

# U.S.-India Insight

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## India's Strategy to Win Switzerland

RICHARD M. ROSSOW



Prime Minister Narendra Modi is expected to lead the India delegation to the World Economic Forum (WEF) in Davos, Switzerland, on January 23–26. This will be the most important global stage of his nearly three-year tenure as prime minister; a platform where he can outline his vision for both India's development and economic growth, as well as its emerging global role, in front of powerful potential partners. This platform provides a significant opportunity for Prime Minister Modi to reestablish his reform credentials. Despite a commendable reform track record so far—particularly in the first half of his term—India is not ready to put the economy on cruise control despite a national election on the horizon.

The Modi government has tackled some significant economic reforms in its first three-plus years in office. Per our own "[Modi Government Reforms Scorecard](#)," 9 of the 30 most significant reforms pending the day Modi came to office have been accomplished, and there is tangible progress on over a dozen others. This does not include other programs such as village electrification, allowing direct port deliveries, the UDAY electric power distribution bailout, expanding bank access, or other development projects that could have a significant impact on people's lives. In addition, the Modi government has made over 40 positive changes in India's foreign investment regulatory regime, such as increasing foreign direct investment (FDI) caps, or making FDI approvals simpler by shifting them to the "Automatic Route."

However, as we reported in late 2017, the reform program has noticeably slowed. Back in August, we noted a [dramatic slowdown in the pursuit of FDI reforms since June 2016](#), with smaller reforms in October 2016 and February 2017, and **another set of modest FDI reforms approved by the Cabinet in January 2018**. Many sectors still have significant foreign investment limitations, including retail, e-commerce, insurance, pensions, defense, broadcasting, publications, security firms, banking, stock exchanges, and power exchanges. Multiple sectors have distinct restrictions on foreign firms, apart from equity limitations.

Similarly, in June we noted that while [9 of the 30 major domestic reforms](#) pending in May 2014 have been initiated, 6 of those were in the Modi government's first 12 months. **Only 3 significant domestic reforms have been completed in the last 30 months.**

### KEY DATA

**+10.7%**

U.S.-INDIA GOODS TRADE, 12-MONTH YOY  
COMPARISON, PER [U.S. CENSUS BUREAU](#)

**+4.7%**

FOREIGN DIRECT INVESTMENT, 12-MONTH  
YOY COMPARISON, PER [RBI](#)

**+27.4%**

FII ASSETS UNDER CUSTODY, 12-MONTH  
YOY COMPARISON, PER [NSDL](#)

Certainly, adopting the Goods & Services Tax (GST) last year would rank among the government's most significant reforms (despite obvious teething pains). But, that stood as the only major economic reform in all of 2017.

Furthermore, it is tough to find a refreshed set of economic reform objectives outlined by key officials in the Modi administration. In its early years in office, the government would consistently beat the drum on the importance of key reforms including:

- Conducting open, transparent auctions of government resources,
- Ending "tax terrorism,"
- Passing the long-pending Insurance Act Amendments,
- Passing the Bankruptcy Bill, and
- Passing the Goods and Services Tax.

Today, there is not a similar set of regulatory or legislative reforms that are consistently stated as key priorities. The international business community is starting to ask, "what's next?" There are certainly reforms on the anvil, such as the [Major Ports Authority Bill](#), the [Financial Resolution and Deposit Bill](#), the [Merchant Shipping Bill](#), and others. Perhaps, even, tackling the very significant financial sector overhaul recommended by the [Financial Sector Legislative Reforms Commission](#) almost five years ago (which has been handled piecemeal, so far).

Some analysts' knee-jerk response is that the reform agenda is waning due to the impending 2019 national election. While this trope is seen as gospel, **it is simply not true**. As we reported in May 2016, there were [significant reforms](#) ahead of the 2004, 2009, and 2014 national elections. Clearly, in recent history, elections have not been the reform limiters, as often portrayed. But, perhaps reality is conforming to the fiction in this case. Reforms like GST, which necessarily involve real implementation problems, would understandably be parked until just after significant elections. However, other reforms that do not incur immediate headaches should be vigorously pursued, such as extending industrial licensing, reducing foreign equity restrictions (more deeply than the limited reforms announced earlier this month), and deregulating sectors like ports. Plus, antimarket practices such as price controls, forced bank lending mandates, creating product standards at variance with global norms, and other distorting policies should be abolished.

India is rightly proud of its jump in the World Bank's "Ease of Doing Business" rankings last year, moving up 30 places to number 100. And there is a strong desire to do more. The World Economic Forum meeting later this month is a perfect venue to lay down a marker for the Modi government's major reform plans in the months and years ahead. And pushing out a few significant new reforms around the time of the WEF meeting will help underscore the government's commitment.

## RECENT CSIS INDIA PUBLICATIONS

Kartikeya Singh and Sarah Watson, [India's Digitizing States: Leaders and Laggards](#), LiveMint

Sarah Watson, [BJP & Congress Gov'ts Equally Culpable for Marginalizing India's Parliament](#), CogitAsia

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## MODI'S REFORM SCORECARD

**This month:** Many key reforms require legislative action, and we update our reforms scorecard regularly. As referenced in this newsletter, our whole reforms scorecard can be found at [indiareforms.csis.org](http://indiareforms.csis.org)