



# Doing Business in India: Has Modi made a difference?

The election of Narendra Modi as India's Prime Minister last year was greeted with much fanfare. Fourteen months on, what has he accomplished and in what ways has his first year in office been a success or a failure?

**On 9 July 2015, Alasdair Spink, Managing Director, and Gaurav Seth, Partner, Odgers Berndtson India, led a spirited discussion and engaged with Singapore executives on this hot topic.**

**A**lasdair kicked off the discussion by recapping some of the events leading up to Modi's historic election. Between 2004 and 2009, India's industrial, agricultural and services sectors grew, GDP neared double digits and India was entering into trade agreements with major foreign partners. It was an exciting time for the Congress led coalition government, the UPA.

Unfortunately, the UPA's next term was characterized by large corruption scandals, policy paralysis, a drop in GDP, a slumping rupee, increased food inflation and decreased foreign direct investment. By mid-2013, India

was struggling economically and by November 2013, the country was desperate for change. In the May 2014 election Indians gave Narendra Modi the chance to be that change, handing his government the first absolute majority – 52% of the vote – for three decades.

Modi came into office with the weight of the country's expectations on his shoulders. He had been the Chief Minister of Gujarat for 12 years, a business friendly state that championed "governance, not government" and "the Gujarat Model" had some success in spurring economic growth and investment.



Illustration: Ashish Asthana





## Progress under Modi: Debateable

At this point in the discussion, Gaurav put on his 'pro-Modi' hat to lay out a few of the main arguments that Modi's first year in office has been a success. Alasdair took the role of 'Modi-sceptic' and the executives in the room chimed in with their views and experiences as well.

Gaurav began with a few key macro-economic indicators. In 2012-2013, GDP growth was at 5.1% – arguably negative growth for a country with a population of 1.3 billion adding 10 million young people to the work force annually– inflation stood at 10.2% and Fiscal Deficit at 4.8%. In contrast, in 2015, India's GDP growth is equal to China's at 7.4% and the figures forecast for next year show India overtaking China. Inflation, meanwhile, is down at a controllable 6.4%, and Fiscal Deficit down to 4.1%.

Alasdair countered that while the current GDP numbers look impressive, we should keep in mind that the Indian government adjusted how they calculate GDP growth shortly after Modi came into power. The new figures work out in his favour to the tune of about 1.5%. In addition, Alasdair noted that India is a largely agrarian economy with half of its agricultural land reliant on diesel for irrigation, so when the diesel price drops from \$100 a barrel down to \$50 a barrel, that has a marked effect on inflation.

## Jobs and Investment

Gaurav offered that Modi's "Make in India" campaign will help to drive up manufacturing, which currently stands at about 12% of the economy, and generate jobs.

Modi also recently set a target for India to break into the top 30 countries in the World Bank's "Ease of Doing Business" ranking in the next three years, and into the top 100 in the next 12 months. Currently India is ranked 142, gradually dropping down from 116 in 2006.

This brought up the question of when India will pass a uniform goods and services tax (GST) – an issue that is making many investors uncomfortable. Alasdair noted that passing the GST law is complicated by political one-upmanship and the fact that it requires amending India's constitution. The earliest this will be resolved is 2016.

In terms of concrete legislative progress, Gaurav pointed out that Modi has raised FDI caps – the amount that foreign companies can invest – in a number of sectors that should fuel growth. Alasdair replied that the cap for the insurance and defence industries has been raised from 25% to 49%, so international investors will still not be able to own a controlling stake in such companies and therefore won't invest.



## Foreign Policy

Next Gaurav argued that in terms of India's relationships with its allies and neighbours, Modi is making great strides. He has reached out to the Prime Minister of Pakistan and has visited 18 countries in the last 14 months including the US and China. Each of those trips has resulted in significant action plans and foreign investment, particularly from Germany and Japan. Alasdair noted that Modi's critics will say he is spending too much time travelling and not enough time attending to issues at home.



## Digital India

Several members of the audience pointed out how Modi is engaging with his constituencies digitally. He has 400-500 employees in Hyderabad managing his Facebook profile, he's very active on Twitter and there's even a Narendra Modi app.

Gaurav added that Modi recently launched a program called "Digital India", which is focused on growing the country's IT services and creating a 'knowledge economy' by 2019. That involves putting in infrastructure and telecom superhighways to make every school and college in India Internet-enabled.



## Leadership Material

Finally Gaurav argued that Modi is a truly dedicated, great leader. He works around the clock and is a great role model for India.

Alasdair countered by saying that sometimes the cleanest politicians can also be totally ineffective so setting a good example is not enough on its own to make a leader successful. He conceded that Modi was very successful in Gujarat as Chief Minister but Gujarat is significantly smaller and less hamstrung by politics than India as a whole. There is also the concern that Modi tries to do everything on his own and doesn't delegate efficiently.

Fighting corruption is going to be a challenge for Modi and it's a fight

that he may not be able to take on in his first term because he needs to keep his political allies on side in order to get anything on his economic reform agenda accomplished. Another challenge for Modi is winning allies in the state governments. Recently there was a big power shift in Delhi when an anti-corruption party won favour. Nevertheless, there is still a great sense of optimism around Modi and his platform.

At the end of a lively discussion, Alasdair took a poll to see who in the room felt that Modi has been doing the right things and who has not been so impressed. Much to Gaurav's delight the 'ayes' carried the day.

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## Speakers and Facilitators:

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Alasdair Spink is Managing Director of Odgers Berndtson India and is based in New Delhi. With over 15 years of experience in executive search, Alasdair has spent a large part of his career overseas in Vietnam, The Middle East and India.

He penned a white paper in May of last year titled "[Modified - Will India Shine Again?](#)" that provided some clear thoughts on the road ahead for India and for MNC's already in India or with a desire to be there.



Gaurav Seth is a Partner in Odgers Berndtson's New Delhi office where he specialises in senior assignments for the Business & Professional Services, Financial Services, and Technology sectors. Prior to joining Odgers Berndtson, Gaurav was with Russell Reynolds and Transearch International. Before his executive search career, for over 20 years he was a business leader with major global multinationals focusing on Business Process Outsourcing holding senior roles with Genpact and Standard & Poor's. He started his career with ANZ Grindlays Bank, where he worked in technology and retail banking in Australia, India and the United Kingdom.