Modi: Two Years On
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Overview

Narendra Modi was elected Prime Minister of India in May 2014 with the election campaign slogan, “Minimum government, Maximum governance.” The rise to power of a center-right, business-friendly government, whose leader promised transformational change, was welcomed not only in India but also around the world. Modi’s record as chief minister of his home state, Gujarat, reflected his support for private enterprise. Moreover, his no-nonsense style of government was expected to rid India of a burdensome bureaucracy created by India’s socialist legacy. Observers anticipated a new India that would move towards an open, non-paternalistic society that would focus on economics rather than identity politics.

Although the 2014 election provided him with a five-year mandate, Prime Minister Modi and his advisors posit 15 years is needed to transform India. Modi created the National Institute for Transforming India (Niti Aayog) to replace the decades old Planning Commission. Despite its commitment to a market economy, the Modi government still determines targets for the future. Two years after the establishment of the Niti Ayog, the government called for the preparation of a roadmap in July 2016 of India’s economy over the next fifteen years. On the fifteenth anniversary of the July 1991 reform, which transformed India’s economy and bolstered its growth, Modi stated that India needed “transformational change” driven by “drastic” policy reform.1

However, after two years in power the Modi government appears to be mired in domestic social issues, resulting in slow incremental change instead of significant, impactful reforms. Why is it that a government that came to office with one of the most extensive policy agendas in decades, whose campaign focused on economic growth and development, has in the last two years resembled its weaker predecessors?

For the past fifteen years, successive Indian governments have benefitted from the massive economic reforms launched in the late 1980s and early 1990s. Both India’s political class and its politicians, irrespective of their ideological orientation on the Indian political spectrum, recognize that these reforms led to large economic growth. At the same time, Indian political parties seem to believe that economic reforms are not conducive to winning elections. India has attempted to promote economic growth while at the same time champion economic distribution. Suspicion of the market has been the principal reason India’s reforms have either moved too slowly or manifested a ‘two steps forward, one step back’ approach.

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Despite expectations for Prime Minister Modi to possess a new and different policy agenda, his government is currently pushing for double-digit growth without implementing deeper policy reforms that would facilitate this growth. Members of Modi’s Bharatiya Janata Party (BJP) and government believe earlier BJP-led coalitions lost party support when the BJP attempted to implement reforms. Today, the prevalent view is that elections in India are still won on the basis of caste or religion, as well as patronage and distribution of government largesse.

The first twenty-six months of the BJP-led government have held back Prime Minister Modi’s economic reform agenda due to its disproportionate focus on issues such as religious conversion, caste conflict, as well as attempts to ban beef consumption and honor the Hindu religion’s sanctity of cows. The urgency of Prime Minister Modi’s economic reform agenda seems to have dwindled since the time of his election.

The one area where the Modi government has not resembled its predecessors is the passion with which Prime Minister Modi has taken to foreign policy. He has visited forty-two countries on six continents, including four trips to the United States. Modi has traveled to countries where Indian prime ministers have not traveled to in decades, including countries in the Middle East, Central Asia and Africa. The objective of these visits has been to boost economic relationships by seeking foreign investment or access to energy sources and markets for Indian products and to improve security relationships.

Like every Indian prime minister, Modi understands the impact South Asia can have on India’s economic and political growth. Modi demonstrated this understanding by inviting leaders from South Asian countries to his inauguration, visiting every neighboring country (except Maldives) and his call for greater regional collaboration and trade. In 2015, India signed an agreement to resolve their geographical and historical dispute with Bangladesh to settle issues tied to India-Bangladesh enclaves created by India’s 1947 partition. Despite issues with Pakistan and Nepal still persisting, the Modi government has also made clear its desire for the South Asian Association of Regional Cooperation (SARCC) to be more effective.

In addition to visiting a number of countries, Prime Minister Modi has received major leaders. President Barack Obama visited India twice, as well as President Xi Jinping of China, Prime Minister Shinzo Abe of Japan, President Francois Hollande of France, Chancellor Angela Merkel of Germany, President Vladimir Putin of Russia, and Prime Minister Tony Abbott of Australia.

The goal of these high level interactions was to attract foreign investment and technology development in India to boost economic growth and deepen strategic ties between a number of countries. The appeal of a changing India has led to promises
made by foreign corporations in Japan, the United States, China and Europe to invest in India. Bilateral trade with the United States stands at over $100 billion, while Japanese corporations have offered to invest $35 billion and Chinese companies have promised approximately $20 billion in Indian projects. However, these assurances are subject to investors’ perceptions of positive change in government policies and regulations. Had these high-level interactions been accompanied by reform-oriented policy changes, stronger relationships would have been created with India.

India is currently the world’s fastest growing economy and is expected to continue growing at a rate of at least 7 percent per year for the next few years. India has managed to combat inflation while decreases in oil prices have reduced subsidies on petroleum products. India’s government has also facilitated the process of starting a new business by relaxing rules, regulations, permits and licenses required to create an enterprise. According to the World Bank’s 2016 Doing Business Report, India has jumped forward four places in the category “Ease of Doing Business” for foreign companies since last year. This change, coupled with improving energy infrastructure, has helped with the creation of new businesses in India. However, India’s difficult process of acquiring credit and taxation has made domestic and foreign businesses reluctant to base or extend their operations in the country.

Prime Minister Modi would like to transform India’s current economy into a knowledge economy with greater investment made by the public and private sector in Research and Development (R&D). However, India’s Gross Expenditure on Research and Development (GERD) as a percentage of GDP in 2012 stood at 0.88 percent. Similarly, another flagship program of the Modi government, “Make In India,” stands as a promise rather than as an accomplishment. For the program to be successful, domestic and foreign corporations must be convinced to import state of the art technology and skills to India in order to boost manufacturing. Although billions of dollars have been pledged to the program, it remains to be seen what financial investment and technology improvement actually takes place.

Companies make investments and initiate technology development when they know that their intellectual property rights (IPRs) will be protected. For a significant period of...

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2 “China to invest $20 billion in India in next 5 years, much less than Japan’s offer of $35 billion,” Press Trust of India, September 18, 2014.
4 Surjit Bhal, “Evaluating Narendra Modi’s two years of governance,” The Indian Express, May 28, 2016.
time, India has traditionally been viewed as a country that did not respect intellectual property rights, though this has changed in recent years. To demonstrate India’s change in attitude towards this, the Modi government launched a new IPR policy in May 2016 with the overarching slogan of “Creative India, Innovative India.” This policy was described by the Modi government as an attempt to balance India’s desire to incentivize innovation by respecting intellectual property rights and abiding by international treaties and regulations, while still fulfilling obligations to India’s poorer economic classes. Even with the fastest growing economy in the world, India remains a developing country with nearly a quarter of its population (almost 300 million people) living below the poverty line.7

This commitment to helping India’s impoverished citizens has been the justification implied by the Modi government when addressing their weak application of IPR policy to healthcare and medicine. This exclusion is based on the assumption that cheaper generic drugs must remain available to citizens even if India is deprived of the latest advances made in pharmaceutical and medical technology. Yet, India’s unwillingness to embrace intellectual property rights within the healthcare industry has had a negative impact on other sectors. As such, Prime Minister Modi will have to find a way to resolve the issues attached to his IPR policies. International investors prefer security and clarity, which in the innovation field is compromised by restrictions on any specific sector of the economy.

The Modi government has also made defense policy a key component of the Make In India initiative. India’s armed forces must be modernized if they are to compete with those of Asia’s other rising power, China, or fulfill the role of guarding the Indian Ocean. In the past, India’s governments have touted domestic defense manufacturing as essential to India’s security. However, India’s defense industry does not reflect the capability or capacity of Chinese defense companies who now export their products. New Delhi is thus caught between India’s desire to manufacture defense equipment domestically and the practicality of importing defense so as to speed up the process of replacing the country’s largely obsolete Soviet-produced arsenal. The Modi government appears to have understood this to some extent: they recently purchased Rafale aircraft from France, as well as Apache and Chinook helicopters, Ultralight Howitzer guns, and P-8I maritime surveillance aircrafts from the United States. However, Prime Minister Modi has not, so far, been able to produce a coherent strategy for India’s military modernization nor has he been able to alter archaic defense purchase procedures. Eventually, India will have to choose between its goal of manufacturing defense equipment domestically with occasional foreign collaboration and its need to maintain 21st century military capabilities.

7 “Government approves new IPR policy; India Inc. hails move while pharma firms wary about changes,” Economic Times, May 14, 2016.
The Modi government has also attempted to develop a much-needed energy strategy. This strategy has proven to be flawed, with 80 percent of oil used by India coming from imported sources.\(^8\) In the last two years, the government has attempted both to increase domestic production of non-renewable (coal and natural gas) and renewable (primarily solar) energy resources. New Delhi has also engaged in energy diplomacy talks with Middle Eastern countries resulting in the UAE offering to help India build its strategic energy reserves, Saudi Arabia boosting its energy supply to India and improved business with Qatar.

Alongside energy security, India also needs to grapple with its growing population. With the median age of the population being 27 years, India possesses demographic potential. However, this potential will be fruitless unless investment is made in education, healthcare and job creation. While the Modi government has focused much of its attention on defense and security, it has not adequately invested in social sectors. According to the Legatum Prosperity Index, which measures a plethora of sectors including entrepreneurship, governance, education, health, safety, personal freedom and social capital, India ranks 99 among 142 countries.\(^9\)

India falls behind many countries in Africa and Latin America that are financially poorer.\(^10\) According to UNESCO’s Educational for All Development Index (EDI), India ranks 105\(^{th}\) out of 128 countries. In the Education Index of the United Nations Human Development Report, India ranks 135\(^{th}\) out of 187 countries in education. Additionally, India’s literacy rate stands at 74 percent yet the quality of education from primary to post-secondary education remains low. The Modi government will attempt to address their education issues with the “New Education Policy,” a policy which will be implemented in 2016. Unfortunately, the Modi government in the past two years has spent most of its time and energy on incorporating a Hindu dimension to Indian education.

These attempts to “saffronize” India’s educational sector have resulted in curriculum changes that present Hindu mythology as a science, diminish non-Hindu contributions to Indian civilization and misrepresent the history of India’s 800-year period of Muslim rule. Officials have described student protests as anti-national demonstrations and have attacked the use of English as a medium of education. India’s religious and linguistic diversity and its vast English-speaking population are being disparaged instead of valued.

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\(^8\) Dan Murtaugh, Saket Sundria and Debjit Chakravorty, “India's Thirst for Oil Is Overtaking China's,” Bloomberg, April 7, 2016.


Similar to Indian education, the country’s labor market suffers from negligence and lack of reform. With a population of 502 million people, India has one of the largest labor forces in the world. Yet, approximately 72 percent of this population is employed in the informal sector of India’s economy. The issue of informal employment will only continue to persist given that one million people enter the Indian labor market each month.\textsuperscript{11} For manufacturing to grow, a skilled labor force is needed. Only 5 percent of India’s total labor force has gone through any formal training in comparison to 80 percent of the Japanese workforce and half of America’s workforce.\textsuperscript{12} The Modi government has attempted to address this issue by launching the National Skill Development Mission in July 2015 with the goal of training 400 million people by 2020.

The Modi government has also struggled to provide accessible universal healthcare, and in fact cut back on health expenditures in its first year. In 2015, the government published a draft health policy document seeking feedback from experts and the public. Prime Minister Modi’s most heavily marketed health initiative is the Swacch Bharat (Clean India) campaign whose aim is to keep public areas clean and provide access to toilets. Ultimately, the government’s goal with the initiative was to end public defecation, thus reducing the potential for diseases. With this campaign, attention has been shifted away from healthcare infrastructure, availability of doctors and nurses, provision of hospital beds and medicines and developing a modern health insurance system.

No one disputes India’s demographic, economic and strategic potential. It is the world’s third largest economy on a purchasing power parity (PPP) basis and is a potential competitor of China in the race for global power. Although India overtook China as the fastest growing economy in the world in February 2016, this takeover is arguably a reflection of China’s problems more than of India’s achievements.\textsuperscript{13} With a GDP of $8.7 trillion (PPP basis), a labor force of half a billion and a middle class of over 250 million people, India’s economy is predicted to grow over 7 percent in the next two years.\textsuperscript{14} It can grow at a double-digit rate if it can repair and rebuild its British-era rail, road, air transport and sea infrastructure, improve accessibility to basic amenities like electricity and water and relax bureaucratic rules and regulations.

The Modi government in its second year allowed itself to be distracted by ideological and cultural issues, resulting in fewer economic accomplishments. This report will


\textsuperscript{13} Mehreen Khan, “Growth star India overtakes China as world’s fastest growing major economy,” \textit{The Telegraph} (UK), February 8, 2016.

\textsuperscript{14} “Report for selected countries and subjects: India,” \textit{World Economic Outlook Database, International Monetary Fund}, April 2016.
outline the progress and setbacks India has experienced in their economy, defense capabilities, healthcare, and educational development. Prime Minister Modi has earned goodwill around the world with his promises—it is time for him to deliver on these promises.

The authors would like to thank Hudson South Asia Program research interns Abdullah Farhad Qayomi, Anuja Patel, Shefali Dhar, and Trisha Ray for assisting with the preparation of this report.
Defense

India’s global network, interactions, and defense relations have expanded and evolved under the leadership of Narendra Modi. However, the Ministry of Defense (MoD) outlines in its 2015-2016 annual report a series of challenges for the Indian military, including instability along both of its borders in South Asia. However, its military—in particular the air force—is not geared to fight a two-front war with its neighbors. India’s international economic ties are linked to security relationships with adjacent regions like west Asia, central Asia and Asia Pacific. Challenges of terrorism, insurgency, and sectarian conflict threaten the stability of the Indian subcontinent and regions adjacent and critical to India, like Central Asia and the Middle East. India’s internal security is also challenged by internal conflicts and cross border violations. More specifically, there is cross border terrorism in Jammu and Kashmir, left wing extremism (LWE) in various states, violent insurgency in the Northeast, and terrorism in what the report defines as “the hinterland.”

India has gained more ground in building better defense relations with international partners. The Modi government has continued its policy of building ties with its international partners, particularly with the United States. In the past two years, Prime Minister Modi has made four visits to the United States. His most recent visit included a speech before the U.S. Senate where Modi celebrated the fact that India and the United States have moved beyond the “hesitations of history.” He has also had more contact with Afghanistan, Saudi Arabia, Israel, France and Russia. This has primarily been spurred by defense deals, such as the Rafale aircraft deal with France and the Howitzer gun deal with the U.S., but also by Modi’s state visits and diplomatic efforts. For decades, India had relied on military supplies and equipment from the Soviet Union. However, Prime Minister Modi’s pivot towards western manufacturers, including France, the United Kingdom, and Israel could change this.

18 Ibid.
19 Ibid.
Self Sufficiency

Defense Spending

Defense is a key part of the Make In India initiative. The 2016 Union Budget allocated 2.58 trillion Indian Rupees (INR) to defense expenses, and 823 billion INRs to defense pensions. The production of public sector defense companies is encouraged to occur domestically. However, India must overhaul its Soviet-era defense equipment and platforms and modernize its military. To do this, Narendra Modi announced his government’s intentions to spend $150 billion on their defense industry over the next ten years. To ensure that its military has all the equipment it needs in the long term, India will have to localize its defense production. In the last year alone, the Modi administration negotiated deals to acquire 36 Rafale Jets from France, Apache helicopters and ultra-light howitzers from the U.S., targeting pods and Spice 250 precision guided bombs from Israel, and search-and-rescue planes from Japan. However, India’s defense imports are simultaneously insufficient and excessive; they are insufficient for the Indian military to meet its modernization goal, and excessive for the goal to localize their defense industry.

India and the U.S.

Under the Modi administration, India-U.S. relations have deepened, and the number of high-level interactions between both countries has increased. U.S. Secretary of Defense, Ashton Carter, and Indian Minister of Defense, Manohar Parrikar, met four times in the last year. During Secretary Carter’s most recent visit to India in April 2016 he and Minister Parrikar discussed their aims to strengthen Indo-U.S. defense ties by increasing collaboration under the Defense Technology and Trade Initiative (DTTI)—an initiative launched in 2012 to increase high-level American “oversight and engagement.” Under this initiative, the U.S. and India would collaborate in two major

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areas: engine technology and an electro-magnetic aircraft launch system for an indigenous aircraft carrier. There is also an agreement over a series of “pathfinder” programs that would help increase collaboration and trust between the Indian and American defense establishments. The Modi administration is also in talks with the U.S. about selecting a new fighter jet design for the Indian Air Force.

Secretary Carter and Minister Parrikar also discussed American participation in the defense segment of the Make In India initiative. Secretary Carter stressed the importance of strengthening “cooperation in maritime security” and “military-to-military relations,” and encouraging the two democracies to assist each other with “regional and international security matters of mutual interest.” India conducts its largest number of military exercises with the United States. Closer India-U.S. ties also reflect a desire by Washington for New Delhi to play a larger role in the Indo-Pacific region. India and the U.S.’ inclusion of Japan in their Malabar exercises—a feat for India when considering its fear of China’s reaction to such a collaboration—in 2016 demonstrated strengthened relations between the two countries.

The U.S. and India have also solidified their institutional relationship by signing agreements enabling the two countries to “share logistics during peacetime,” a long-time goal of the India-U.S. Maritime Framework Agreement. The U.S. and India also signed the Logistics Exchange Memorandum of Agreement (LEMOA) during Minister Parrikar’s visit to Washington DC India in August 2016, which “envisages the militaries of the U.S. and India sharing facilities for refueling, spare parts, and supplies.”

Challenges and Opportunities

Under Narendra Modi, India has improved relationships with many countries and solidified security and economic ties. Ultimately, by increasing and strengthening defense ties, the two countries seek a similar security architecture in the Indo-Pacific region: one that is open, inclusive and conflict-free.

In terms of its defense development, India continues be challenged by its need to modernize yet become self-sufficient. To achieve self-sufficiency, India needs to attract

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31 Ibid.

32 Ibid.

33 Ibid.

34 Ibid.


more foreign investment in R&D and accept imported foreign technology. This is a long-term goal. In the meantime, India will need to ensure that its modernization is not hampered, and that India’s military is prepared for a likely two-front war in addition to increasing internal security threats.
Education and Skill Development

One commonly agreed upon measure of a country’s success and development is the literacy rate of its population. India’s adult literacy rate, according to the most recent census conducted in 2011, is 74.04 percent. However, child literacy rate is 9 percent higher than in previous years, indicating that primary school education has improved over time. The 2011 census data indicates that India does not have the infrastructure to support education of all Indian children since 15 percent of primary aged children still do not have access to proper schooling.

Only 2 percent of India’s population is trained to perform skilled labor. Only 6.8 percent of persons aged 15 in India are in the process of gaining marketable skills. Although this percentage has increased since 2015 from 4.69 percent, the number of unskilled workers is still high.

Background

Information from the World Bank indicates that children under the age of 14 constitute 29 percent of the Indian population. Although 90 percent of India’s children are literate, this statistic implies that one in ten Indian children cannot read and do not have access to primary education. According to the Annual Status of Education Report (ASER) released by Indian NGO Pratham, multiple states in India have children who cannot read at an age-appropriate standard. According to a Wharton study, primary education in India is largely suffering “because of the incompetence of teachers.”

According to UNESCO, India’s literacy rate is lower than every nation in South America, and is comparable to the literacy rates of countries such as El Salvador and Honduras.

A 2013 study conducted by the University of Pennsylvania attributes issues surrounding education in India to the country’s large number of languages, which in turn impedes

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39 Ibid.
41 Ibid.
the formation of a centralized school system. Furthermore, the majority of schools are not private, English-speaking institutions, but rather rural schools that are underfunded and understaffed.

The World Bank’s graph below demonstrates that Indian government schools are largely inferior to private institutions: many children in government schools cannot read or perform basic arithmetic. These statistics reaffirm the need for India to focus on teacher training and providing resources for teachers and educators. According to a report on primary education in India, 20 percent of Indian children between ages 6 and 14 are not enrolled in school. Even for enrolled students, attendance rates are extremely low. India needs to find a way to prevent children like these from slipping through the cracks.

![Comparison of letter recognition in individual Indian states](image)

Figure 1: Comparison of letter recognition in individual Indian states (Source: ASER, 2009)

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47 Ibid.
Modi Administration on Education

Education was made a priority in the 2014 BJP Manifesto when the Modi administration pledged to spend 6 percent of GDP funding towards public education.49 As stated in the manifesto, education is the best tool to overcome poverty in the nation.50

In March 2016, Prime Minister Modi and his administration continued this policy by announcing goals for the betterment of education in India.51 These goals include mandatory schools, grade-wise learning goals, teacher evaluations, and more extensive teacher training. Furthermore, the government announced that there would be an emphasis on vocational training at the secondary level.52 These changes, if implemented effectively and efficiently, would allow the Modi administration to increase the number of children and young adults receiving education throughout the nation.

The Modi administration is currently reviewing a new education policy, which aims to improve the following: access and participation; quality; equity; system efficiency; governance and management; research and development; and financial commitment to education development.53 The administration is accepting suggestions through August 2016 from anyone who wishes to contribute to the new policy. One of the major reforms of the policy is improving teacher quality and training.54 The restructuring of science, math, and English curricula is set to place across the country and teachers will be required to have a better understanding of and consideration for child rights. If implemented correctly, the new policy could radically improve India’s primary education.

The Modi administration has also begun a new initiative named Swayam, which aims to provide education to children in grades 9 to 12 through an online forum.55 The only cost to the student would be the examinations.56 This initiative could prove to be difficult to implement when considering that India’s poorer citizens may not have access to the necessary technology.


52 Ibid.


54 Ibid.


56 Ibid.
Prime Minister Modi’s Interventions in Skill Development

India’s labor force is comprised of nearly 500 million people, 72 percent of whom are unskilled laborers. India’s women are vastly underrepresented in the labor force, with only 33 percent of women working. Each year, 12 million new workers enter the labor force. Finally, only 5 percent of India’s labor force has obtained formal skill training.

To combat their unskilled labor issue, the government implemented the National Skill Development Mission in July 2015. This mission seeks to standardize skill training throughout the country and across public and private sectors. There are seven components to this mission: institutional training; infrastructure; convergence; trainers; overseas employment; sustainable livelihoods; and leveraging of public infrastructure. At the onset of this program, Prime Minister Modi and his administration predicted that the initiative would help 2.4 million people in the country gain marketable skills.

According to data released by the government since the initiative has begun, the number of skilled workers has increased to ten million. This increase in the number of skilled laborers has the potential of contributing to India’s growing economy and assist the nation in gaining prominence as a world power.

The Pradhan Mantri Kaushal Vikas Yojana (PMKVV) is another skill development program in which 12 billion INRs have been set aside to train and improve the skill development of 10 million young people in India over the next four years.

Challenges and Opportunities

While the Modi government has taken multiple steps to combat the problems of education disparity and lack of skill-training programs, these interventions are premature and could be improved upon. The literacy rate has increased dramatically in the last two years but there are still steps to be taken to ensure that every child is able to...
read and write. Furthermore, the standards of literacy should be clarified and expanded upon in order to ensure education in India maintains a high standard. In conclusion, despite the large strides the Modi administration has taken to reform education in the nation, there is room for additional improvement to be made.
India’s Energy Challenge

Energy security is critical as India’s population and economy begin to deplete its existing energy reserves. The International Energy Agency (IEA) predicts that by 2040, India will account for a quarter of the increase in global energy demand. The key tenets of Prime Minister Modi’s energy policy as outlined in the 2014 BJP Manifesto take a multi-pronged approach to energy security: increasing energy production capacity; reducing dependence on imports; improving energy efficiency; and diversifying India’s energy mix to include more renewables.

Coal

India has fueled its economic growth with coal, a relatively cheap source of energy that India has in abundance. As of 2014, India has 301.56 billion tons in total reserves, with 125.90 billion tons in proven reserves alone. However, India’s coal industry faced a major setback with the cancellation of coal contracts in 2014 following reports by the Comptroller Auditor General (CAG) that coal block allocation was influenced by corruption. The cancellation reportedly resulted in an estimated loss of INR 4.4 billion in terms of royalty, levies, direct and indirect taxes.

However, India has been importing a growing portion of its coal demand due to reserves that are largely comprised of bituminous coal (a lower grade coal) whereas the country’s industrial needs necessitate anthracite (the highest grade of coal, which gives the most energy output per unit).

Reforms

In order to reduce reliance on imports, Energy Minister Piyush Goyal announced a plan in April 2015 to improve domestic coal production capacity in partnership with Coal India Ltd, an Indian state-controlled coal mining company. The Parliament also

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71 The CAG is an independent office that audits government receipts and expenditures.
passed the Coal Mines (Special Provisions) Act in 2015) that opened up the sector to commercial mining.\textsuperscript{76}

However, in February 2016, imported coal was cheaper than domestic coal due to a global drop in coal prices and relatively low domestic coal production. Exacerbated by the fall in demand for coal (by 1.06 million tons according to April 2015 figures), Coal India Ltd missed its production targets in April 2016.\textsuperscript{77} Despite rapid reforms made to the coal sector, the impact has yet to manifest itself.

\textbf{Petroleum}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.png}
\caption{India’s crude petroleum imports (in billion USD) from 2004-2015 (Source: The Observatory of Economic Complexity)}
\end{figure}

The U.S. Energy Information Administration (EIA) predicts that by 2040 India’s demand for petroleum and other liquids will double to around 8.2 MMbopd (million barrels of oil per day).\textsuperscript{78} The IEA, however, predicts an increase to 10 MMbopd and posits that will account for 90 percent of total expenditure on imports due to a predicted rise in oil prices.\textsuperscript{79}

India imports 80 percent of its oil needs.\textsuperscript{80} Crude oil constitutes the majority of India’s oil imports as it has its own globally competitive refineries. India is home to the world’s largest oil-refining hub\textsuperscript{81} and its overall refining capacity is expected to grow by 43

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\textsuperscript{77} Ibid.


percent over 2012 figures in the next year.\textsuperscript{82} Therefore, not only is crude oil crucial for the needs of domestic consumption, it is also crucial for India’s international economic influence. In 2014, India exported $53.9 billion worth of refined petroleum, which amounted to 18 percent of its total exports.

**Natural Gas**

Natural gas is a relatively new entrant in India’s energy mix. Due to pushback on coal production for environmental reasons, India began importing natural gas in 2004, with 98 percent of this gas sourced from Qatar. Since then, the value of India’s Liquefied Natural Gas (LNG) imports has skyrocketed with a four thousand percent increase in one decade.\textsuperscript{83} Natural gas is mainly used as a substitute for coal in electricity generation, so Indian imports of the product are likely to continue rising exponentially due to the twin concerns of environmental degradation and shifting away from coal. Natural gas markets are also less interdependent than oil markets, enabling it to be an energy source that is more conducive to diversification.

![Figure 2: Gas consumption, production and imports from 2000-2013 (Source: Oxford Energy)](image_url)


\textsuperscript{83} In 2004, India imported $260 million in LNG, and in 2014 this figure rose to $10.4 billion.
Reforms

The Modi government has initiated reforms in gas pricing. Described by a 2015 Oxford Report as “notoriously complicated,” LNG prices under the New Exploration Licensing Policy (NELP) were subject to government intervention and had the effect of disincentivizing private investment and reducing production.84

On March 10, 2016, the Indian Government announced a series of policy initiatives in the petroleum and hydrocarbons sector, including:85

1. Hydrocarbon Exploration and Licensing Policy (HELP), which places all hydrocarbons under a uniform licensing framework.
2. A shift from production-sharing to revenue-sharing contracts (under HELP).
3. Deregulation of marketing and pricing of new gas production in “Deepwater, Ultra Deepwater and High Pressure-High Temperature Areas.”

The old licensing and pricing regime was based on a system of profit-sharing whereby the government (usually the Comptroller Auditor General or CAG) would have to accurately track the contractor’s profits in order to determine how much of it they needed to claim on the basis of the license.86 If there was no profit, the government would receive no revenue. Additionally, the contractor could hold the product in anticipation of higher rates in the future.

The incentivizing capabilities of the new licensing regime have been subject to debate. On one hand, the new regime is meant to mark a “generational shift and modernization of the oil and gas exploration policy. It is expected to stimulate new exploration activity for oil, gas and other hydrocarbons and eventually reduce import dependence.”87 On the other hand, the Kelkar Committee (officially known as Committee on Revisiting and Revitalizing Public Private Partnership Model of Infrastructure) pointed out in its November 2015 report that “the inherently misaligned risk-return structure which leads either (i) to lower levels of production due to resultant reduced exploration efforts and lower recovery ratio, or (ii) to high windfall gains to operators encouraging contract instability due to political economy factors.”88

86 Ibid.
87 Ibid.
The new policy intends to encourage private investment. However, the government stands to gain a stable source of revenue from the new contracts.

**Nuclear Capacity**

India’s current nuclear infrastructure is still very inefficient. In 2014, Prime Minister Modi urged the Department of Atomic Energy to triple the country’s nuclear capacity to 17 GWe\(^89\) by 2024.\(^90\) At present, its twenty-one operating reactors produce 5780 MWe, just 2 percent of its total power.\(^91\) An additional four reactors which will add 3800 MWe are under construction. The Kudankulam II Reactor reached first criticality in June 2016, on schedule.

During Modi’s visit to the U.S. in June 2016, the U.S. and India agreed on a contract that enables Westinghouse Electric Corporation, in partnership with Nuclear Power Corporation of India Ltd (NPCIL), to build six nuclear reactors.\(^92\) However, the contract agreement has yet to be completed and is expected to be finalized by June 2017.

**Liability**

One obstacle to investment being made in India’s nuclear energy sector is the Civil Liability of Nuclear Damage Act (2010).\(^93\) The Act places responsibility for compensation following nuclear incidents entirely on the supplier. In February 2015, the Ministry of External Affairs (MEA) partially revised the act to cap liability at $300 million with the rest coming from an international fund, allowing for the supplier to contractually transfer liability to another party and providing the supplier the right to recourse should the NPCIL agree.\(^94\)

Additionally, India joined the Convention on Supplementary Compensation for Nuclear Damage (CSC).\(^95\) The aim of this move was to “increase the amount of compensation available in the event of a nuclear incident through public funds; these funds would be made available by its contracting parties on the basis of their installed nuclear capacity

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\(^91\)Ibid.


and United Nations rate of assessment. The convention also aims to establish treaty relations among states.”

India’s bid for membership to the Nuclear Suppliers Group (NSG) failed on June 25, 2016. While some have argued that India does not require NSG membership for its domestic nuclear program, joining the group would have allowed for better access to nuclear markets. This would have provided access to foreign nuclear technology and fuel and enabled India to sell its own nuclear technology to other NSG member states. India’s joining of the NSG would have also opened doors for uranium imports from states like Australia that are reluctant to sell to non-NPT nations like India.

**Renewables**

![Renewable energy generation in four scenarios](image)

Figure 3: Renewable energy (RE) generation in four scenarios: Level 1 with 3% RE in energy generation, and Level 4 with 13% RE (in British Thermal Units) (Source: India Energy Portal)

Modi has implemented policies that commit India to global cooperation on renewable energy. India formally outlined a renewables target of 15 percent by 2020 in the

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96 Ibid.
National Action Plan on Climate Change (2008)\textsuperscript{101} and has put in place a government body to deal with renewables since 1981. At the same time, India has also held a “common but differentiated responsibility” stance \textsuperscript{102} since the United Nations Framework Convention on Climate Change was formulated, an initiative which calls for variance in emissions reductions targets for those states that have not had the benefit of unfettered development.\textsuperscript{103}

**Reforms**

On April 22, 2016, India signed the Paris Agreement that was adopted during the 2015 UN Climate Change Conference (COP21).\textsuperscript{104} The agreement sets country-specific goals and emission-caps. Under Article 9, developed countries are to provide financial and technological assistance to developing countries in furtherance of the COP21 goals.

India made three commitments at COP21:\textsuperscript{105}

1. Reduce emissions-intensity of its GDP by 33 to 35 percent by 2030.
2. Reach 75 gigawatts of renewable energy in its energy mix by 2022.
3. Increase the forest cover of the country and absorb 2.5 to 3 gigatons of carbon from the atmosphere.

In 2015, India increased its investments in renewables by 22 percent to $10.2 billion, placing itself in the ranks of the top ten investors in renewables globally.\textsuperscript{106} If the proposed energy proportion shift is fully implemented, India may be generating about 3,500 Btu of energy from renewables by 2047 which will account for 13 percent of its total electricity production.

India signed a Memorandum of Understanding (MOU) with Germany in October 2015 about cooperation in solar energy, under which the latter granted India $2.25 billion for a “clean corridor” and solar project.\textsuperscript{107} In January 2016, solar energy prices were as low

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as 4.34 INRs a kilowatt-hour, making solar energy cheaper than coal. Over the past year and a half (2015-2016), the government has approved 34 gigawatts in additional solar capacity. Additionally, 100 billion INRs for the years 2016 and 2017 has been allocated towards investment in renewables, putting it well on track to reach its 40 percent renewables target by 2030.

However, low prices affect this. In April 2016, Sun Edison, which controls a massive 2.4 gigawatts of solar projects in India, filed for bankruptcy. The sharp drop in solar tariffs this past year, despite being beneficial to consumers and in speeding up adoption, makes it difficult for companies like Sun Edison (as well as other investors) to finance these projects.

Challenges and Opportunities
For the most part, India’s energy situation has improved in the past two years. The government has invested heavily in key sectors, sought to increase foreign direct investment in energy and secure a number of contracts in both renewable and nonrenewable energy.

India under Narendra Modi has also made big wins in energy diplomacy. India and the UAE, one of India’s largest sources of crude petroleum and home to a large Indian workforce, offered India free oil on the condition that India store some of the former’s oil in its strategic reserves. Additionally, Germany is set to become India’s partner in solar energy while Westinghouse Electric Corporation has agreed to produce six nuclear reactors.

However, India’s regulatory gridlock has made it difficult for foreign investors to operate sustainably and profitably, resulting in complaints coming from many of India’s potential energy partners. Thus, many of the proposed energy sector reforms have been focused on improving ease of business. Yet these measures are incomplete. For instance, the World Trade Organization (WTO) recently found India in violation of WTO regulations following a complaint filed by the U.S. stating, that unless a solar power

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producer satisfies this domestic content requirement, the government will not ‘guarantee’ the purchase of the energy produced.”

The regulatory framework is experiencing difficulties reconciling contradictory drives for sovereignty and protectionism and the need to create an environment that enables the volume of FDI required to meet Prime Minister Modi’s energy goals.

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Healthcare

One of India’s main objectives since the day of its independence has been to provide healthcare to its massive population in order to improve the quality of life in the nation. However, a large segment of the Indian population still lacks access to proper healthcare. The 2015 United Nations Human Development Report ranked India 130 out of 188 countries in terms of health outcomes. With regards to child health and maternal health, 47.9 percent of children under the age of five are malnourished and have a 5.3 percent mortality rate. 27 percent of deaths are due to prematurity. These statistics indicate insufficient or absent prenatal care in India. Public expenditure on health in 2013, according to a report by the Ministry of Health and Family Welfare, was a disproportionately low 1.08 percent of GDP.

Figure 1: A comparison of India’s maternal and infant mortality ratios to regional averages. (Source: World Health Organization)

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India also has the third largest number of people in the world living with HIV/AIDS,\textsuperscript{118} with UN estimates of 2.1 million reported cases.\textsuperscript{119} Lancet HIV journal recently stated that 196,000 new HIV infections in India were reported in 2015.\textsuperscript{120}

A Deloitte Report released in 2015 also cites a shortage of qualified healthcare professionals as one of the key challenges to India’s health industry.\textsuperscript{121} There are only 0.7 doctors and 1.5 nurses per 1,000 people, which is far below the World Health Organization (WHO)’s global average of 2.5. Additionally, a 2016 WHO report, based on data from a 2001 census on the health workforce in India, found that only 23.3 percent of all health workers in India have any medical qualification.\textsuperscript{122} This percentage varies depending on the person’s medical role and practice: ancillary health workers score the lowest at 5.8 percent while Ayurvedic doctors score the highest at 60.1 percent.


To fulfill the promise of rapid economic growth, India’s young and working age population needs access to reliable and inexpensive healthcare.

**The Modi Administration’s Intervention**

The 2014 BJP Manifesto announced the Modi government’s intention to provide nation-wide healthcare in the form of “Health Assurance to all Indians and to reduce the out-of-pocket spending on healthcare, with the help of state governments.” Additional proposed reforms include:

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- Modernize government hospitals, upgrading infrastructure and latest technologies.
- Reorganize the Ministry of Health and Family Welfare in order to converge various departments dealing with healthcare, food and nutrition and pharmaceuticals for effective delivery of healthcare services.
- Increase the number of medical and para-medical colleges in India and set up efficient and effective medical institutes in every state.
- A Swachh Bharat (Clean India) Program with the aim of cleaning up India’s cities.

**Universal Health Insurance**

In 2013, only 18 percent of India’s population had any form of health insurance.\(^{124}\) Health insurance for all was one of Prime Minister Modi’s most ambitious policy promises and continues to face serious financial and logistical setbacks leading to a slower-than-projected implementation speed.

- In June 2015, Modi called for a major cutback on the National Health Assurance Mission that aimed to provide free medicine, diagnostic services and insurance to all citizens. This move came after cost estimates totaled $18.5 billion over five years.\(^{125}\)
- In February 2016, Finance Minister Arun Jaitley announced a new health insurance scheme aimed for families living below the poverty line.\(^{126}\) The scheme’s goal is to offer a health cover of up to 100,000 INRs per family and for senior citizens, with an additional “top-up” of 30,000 INRs.

**Increasing Foreign Direct Investment (FDI) in pharmaceuticals**

- In June 2016, in an attempt to increase investment in several major sectors including pharmaceuticals the government increased the FDI cap to 100 percent.
- With the objective of developing this sector, the government has decided to permit up to 74 percent FDI under automatic route in brownfield pharmaceuticals and government approval route beyond 74 percent will continue.\(^{127}\)

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\(^{124}\) National Bureau of Health Intelligence, “National Health Profile 2015,” 2015.


Swacch Bharat

- The campaign set a target of installing 100,000 toilet seats by March 2016.\textsuperscript{128} News sources report that construction of 94,653 toilet seats has commenced and 24,233 seats have been built.
- The campaign also aims to eradicate manual scavenging, a practice that is inextricably linked to India’s caste system and therefore continues to perpetuate a system that holds down entire segments of the population. The campaign does not, however, have a plan to offer these workers alternate sources of employment. The elimination of, in many cases, the workers’ sole source of livelihood requires more foresight.
- There is considerable variation in implementation of the campaign on the state level, with several states not fully utilizing their allotted funds.\textsuperscript{129}

![Cleanliness Ranking](source)

- There are also several contradictions in data about the effectiveness of the Swacch Bharat Abhiyan. While the Swacch Surveskhan touts the campaign as a massive success, the CAG’s report presented in Parliament in December last year points out that the campaign frequently changed its targets.\textsuperscript{130}\textsuperscript{131}\textsuperscript{132} For instance,

\textsuperscript{130} The Swacch Survekshan was a survey of the Swachh Bharat campaign conducted by the Ministry of Urban Development in 2016.
the deadline for complete eradication of open defecation changed from 2017 to 2019 and then from 2019 to 2022 due to lack of realistic planning.

Challenges and Opportunities

India’s healthcare sector faces the challenges of reaching a massive population with disparate beliefs and practices.

The Modi government’s programs and campaigns have undertaken many surface measures with a preventive tilt: clean spaces mean less health problems; universal health insurance provides everyone with affordable health services; and FDI in pharmaceuticals will encourage development and marketing of better medicines.

However, these reforms leaves unaddressed and underlying problems such as the unwillingness of Indian citizens living in rural areas to use western style toilets due to their perceived impurity; the shortage of qualified health workers to run India’s public hospitals; and the heavy urban focus and unequal distribution of health infrastructure.

The National Rural Health Mission’s 2015 statistics states that there are 153,655 sub centers, 25,308 Primary Health Centers and 5,396 Community Health Centers functioning in the country as of March 31, 2015. These centers are expected to serve a rural population of 0.88 billion and are frequently understaffed. People living in rural India often need to travel great distances to reach the nearest district hospital, leading to preventable, disease-related deaths. A University of Toronto study released in 2015 estimated that 50,000 of the reported 72,000 deaths in India caused by acute or sudden abdominal conditions in 2010 could have been prevented if the patients had better access to health care facilities. Furthermore, the quality of care provided at these centers is low in standard due to lack of proper hygiene practices and trained professionals.

In light of these challenges, greater investment in rural health and medical skill training and in measures to improve accountability of health care professionals is critical.
passed, the National Health Policy draft that has been pending in Parliament since 2014 will address these challenges by making health a fundamental right and raising health expenditure to 2.5 percent of GDP. Prime Minister Modi’s vision for universal healthcare is unlikely to succeed unless there is substantial change in the quality, pervasiveness, and accessibility of healthcare.
Innovative India: Intellectual Property Rights Under Modi

As a developing, postcolonial country with a majority of its population living below the poverty line, India chose the path of a mixed socialist economy despite New Delhi’s decade-long desire for economic growth. Providing education, food and healthcare for its citizens at the lowest cost possible was deemed more important than abiding by certain international rules and regulations relating to intellectual property rights. However, when India’s economy was liberalized in the 1990s, Indian policy makers were faced by the prospect of change when they confronted new international treaties and conventions.

Despite this, New Delhi has sought to achieve a balancing act between its international obligations and its domestic priorities. The new IPR policy reflects this well with their overarching slogan “Creative India, Innovative India” (Rachnatmak Bharat, Abhinav Bharat). India realizes that in order to grow and acquire foreign investment, the country must be viewed as an innovative and creative knowledge economy. New Delhi must ensure that India complies with international treaties and regulations.

However, while India may be the fastest growing economy in the world today, it is still a developing country with nearly a quarter of its population living below India’s poverty
line. Every Indian government has considered economic growth to be one of the ways to alleviate poverty and invest more in areas of human development, primarily education and healthcare.

**A Knowledge Economy**

The 2014 BJP Manifesto declared the need for India to have “policies and programs” that would help the country “reclaim its global leadership position in science and technology.” In this context, the manifesto specified the need “to create an ecosystem for fundamental research and innovation, keeping the objective of science with a human face in the service of the common man.”

As countries develop, the definition for economic success changes. The term “knowledge economy” was coined in the 1960s in reaction to the growing importance of ideas and information within an economic development framework. The vision of the Modi government’s 2016 national IPR policy involved “an India where creativity and innovation are stimulated by Intellectual Property for the benefit of all.” The Modi administration created the Startup India initiative which was designed to create incentives for the creation of an ecosystem and encourage the development of startup culture in India. Among other deliverables, the initiative included a fund of 1 billion INRs, 500 “tinkering labs,” and a wide variety of banking incentives for startups.

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The next step was the Make In India initiative, which was launched in 2014 with the goal to “transform India into a global design and manufacturing hub.” The initiative focused on facilitating business in India by using a three-pronged approach. The first step was to maintain the incentives that allowed the government to act as an incubator for startups and innovation. The second step was to attract direct foreign investment to allow those businesses to flourish sustainably. The final step was to create a legal framework that could protect the output of these businesses. The Modi government did this by introducing the Intellectual Property Rights policy in May 2016.

**2016 IPR Policy**

The 2016 IPR policy has seven objectives:

1. IPR Awareness: Outreach and Promotion;
2. Generation of IPRs;
3. Legal and Legislative Framework;
4. Administration and Management;
5. Commercialization of IPR;
6. Enforcement and Adjudication; and

The 2016 IPR policy identifies a lack of awareness as an important problem amongst the public. According to the Department of Industrial Policy and Promotion (DIPP), there is a widely held belief that the national IPR policy is weak and unreliable—a belief that was indirectly discouraging innovation. The Ministry of Commerce and Industry and Department of Industrial Policy Promotion explain in their outline of the 2016 IPR policy, “In India, the number of patent filings has increased in the last few years, but the percentage of filings by Indians is relatively low.” The policy also provides a framework for the various laws that will be enacted to create an environment that would address international complaints.

An issue with India’s former IPR policy was that it did not meet global standards. As highlighted in Hudson’s 2015 report, *Modi: One Year On*, American multinational firms...
“demonstrated hesitation to do business in India due to its failure to protect IP rights.”

Indian IPR laws legalized drugs that were recreated at lower costs, allowing those drugs to be sold for cheaper, more competitive prices and driving down demand for foreign-produced drugs. The policy weakened incentives for foreign companies to invest in India, posing a problem for the Modi administration that had sought to protect the prices of medicines and healthcare for Indians.

A major aim for this year’s IPR policy was to strike a balance between protecting domestic interests, and address the reservations of foreign corporations. In his announcement regarding the new IPR policy, Finance Minister Arun Jaitley explained that achieving this balancing act would be difficult and that the Modi government would have to ensure that “the cost of medicines don’t get affected (by the new policy) because patents may give rise to a monopolistic situation.”

The new IPR policy circumvented this issue by focusing on India’s shift to a knowledge economy. This shift also overlaps with policy that would assist foreign companies to carry out businesses in India.

**Challenges and Opportunities**

The new IPR policy is emblematic of “Acheh Din” (“the good days are coming”) economics that Prime Minister Modi is attempting to usher in. The policy aims to help create an economy where domestic interests are protected while foreign economic ties are maintained. Although it has failed to satisfy vested parties both domestically and internationally, the policy in reality has been a step in the right direction as it promotes innovation to a larger extent than previous IPR policies. India needs more direct foreign investment to foster innovation and one of the major blockades in the way of that was India’s former IPR policy. However, an IPR policy alone cannot increase FDI and innovation.

A major challenge for the Modi government will be policy implementation. Framing a policy, albeit being an important first step, is not effective without proper execution. Improving innovation requires collaboration across various sectors such as education, R&D, labor, and more. However, there are not many policies that are geared towards innovating these sectors. A holistic approach towards improving innovation will provide legitimacy to the new Indian IPR policy and may ultimately help the government achieve its long-term goals.

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Reforming the Labor Market

India’s workforce is comprised of nearly 500 million people, making it one of the largest in the world.\textsuperscript{152} A large percentage of this workforce is comprised of young people and 66 percent of India’s population is between the working ages of 15 and 64,\textsuperscript{153} giving India an edge over its competitors.

Background

12 million people enter India’s workforce each year.\textsuperscript{154} Although India’s workforce is one of the largest in the world, 90 percent of the workers do not receive insurance or other work benefits.\textsuperscript{155} Furthermore, 72 percent of India’s workforce is employed informally without access to the same benefits as their counterparts who are formally employed.\textsuperscript{156} These workers are at a disadvantage in terms of social security, employment rights, and salary.\textsuperscript{157}

Furthermore, the ratio of male to female participation in the workforce is 2.6 to 1.\textsuperscript{158} Compared to China (82 percent) and Brazil (72 percent), only 39.5 percent of India’s working-age women (ages 25-54) participate in the workforce.\textsuperscript{159} This number indicates that much of the talent of Indian women is not being put to use in the labor market.\textsuperscript{160} India is also ranked 11th from the bottom in female workforce participation.\textsuperscript{161} Additionally, 33 percent of Indian women participate in the labor force, compared to a global average of 50 percent and an East Asian average of 63 percent.\textsuperscript{162} These statistics are shockingly low for a country that is developing rapidly. These societal structures need to be reformed to gain greater turnout in the labor force and ensure that talent is not lost.

\textsuperscript{157} Ibid.
\textsuperscript{158} Suryatapa Bhattacharya, “India’s Labor Force."
\textsuperscript{159} Suryatapa Bhattacharya, “India’s Labor Force.”
Prime Minister Modi’s Promises

The Modi government has attempted to narrow the gap between the number of people searching for jobs and the number of jobs available in the country.\(^{163}\) Prime Minister Modi’s government has set a goal of creating 400 million new jobs by 2020.\(^ {164}\) When the Modi administration first came into power, it sought to change laws that prevented workers from the risk of being fired.\(^ {165}\) In general, the administration wanted to focus on downsizing the government and loosening labor laws. However, it has faced considerable backlash when it attempted changing these laws and regulations.

The BJP Manifesto states, “We will ensure that the interests of labor in the unorganized sector are protected.”\(^ {166}\) However, tangible proof of the effectiveness of the party’s efforts to reform labor remains elusive. The BJP has done little to protect unorganized labor in the country, with most of its focus on reforming the labor market to favor the formal sector.

The Modi Administration’s Intervention

Make In India is the administration’s main initiative to reform the labor market in India.\(^ {167}\) Although this program has specific priorities in place, these goals require time to be implemented properly. Make In India alone cannot adequately deal with the one million people entering India’s workforce each month.\(^ {168}\)

To address the lack of female participation in the Indian workforce, the government’s initiatives, Skill India and Make In India, concentrate on issues related to women and attempt to have gender quotas in the workplace. These interventions have yet to show the desired effect.\(^ {169}\) Unfortunately, many women are not recognized as laborers and are instead entering the informal labor market.

Two important bills that the administration is currently trying to pass are the Maternity Benefit Bill and the Child Labor Bill. The Maternity Benefit Bill will increase the amount of maternity leave that new mothers are allotted from 12 weeks to 26 weeks.\(^ {170}\) The Child Labor Bill will prevent children under the age of 14 from working, but with a few exceptions. For example, the new bill allows children of any age to work in family

\(^{163}\) Suryatapa Bhattacharya, “India’s Labor Force.”
\(^{164}\) Ibid.
\(^{168}\) Ibid.
businesses. Critics of the legislation are afraid that this exception will lead to the exploitation of younger children within their own families. Supporters of these bills argue that higher literacy and school retention rates would be spurred, since many children would not be allowed to work. Furthermore, the bills would enable women to raise a family and enter the formal sector of the labor market.

**Challenges and Opportunities**

Although the Modi administration has taken steps to improve India’s labor market, there remain critical issues which must be resolved. It is imperative to facilitate the entry of women into the labor force. Therefore, imposing policies that would put in place gender quotas could help increase the number of women who participate in India’s labor market. Additionally, India has volunteered to participate in a pilot study with the International Labor Organization that would bring into effect a new policy that integrates economics, skill development, equality and anti-discrimination measures, and the labor market.

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172 Ibid.
Trade, Investment and Capital Market

Business and Trade

The focus of Prime Minister Narendra Modi’s administration has been on improving and increasing the opportunities for business and investment to occur in the country in order to boost the Indian economy and meet a sought after economic growth rate of 8 to 10 percent. Opening India for business and foreign investment would boost its economic growth rate to double digits.

Both Indians and foreigners hoped for increased liberalization of Indian industries and incentives for foreign investment when Modi came to power. The BJP Manifesto outlined its goals to include restoring foreign and domestic investors’ confidence, improving ease of doing business and making India a better and attractive place for foreign investors. Not all reforms have been carried out yet. It took nearly two years for the Indian parliament to finally pass the Goods and Services Taxes (GST) and the Bankruptcy Code bills.

India is currently the fastest growing economy and is projected to continue growing at a rate of 7 percent per year in the next few years. India has managed to combat inflation and reduce subsidies. According to the World Bank’s 2016 Doing Business Report, India has jumped forward four places in the category “Ease of Doing Business” for foreign companies since last year. This change, coupled with improving energy infrastructure, has helped create new businesses. However, India’s increasingly difficult process of acquiring credit and taxation has made domestic and foreign businesses reluctant to base or extend their operations in the country. The government’s reduction of rules and regulations, permits and licenses required to start a business and improving energy infrastructure has meant that it is easier to start a business. Yet the continued presence of retrospective taxation (even if the government insists it will not implement that rule) has meant that businesses, both foreign and domestic, are reluctant to start new ventures.

Balance of Trade

As of June 2016, according to data from Trading Economics, India’s trade deficit lowered from 10.4 billion USD in 2015 to 8.12 billion USD (25 percent) in 2016. This figure is following a 1.27 percent increase (as of July 22, 2016) in its exports and decline in its imports. Although India’s exports and imports decreased in 2015, the fall in imports was more than the fall in exports leading to a lower trade deficit. During the


past year, exports fell 0.79 percent to 22.2 billion USD, while imports fell by 13.2 percent to 28.4 billion USD. On the contrary, this year a 1.27 percent (22.5 million USD) rise in the exports and a 7.3 percent (30.7 billion USD) decrease in imports has been significant in terms of reducing the trade deficit. Non-petroleum products which comprise 88 percent of total exports increased by 3 percent, in which shipment to European Union increased by 4.3 percent but decreased by 7.4 percent for the United States, Japan (-2.2 percent) and China (-1.8 percent). The decline in imports has also been significant, including a 16.4 percent decline in oil purchases and a 4.1 percent decline in non-oil purchases. This decline in value of imports is the lowest drop in the past 4 months.

![India Balance of Trade](https://www.tradingeconomics.com)

Figure 1: India’s Balance of Trade (Source: www.tradingeconomics.com)

India has constantly been in deficit with its trade partners since 1980 due to its imports of crude oil, gold and silver. In recent years, India has had a higher trade deficit with China, Saudi Arabia, Iraq, Switzerland, and Kuwait and a trade surplus with the U.S., Singapore, Germany, Netherlands and United Kingdom.\(^{175}\) The table below reflects India’s most recent balance of trade compared to previous years.

\(^{175}\) Ibid.
Market Analysis in India under Prime Minister Modi

The Modi government has yet to achieve the double-digit economic growth it expected at the beginning of the administration. The government hopes that measures to ease FDI restrictions on global companies, specifically in defense and retail, and Prime Minister Modi’s diplomatic efforts will boost foreign investment.176

During his visit to the UK in 2015, Modi invited British companies to invest in Indian markets and for bilateral trade to increase from 15 to 24 billion USD.177 During his four visits to the United States in the first two years of his administration, Modi sought to attract U.S. investment in the defense arena as well as in other sectors of the economy. His visits to China, Japan, Germany, South Korea and South East Asia have all aimed to encourage foreign investment and importing of technology to boost India’s economic growth.

Additionally, initiatives like Make In India, Digital India and Start Up India have been created to spur foreign investment.

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176 “India’s Modi in Foreign Investment Push,” Financial Times, accessed July 2016, https://next.ft.com/content/5c4b8b96-87bd-11e5-8a12-b0ce506400af#axzz4ExruGCSS.

177 Ibid.
Foreign Investment

The India Brand Equity Foundation reports India received a total of 40 billion USD in FDI for the fiscal year 2015-2016. Based on the data from the 2015-2016 fiscal year, the services sector attracted 6.9 billion USD, the largest investment made in any Indian sector, followed by the computer hardware and software sector with 5.9 billion USD. According the India Brand Equity Foundation, during the past two years under the Modi administration, India recorded a total FDI equity of 2.47 billion USD as of March 2016. This equity amount is higher than the 2.12 billion USD inflow from 2015. Overall, during the 2015-2016 fiscal year, India’s FDI increased by 29 percent, hitting a high of 40 billion USD during April 2015 to March 2016, and surpassed the 30.93 billion USD of the same period in the preceding year. Data for the 2015-2016 fiscal year show that Singapore hit the list with maximum investment in India by 13.69 billion USD, Mauritius by 8.35 billion USD as second in the list, and U.S., Netherlands, and Japan by 4.19 billion USD, 2.64 billion USD and 2.61 billion USD respectively following in the list.

There are those who argue that the reason for the high FDI in India in the last two years are the policies adopted by the Modi government. Critics, however, argue that the reasons are that the market is still optimistic about India, about Prime Minister Modi implementing the reforms he promised and because India is one of the few fast growing economies with long-term prospects.

This robust foreign investment in India helped the country improve its balance of payment (BoP) and control the value of the Indian rupee. Thanks to increased foreign investment, India surpassed China as the world’s top foreign direct investment location. The chart below displays foreign direct investment in India in million USD.

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179 Ibid.
180 Ibid.
181 Ibid.
182 Ibid.
Opportunities and Challenges

During the 2014 elections, Prime Minister Modi and the BJP promised robust reforms and created a plan to help India’s economy to grow at a double-digit growth rate. However, despite removing several government, bureaucratic rules and procedural impediments, the Modi government failed to implement massive reforms that were aimed to capture this desired economic growth rate. Retrospective taxation, for instance, is still in place.

There has been focus and investment in infrastructure reforms but we will need to wait for a few years to see the results. Additionally, India’s infrastructure projects have fallen behind schedule due to inadequate financing, time-consuming processes and impedimental regulations. Roads and transit systems must be improved to ease transportation of goods and services both domestically and internationally and to lower chances for economic losses.

Most of India’s current economic growth is occurring in its service sector, while its manufacturing sector still lags behind. For long-term growth, India needs to boost the growth of its manufacturing sector.

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