to ramp up welfare spending or political instability under pressure from Hindu hardliners in the party to try to turn voter attention to communal issues.

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