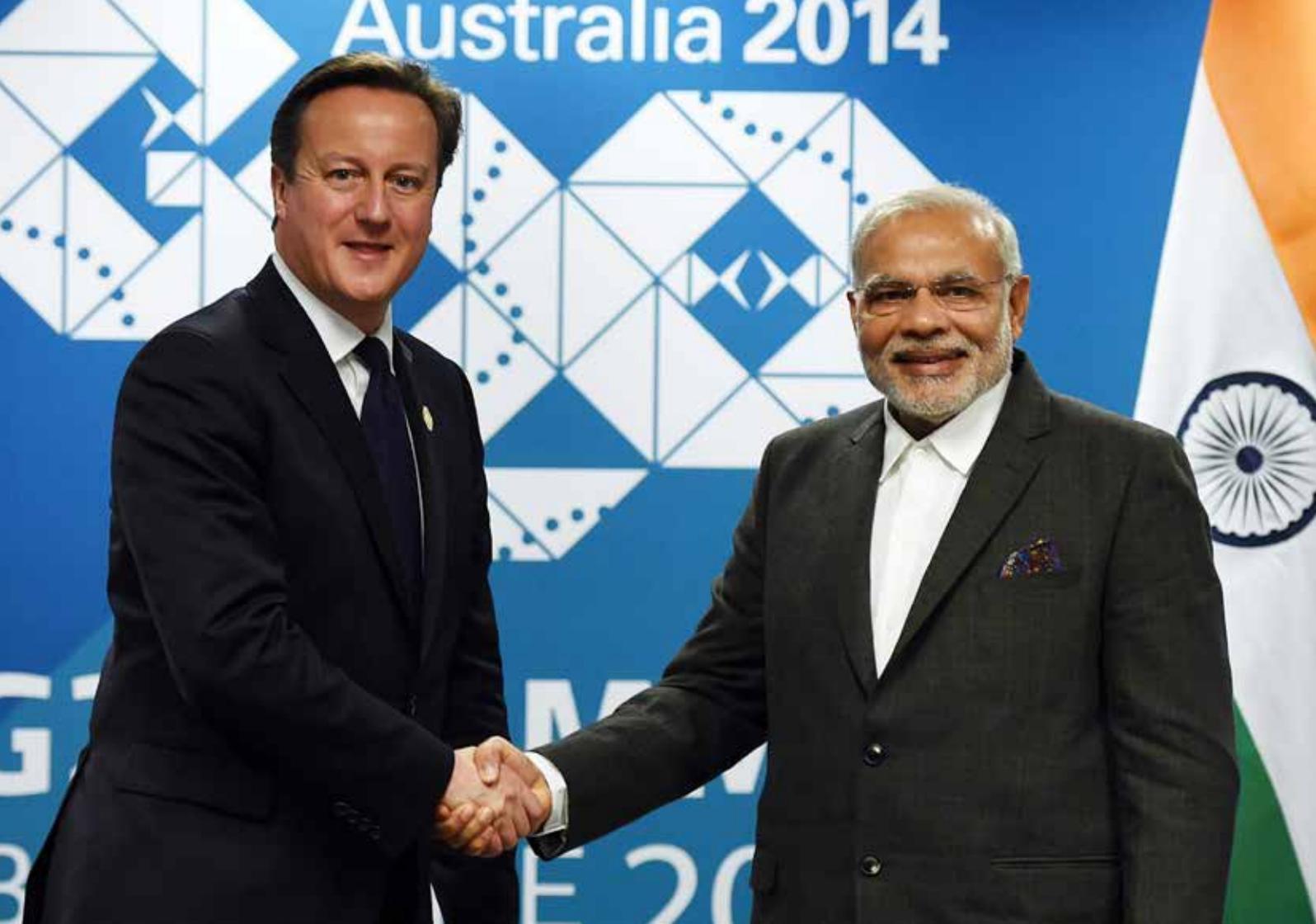


Has Modi Made A Difference?





Australia 2014



Has Modi Made a Difference?

On the 12th of November 2015, Narendra Modi will make his first prime ministerial visit to the UK. If his recent trips to the US, Australia, Germany and the UAE are anything to go by, this visit promises to be a lively and high profile affair. Coinciding with the Diwali celebrations, the highlight will be an event for between 70,000 to 90,000 British Indians in Wembley Stadium complete with Bollywood dancers and fireworks.

India and the UK have been strong business partners for decades. India is now the third largest source of FDI in the UK.¹ Likewise, in the last 15 years, the UK has been the largest FDI provider to India among the G20 countries. British companies employ an estimated 700,000 people in India and have combined revenues in excess of \$45bn from the country.²

Therefore 'UK Plc' has a significant stake in India's economic transformation and, after 18 months of Modi's government, can legitimately ask the question – Has Modi made a difference?

■ Great expectations

In May 2014, with promises of *Achhe Din* (good days), the Narendra Modi-led BJP party stormed to victory in the Indian national election. They achieved the first single-party majority mandate in over three decades.

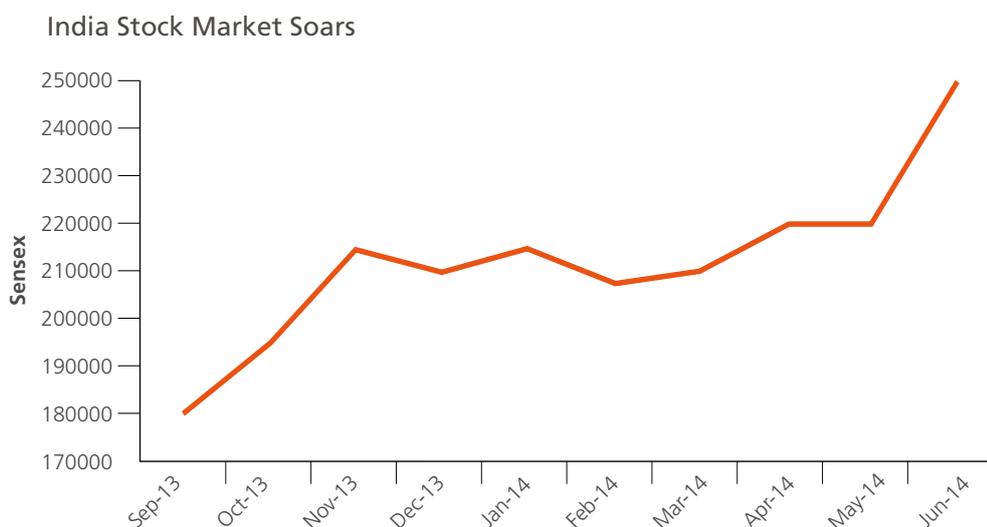
Against a backdrop of government scams, economic malaise and with India's reputation suffering on the world stage, Modi's central theme of 'governance not government' resonated with a hopeful electorate.

Concerns remained about the ability of a state Chief Minister with a reputation as an autocrat to navigate the vagaries of Indian federal politics. However, here was a successful leader, without dynastic luggage and untainted by corruption.

■ Low hanging fruit

The previous government under Prime Minister Manmohan Singh had disappointed. Although moderately successful in their first term, all but the most partisan political commentator would agree that the second term from 2009 to 2014 gradually descended into a farce. India found itself embroiled in multiple public diplomatic spats, not only with the old border enemies of Pakistan and China, but now with countries as implausible as the USA, Italy and Denmark. At home the government staggered from scam to scam leaving the coal mines closed, a defence force using increasingly outdated equipment and a Commonwealth Games viewed as an embarrassment. Retrospective taxation, poor economic management and a failure to reform outdated and opaque legislations left domestic and international investors disillusioned. In many cases companies reduced their commitment to India in favour of friendlier markets, but always with the intention of returning when the political climate improved.

By merely creating *anticipation* of a more business friendly government, Narendra Modi significantly improved business sentiment. Between October 2013 and June 2014, the BSE Sensex soared by 39% simply in the hope of change.



A Marathon, not a Sprint

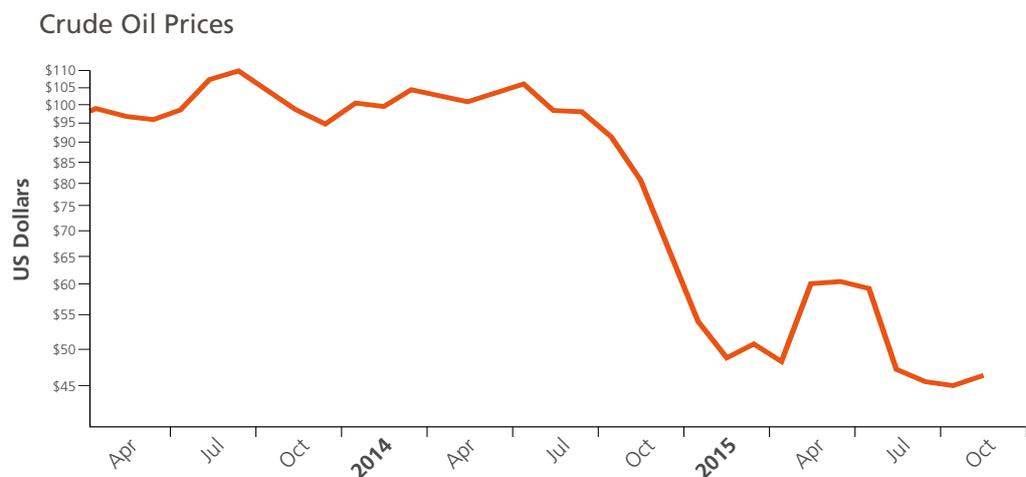
Change in the world's largest democracy can't happen overnight. However, after 18 months, we have a variety of indicators to suggest the direction of travel. The numbers suggest a swift recovery.

Financial Indicators	2012/13	2013/14	2014/15	2015/16 (F)
GDP (in USD, bn)	1832	1862	2067	
GDP Growth % (2011-12 base year)	5.1	6.9	7.4	7.5
FDI Inflows (in USD, bn)	24	28	35	
CAD (% of GDP)	-4.7	-1.7	-1.9	
Unemployment Rate	5.2	4.9	4.8 (E)	
Inflation %	9.3	10.9	6.4	

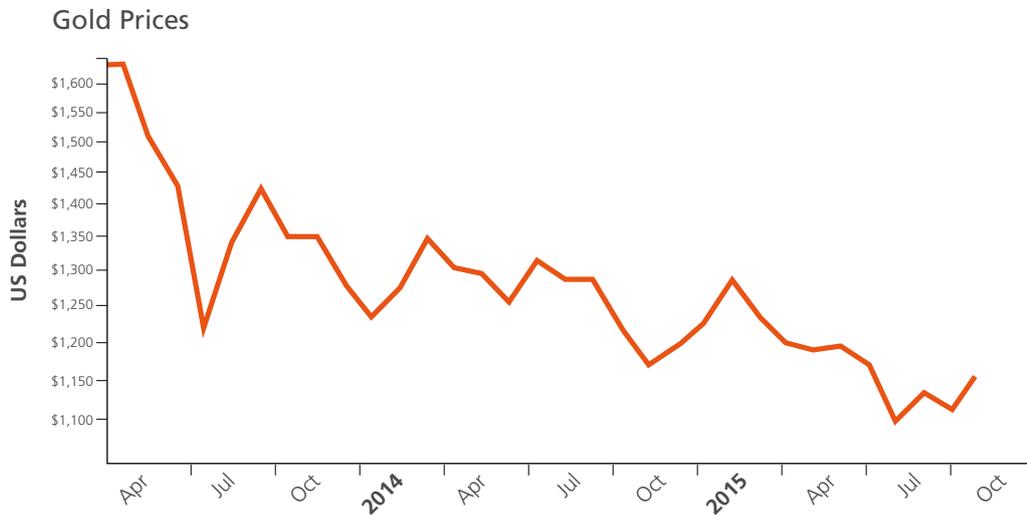
Sources: World Bank Data: data.worldbank.org/country/india
www.tradingeconomics.com/india/unemployment-rate

Based on this, it would be easy to judge the first 18 months of government as a stunning success. However, the Prime Minister has benefited in no small measure from factors beyond his control:

- Oil and Gold – two of India's main imports have seen marked price reductions, further easing pressure on the balance of payments deficit and allowing the government to remove costly diesel subsidies.



Source: Macrotrends: www.macrotrends.net/1369/crude-oil-price-history-chart



Source: Macrotrends: www.macrotrends.net/1333/historical-gold-prices-100-year-chart

- Inflation - Raghuram Rajan, India's sensible Central Bank Governor, who Modi inherited from the previous government, must be congratulated for his determination in tackling inflation. Interest rates are now starting to be relaxed.

Previously hawkish on India, the credit agencies are starting to ease their outlooks:

- In 2014, Standard and Poor's gave India an improved rating – from 'negative' to 'stable' in the anticipation of reforms.³
- In April 2015, Moody's followed suit by upgrading India's credit rating outlook from 'stable' to 'positive'.
- Fitch affirmed India's 'BBB-' rating with a 'stable' outlook.⁴

For 2016, the IMF forecasts India's growth rate to be 7.5%, surpassing the 6.3% of China, making it the world's fastest growing large economy.⁵

■ Policy

Ever the master communicator, Modi, immediately made a statement of intent with the announcement of four key policy initiatives:



By branding the key challenges facing India today, Modi has clearly set out his government's priorities and mobilised often divergent government departments under a common agenda:

Make In India – A single, cross governmental programme, led by Amitabh Kant to drive industrial transformation across 25 key sectors with the objective of making India a manufacturing hub for the world's supply chain.

Digital India – Transforming India into a “digitally empowered society and knowledge economy”. This programme aims to provide universal connectivity, from cities to the rural areas, allowing greater access to government services, more transparent government processes and commercial opportunities.

Skill India – To capitalise on the demographic dividend, Modi has launched an ambitious Skill India programme with the aim to deliver skills training to 400 million Indians by 2022.

Clean India (Swachh Bharat) – Broom in hand, on 2nd October 2014, Modi showed his intent to get the government behind improvements in India's sanitation, environment and cleanliness by taking to the streets with a display of sweeping. Civil servants too “volunteered” their Sundays to sweep their neighbourhoods.



■ Governance, not government

‘Governance not government’ was a defining slogan of Modi’s election campaign, and although it is still early days, the lack of government corruption scams has been cause for celebration. The government has re-opened the mines and auctioned coal blocks successfully. With the Prime Minister’s office leading from the front, civil servants are working harder and longer.

Although some say that Modi has not gone far enough, fast enough, he has brought in a slew of regulatory changes aimed at liberalising key sectors of the economy and kick starting investment.

Actions Taken	Delay/Inaction
<ul style="list-style-type: none"> ■ Increased FDI in Defence, Insurance and Railways ■ Complete deregulation of diesel prices ■ Fiscal deficit & CAD under control, inflation in check ■ Efforts to curb corruption & Black Money ■ A “One-Stop-Shop” online portal for business approvals ■ Reduced documentation for exports & imports 	<ul style="list-style-type: none"> ■ FDI in Retail-unchanged at 51% ■ Goods and Services Tax (GST) ■ Land Acquisition Bill ■ Labour Law Reform

However, the ‘Big 3’ reforms – Goods and Service Tax (GST), Land Acquisition Bill and Labour Law Reform – remain unresolved. GST, when passed, could add up to 2% to GDP growth.⁶ It has cross party support, but it is still to be introduced to the parliament after the Congress led opposition, using tactics reminiscent of the BJP in opposition, disrupted the Monsoon session of parliament.

Crucial elections in states such as Bihar add further pressure on central government to water down legislation that could be perceived as ‘anti-farmer’ or ‘anti-worker’. There is a prospect that delays will remain until the Rajya Sabha elections of March 2016.

A brief look at the World Bank’s ‘Ease of Doing Business’ rankings will tell you that, if India is going to become a global economic super power, it needs to tackle its bureaucracy. Currently sitting at a woeful 142nd in the rankings (14 places behind Pakistan), Modi has set an ambitious target to take India to the top 50 in the next three years.

Ease of Doing Business – Going the wrong way

Country	Rank each year			
	2012	2013	2014	
Singapore	1	1	1	Top 5
New Zealand	3	2	2	
Hong Kong	2	3	3	
Denmark	5	4	4	
South Korea	8	5	5	
China	91	93	90	India & its neighbours
Sri Lanka	81	105	99	
Indonesia	128	117	114	
Pakistan	107	127	128	
India	132	140	142	

Source: World Bank: www.doingbusiness.org/rankings

India – Open for Business

India has a demographic dividend that could easily become a burden if employment is not generated for the masses who are migrating to the cities. To grow and create quality employment, and to become an integral part of the global supply chain, India needs investment and technology. Modi has been far more aggressive than previous Prime Ministers in ‘road-showing’ India as open for business. As well as personally backing ‘Make in India’, he has assured business leaders that he will be accessible and publicly promised that the government will not tax retrospectively as it did with Vodafone and Cairn.

In just his first year in office, he has visited 18 countries. By December 2015 he will have added Ireland, a second trip to the US, Saudi Arabia, the UK, the G-20 Summit in Turkey, the ASEAN summit in Malaysia and the Global Climate Change Summit in Paris.

FDI in India has risen by more than 25% to \$35bn in 2014-15. Of this, over half, \$19.8bn, came from the countries visited by Modi since assuming office.⁷

■ India punching its weight in the world

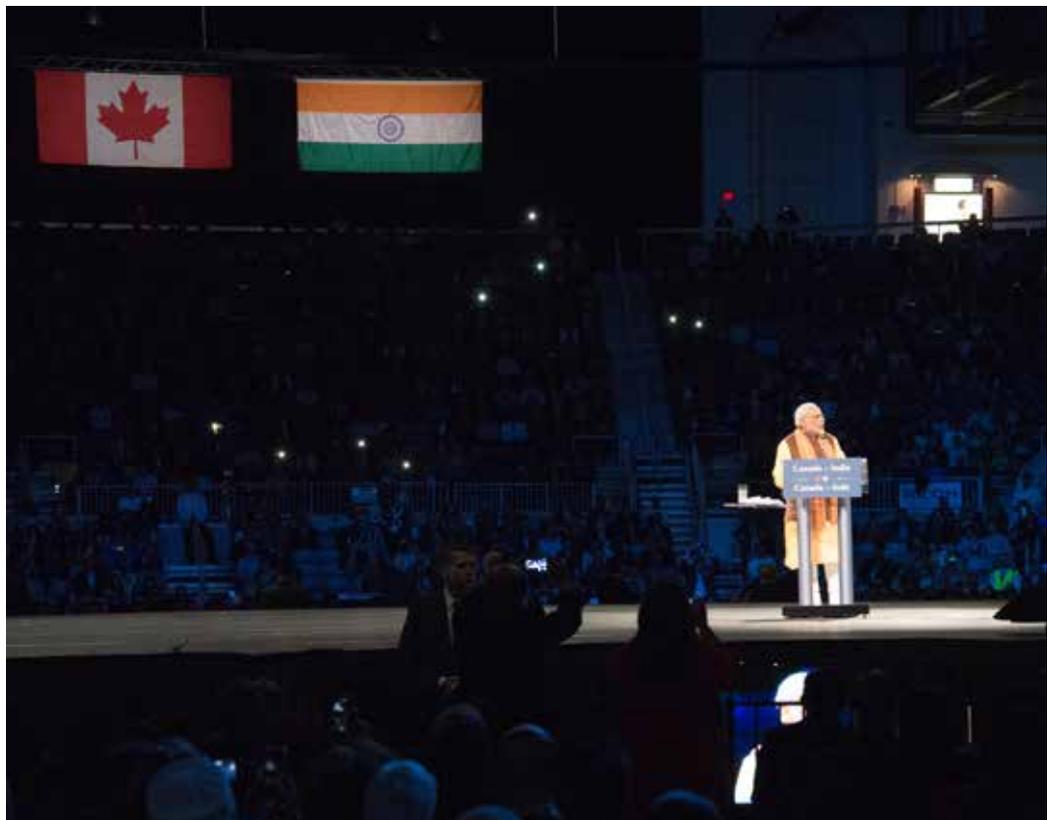
Apart from the commercial objectives of Modi’s frenetic diplomacy, he is also pushing for a far more active role for India on the global stage. Economic superpowers need to be able to project power and influence. This is an area where India, which is home to almost one sixth of the world’s population, has underperformed in the past.

Immediately, Modi showed his intent by being the first Indian Prime Minister to invite all six SAARC neighbours, including Pakistan, to his swearing-in ceremony. A swift response to the humanitarian disaster of the Nepal earthquake showed that India is determined to be a leader among its neighbours. Further afield, India is now lobbying hard for a seat on the UN Security Council. Closer to home, progress is finally being made in re-arming and equipping Indian Armed Forces, particularly the Air Force, suggesting that India is determined to drive its agenda rather than reacting to circumstances.

■ Mobilising the Indian Diaspora

The global Indian diaspora is 28 million strong. In 2014, India received more than \$70bn in remittances from across the world, more than China, which received about \$64bn. Almost half of this came from the Gulf countries alone; Indian workers in the Middle East contributed more than \$30bn to the Indian economy in remittances.⁸ However, the power and influence of the Indian diaspora goes much further than that. In the UK, there are 10 MPs of Indian origin (the highest ever). In Silicon Valley, about 15% of all start-ups are founded by Indians. Microsoft, PepsiCo, Reckitt Benckiser, Diageo, MasterCard, SanDisk – all boast Indian origin CEOs.⁹

Determined to tap into this resource to channel its money and influence for the development of India, sell-out diaspora events have been arranged. In venues normally reserved for national sporting events or rock concerts such as Madison Square Gardens or Wembley Stadium, Modi has presided over enormous shows of support for his vision of a transformed India.



Well Begun is Half Done



Modi has certainly made a difference. In the last 18 months, the government has reformed as much as it dares in the current political scenario. However, India's corporate debt is at a record high.¹⁰ Demand is still low, as are corporate earnings. Investment in infrastructure is yet to begin in earnest, despite the government pledging more than \$30bn in investment to the rail and power sectors.¹¹ Also, he still has to crack the hardest nuts. The GST Bill, labour reforms and the Land Acquisition Bill are critical if 'Make in India' is to be a success.

Assuming that Modi can deliver these key reforms, the future looks bright for India. The country's global standing is improving and that is generating much needed foreign investment. A recently published Ernst & Young survey of 500 global CEOs placed India as the world's most attractive investment destination in 2015.¹²

Therefore the mid-term of this government is crucial. Modi must quickly push through reforms and get the economy firing in time for the next election in 2019. Otherwise, the fruits of this government's labour will be reaped by others.

Notes

- ¹ UK Trade & Investment, "Inward Investment Report 2014 to 2015," June 2015.
- ² Confederation of British Industry, "Sterling Assets India - UK Investment Creating Indian Jobs," (2015): 6-8.
- ³ "India must Grow, Fulfil Reform Promise for Rating Upgrade - S&P," *Reuters*, Feb 23, 2015.
- ⁴ "India Outlook Raised by Moody's While Fitch Sees Faster Growth," *Bloomberg*, April 9, 2015.
- ⁵ "Uneven Growth: Short- and Long-Term Factors," International Monetary Fund - World Economic Outlook, April, 2015.
- ⁶ "If implemented, GST can contribute 2% to GDP growth: Adi Godrej," *The Economic Times*, Sep 2, 2014.
- ⁷ "India received \$19.78 billion in FDI in 2014-15 from Countries that PM Narendra Modi Visited," *The Economic Times*, Sep 21, 2015.
- ⁸ "India's Highest Amount of Remittances Comes from the Gulf," *The Economic Times*, Dec 1, 2014.
- ⁹ "More than just Pichai and Nadella: Indians now the Biggest Power Players in Silicon Valley," *Firstpost*, Aug 12, 2015.
- ¹⁰ "Wrecked by Debt," *Business Today*, April 26, 2015.
- ¹¹ "The Fourteen-Month Itch: Modi government entered its midlife phase, must now dispel germs of any crisis," *The Economic Times*, July 16, 2015.
- ¹² Ernst & Young, "India Attractiveness Survey 2015," October 2015.

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