

Hudson Institute

Modi One Year On

Hudson Institute

Modi One Year On

**A Research Report by
Hudson Institute's South Asia Program
Husain Haqqani, Director, South and Central Asia
Aparna Pande, Director, India Initiative**

**Devin Chavira, Research Assistant
Hari Prasad, Research Assistant
Ahana Das, Research Intern
Verushka Patel, Research Intern
Aleezah Qasim, Research Intern
Taylor Zevanove, Research Intern**



© 2015 Hudson Institute, Inc. All rights reserved.

For more information about obtaining additional copies of this or other Hudson Institute publications, please visit Hudson's website, www.hudson.org

ABOUT HUDSON INSTITUTE

Hudson Institute is an independent research organization promoting new ideas for the advancement of global security, prosperity and freedom.

Founded in 1961 by strategist Herman Kahn, Hudson Institute challenges conventional thinking and helps manage strategic transitions to the future through interdisciplinary studies in defense, international relations, economics, health care, technology, culture, and law.

Hudson seeks to guide public policy makers and global leaders in government and business through a vigorous program of publications, conferences, policy briefings and recommendations.

Visit **www.hudson.org** for more information.

Hudson Institute
1015 15th Street, N.W.
Sixth Floor
Washington, D.C. 20005

P: 202.974.2400
info@hudson.org
www.hudson.org

TABLE OF CONTENTS

Overview	5
India’s Defense Challenge	9
Education and Skill Development	13
India’s Energy Challenge	19
Healthcare	24
Intellectual property rights & Innovation	29
Reforming the Labor Market	34
Trade, Investment, and Capital Markets	38

Overview

The election in May 2014 of a new government in India raised expectations around the world of the likelihood of far-reaching changes in India's economic and foreign policy orientation. The new Prime Minister, Narendra Modi, had performed effectively as the Chief Minister of Gujarat State. His party, the Hindu nationalist Bharatiya Janata Party (BJP), also asserts its business-friendly credentials. India was, for the first time in its history, being led by a conservative government with a clear parliamentary majority and a prime minister with prior governance experience.

Before his election as prime minister, Modi successfully diminished concerns about the religio-cultural conservatism of his party. He was expected to bring a breath of fresh air to the stale, old style of Delhi politics. Economic reform and alliance with the West were important planks of Modi's election platform. Modi was expected to be a catalyst for India's economic growth, removing the shackles of over-regulation quickly. One year later, it seems that caution characterizes the Modi government's performance just as enthusiasm had defined Modi's election promises.

India's economy is growing but not because of government policies and actions. The pace of growth has increased because of global economic factors, such as lower oil prices, and the fact that the market still 'hopes' that things will change. Some government actions, such as 'tax terrorism'—imposition of retroactive taxes on multinational corporations—and the lack of implementation of tax and labor reforms, have hurt India's economic outlook.

Why is it that an administration that was elected to power to bring about change has not been able to do so? Admittedly, it is difficult to overhaul an economy the size of India's within twelve months. But by now, the Modi government could have laid the foundations upon which it plans to build the edifice of a modern, prosperous, free market oriented India.

Modi is the first prime minister since the election of Rajiv Gandhi in 1985 to receive a massive electoral mandate. Unlike governments from 1990 to 2014, which depended on coalitions in parliament, Modi's BJP won a clear majority of 282 out of 544 seats in parliament. With smaller parties allied to the BJP, the government's strength in the Lok Sabha (Lower House of Indian Parliament) stands at 300, a comfortable number to ensure legislation and approval of fiscal measures.

The Modi government is not hobbled by the sense of policy paralysis that existed under the United Progressive Alliance (UPA) coalition led by the Congress Party's Manmohan Singh. Still, things have not moved forward during Modi's first year in office, creating frustration amongst those who voted for and supported the BJP's election.

The flagship program of the Modi government, "Make in India," is only the latest version of India's historic pursuit of economic and military self-sufficiency. The scheme encourages foreign companies to invest money and technology to expand manufacturing within India. Investors, however, would like to see reforms in bureaucratic regulations, tax policy, land ownership rules, and labor laws before committing to major projects.

During the election campaign, Modi supporters argued that as an outsider in Delhi, the prime minister would cut India's penchant for bureaucratic red tape. In its first year, the Modi government failed to live up to that expectation. Instead it appears to rely heavily on the bureaucracy for policy guidance, rather than demanding that civil servants put the political leaders' ideas into effect. For example, Modi described retroactive taxation on multinational corporations as a 'breach of faith' during his election campaign. Instead of changing the tax laws that make such a 'breach of faith' possible, the government opted for the tax bureaucracy's proposed way out by saying that they will choose not to apply these laws.

Such compromises are insufficient to reassure international investors who do not want to deal with retroactive tax demands in future. There is similar uncertainty in relation to the acquisition and ownership of land, which is important to corporations and foreign investors. The law on land acquisition is currently an ordinance (approved by the president for six months till the time that Parliament passes it) instead of an Act of Parliament because of opposition within the BJP and its parliamentary allies.

An understanding of the internal divisions within the BJP may help explain some of the problems facing Modi. The core of the BJP is comprised of those who rose up the ranks in BJP's ideological mentor organization, the Hindu chauvinist Rashtriya Swayamsevak Sangh (RSS, National Volunteer Corps). Similar in outlook to RSS members are those BJP politicians who belong to and sympathize with the Swadeshi Jagran Manch (Forum for Raising the Nation's Consciousness). Both these groups support Indian business but oppose foreign investment and maintain a somewhat xenophobic stance.

These ultra-nationalists oppose multi-brand retail stores like Walmart or Carrefour opening in India on grounds that these retail giants will wipe out India's small mom and pop stores. "Make in India" appeals to these xenophobes not just because it contributes to Indian autarky but because it keeps the foreigners out.

Modi had also promised to focus on military modernization, recognizing that India had failed to build a world-class domestic defense industry in 60 years. So far,

Modi has not effectively tackled the reasons for this failure though the government continues to promise significant changes to India's defense procurement and production processes. Heavy dependence in defense industry on the public sector, keeping out private players and thus removing competition, a system that disincentivizes innovation, and lack of access to the latest foreign technologies coupled with a lack of foreign investment remain key issues in this field.

Compared to other developing economies, India is the lowest spender on research & development (R&D). The Indian government continues to be the largest R&D investor within the corporate sector and academia investing a negligible amount. In order for Indian and foreign corporations to invest, India needs to create incentives for innovation in addition to providing a regulatory framework that encourages companies to share their technology. India needs to spend more on R&D and to incentivize innovation for higher growth rates. One year may be too short a period to measure success in this sphere but the Modi government has, so far, not initiated policy changes that would enable us to determine that research, development, and innovation are among its priorities.

Nowhere is the lack of new thinking about R&D and innovation more visible than in the pharmaceutical industry. The Indian pharmaceutical sector, like the software industry, is a source of pride for Indians. India's domestic pharmaceutical industry has performed a dual function: providing cheap drugs domestically and supplying these drugs to other developing countries. The latter helps India fulfill its desire to be seen as an example to other nations. Indians are proud that locally made drugs are available in South Africa and Brazil. But that does not mean that Indian pharmaceuticals are at the cutting edge of technology.

Lack of regulations and accountability as well as competition from foreign drug companies sets back India's pharmaceuticals. Recent reports by the US Food and Drug Administration (FDA) demonstrate that many Indian companies do not maintain international quality standards. India has so far passed up opportunities for investment in R&D and access to new technologies that could come with collaboration with foreign companies. In its first year, the Modi government has not taken steps that would provide reassurance about the future in this area.

The government's decision to reduce education spending and the federal healthcare budget ill prepares India for dealing with demographic changes. India will soon become the most populous country in the world, overtaking China by 2028. India has the advantage of a demographic dividend: it will continue to have a low dependency ratio and a large working age population. In order to take advantage of this dividend India needs to invest in education, skill development, and provision of basic amenities like healthcare, energy, clean water, and sanitation.

Like "Make in India," the Modi government has focused on describing policies in short slogans. Modi has initiated the drive for a "Clean India" and has championed "International Yoga Day." While these programs are well intentioned, they are not

a substitute for sound policy decisions. It might take decades to create a civic culture that emphasizes cleanliness both at home and outside. The government needs to devise schemes for the provision of clean water and improved sanitation rather than just emphasizing citizens' responsibility in maintaining cleanliness. Simple living and high thinking are great ideals for an individual, but a government needs to be pragmatic.

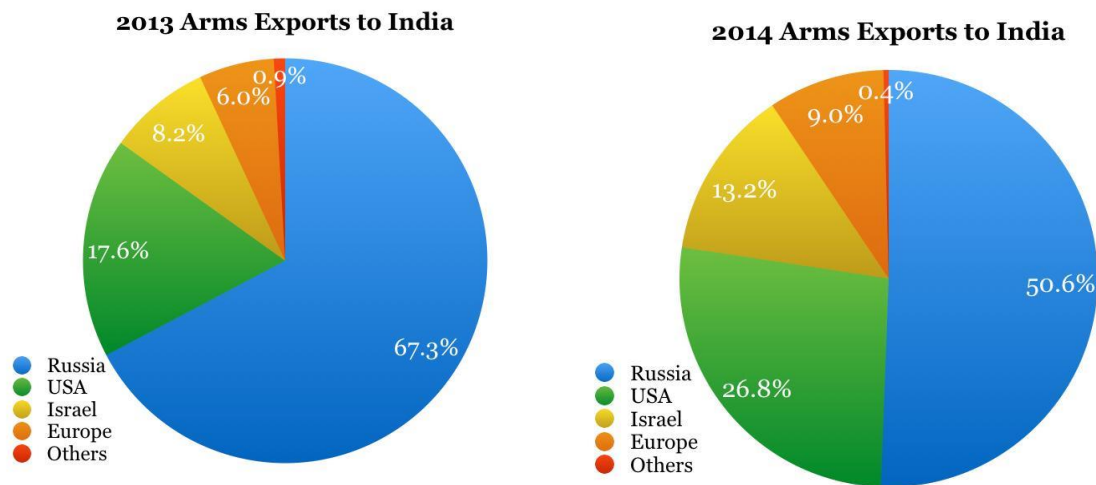
The BJP-led government was voted into power by a new generation of Indians. The new Indian electorate is aspirational and demands instant gratification and immediate results. Modi's other backer, domestic and foreign business, is also impatient for positive results. Markets run on sentiments and until now the upswing in Indian economic growth has been primarily because the markets remain hopeful of change for the better. Prime Minister Modi must act fast before this hopefulness dissipates.

The Modi government should not assume that it has a generational mandate and that it could get through its first five years by implementing minor policy changes while waiting for re-election in 2019 before undertaking major reforms. The previous National Democratic Alliance government led by a BJP prime minister lasted only one term because of its timid approach to policy change; Manmohan Singh's UPA government won two terms but suffered from policy paralysis as soon as it won elections. Given his mandate and his record, Modi must prove himself different. The next four years of his government should be far bolder than the first year that we are reviewing in this report.

India's Defense Challenge

Introduction

Military self-sufficiency has been the paramount goal of every Indian government. The Modi administration has likewise sought to reduce dependence on arms imports by pursuing an independent domestic industrial base. At the end of 2014, however, India was the largest [importer](#) of major weapons, importing about 15% of the world's supply. Russia remains the largest supplier of arms to India, though its percentage has [decreased](#) from 67% in 2013 to 50% in 2014. The United States (27%) and Israel (13%) are strong contenders with European countries following at



9%. Self-sufficiency is thus far from the reality.

Data Source: SIPRI

In Hudson Institute's March 2014 conference and [report](#), Manoj Joshi and Roger Zakheim argued that India [cannot](#) achieve self-sufficiency, as the country does not have the necessary technology or knowledge, and cannot survive in [autarky](#). Further, it has made little progress in [reforming](#) its national security system management and does not have adequate personnel to give direction. Rather, India must find [export](#) markets by [joining](#) global supply chains and sharing costs and profits with its commercial partners, especially American ones.

Modi Administration Policies

In June 2014, Prime Minister Narendra Modi claimed that India would soon become [self-reliant](#) in the defense equipment manufacturing industry and should look forward to [exporting](#) weapons soon. "The small countries should feel secure that they have India-produced defense equipment," stated Modi. Finance Minister Arun Jaitley [declared](#) that India is "pursuing the Make in India policy to achieve greater self-sufficiency in the area of defense equipment, including aircraft."

In February 2015, Modi [vowed](#) that 70% of arms would be manufactured in India itself by the end of the decade. "We have the reputation as the largest importer of defense equipment in the world...But this is one area where we would not like to be number one. We are reforming our defense procurement policies and there will be a clear preference for the equipment manufactured in India," declared Modi. He added that "foreign players can [use](#) India as part of their global supply chain" to reduce costs, thereby heeding Manoj Joshi's 2014 suggestion. In this vein, during Jaitley's visit to the United States in April 2015, he [stated](#) that India has [relaxed](#) limits on FDI in defense manufacturing.

The Indian government thus [changed](#) its Defense Procurement Procedure ([DPP](#)) to "Buy [and Make] (Indian)' instead of 'Buy (Global)'" to fit in with this [campaign](#). The Make in India defense project promotes strategic partnerships between foreign manufacturers and Indian companies.

US-India Defense Ties

The US has risen to the challenge of supplementing India's defense industry, especially after the [deepening](#) of India-US defense ties opened up key areas of [collaboration](#). The US-India Joint [Statement](#) during President Obama's January 2015 [visit](#) to India presented new [provisions](#) for the "co-production of low-end weapons in India and the transfer of technology through the Defense Trade and Technology Initiative (DTTI)." The [DTTI](#) aims to promote defense trade and technology transfer between the two countries. It represents the United States' [commitment](#) to creating an indigenous Indian defense industry by "pre-screening projects for co-production." January 2015 also saw the [launch](#) of the US-India Knowledge Partnership in Defense Studies, further linking the two countries in military education.

In June 2015, US Defense Secretary Ashton Carter and India's Defense Minister Manohar Parrikar signed and [renewed](#) the 10-year Defense Framework Agreement to [reflect](#) their relationship's "positive trajectory." The 10-year Agreement includes a commitment to ensuring maritime security in the region, especially the South China Sea, as both countries annually [conduct](#) naval exercises in the area. The US-India Joint Strategic [Vision](#) reaffirmed this commitment.

The Indian and American governments have agreed to [initiate](#) two DTTI projects: building generators and developing protective military gear for chemical warfare. They have each [committed](#) \$500,000 over two years for each project. The US had also hoped to include a provision to begin joint production of drones, although this did not materialize. However, India is [planning](#) to export drone and spy equipment

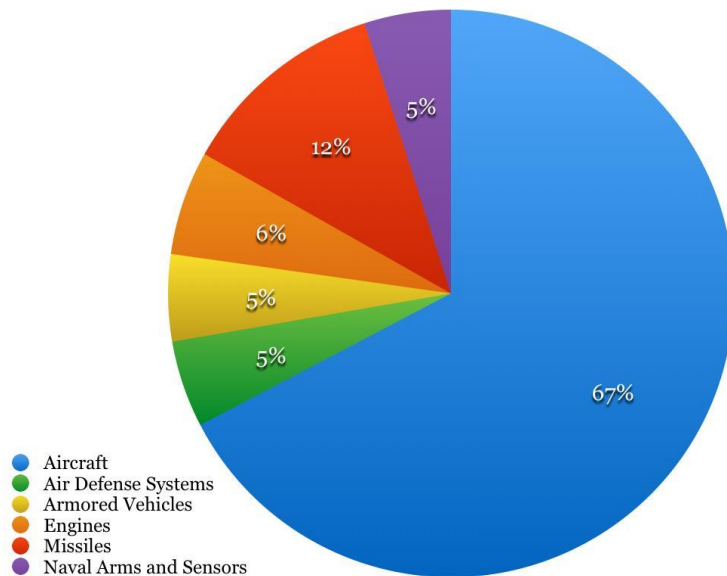
to the US to further develop their partnership. India is also [keen](#) on acquiring American aircraft launch technology for a carrier it wishes to build.

India has purchased large amounts of defense equipment from the US, including aircraft and missiles. India's Ministry of Defense [approved](#) the purchase of Boeing Apache and Chinook helicopters for \$2.5 billion in August 2014, and in July 2015, India [cleared](#) the purchase of four Boeing aircrafts worth \$4.74 billion in sum. Additionally, USA's Lockheed Martin has [entered](#) into a joint venture with Tata Advanced Systems Limited (TASL) to produce parts for a plane. TASL recently [signed](#) agreements with Boeing as well, to collaborate on defense manufacturing. American defense contractor Raytheon has also [invested](#) in India.

Europe, Israel, Asia & India

As of May 2015, 46 licenses were [issued](#) in the defense sector. On July 3, Airbus [entered](#) into a joint venture with Mahindra Group to manufacture helicopters for the Indian Armed Forces. Russia also [signed](#) a deal to build 200 Kamov Ka helicopters in India. Moreover, Israel's Rafael Advanced Defense Systems and India's Kalyani Group [entered](#) into a joint venture to develop weapon systems, while Israel Aerospace Industries and India's Alpha Design Technologies [agreed](#) to manufacture unmanned aerial vehicles for India. Other companies such as the [UK's](#) BAE India Systems, Switzerland's [Pilatus](#), and France's [MBDA](#) have also invested in India. Japan and Korea have also [expressed](#) interest in investing in India.

2014 Weapons Exports to India



Data

Source: SIPRI

However, the Dassault Rafale [deal](#) with France proves that 'Make in India' alone cannot provide India with the military equipment it requires. The state-run

Hindustan Aeronautics Ltd (HAL) was [rumoured](#) to have entered into a joint venture with Rafale in the initial stages, but was not included in the final deal. Instead, the Modi government purchased 36 jets straight off the shelf from the French company.

Challenges and Opportunities

The Indian defense industry faces numerous challenges, foremost amongst them being India's lack of necessary technology and investment to be self-sufficient in defense. To modernize its armed forces, India will need to diversify its arms acquisitions and streamline licensing processes. This will incentivize foreign and domestic companies to increase their participation, as evidenced by the 46 licenses issued in the sector already. The US-India partnership is especially significant, as reflected in the renewal of the 10-Year Defense Framework Agreement and the DTTI projects already in place. The future of India's defense sector lies in making pragmatic equipment purchases to develop its military, while simultaneously boosting its domestic industry through investment and technology.

Education and Skill Development

Introduction

India is a nation rich in human capital, with a rapidly growing economy and over [half the population under the age of 25](#). This youth bulge provides the country with a substantial and growing workforce that has the potential to make India a major economic superpower in Asia and the world. In fact, over the last two decades alone, India has become the world's [third largest economy](#) (behind the USA and China) in terms of purchasing power parity, and has quadrupled its per capita income. However, in order to sustain and expand on this type of growth, India needs to ensure that its workers are adequately educated and trained in universally marketable skills.

The Global Competitiveness Index 2014-2015



Source: World Economic Forum

Background

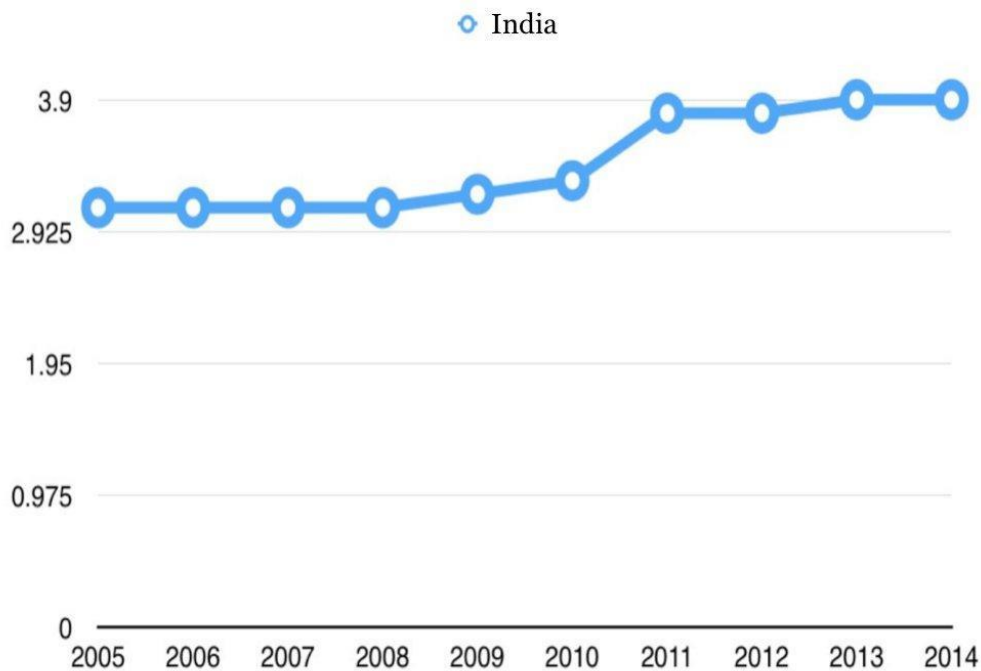
As of 2015, it is estimated that a mere [4.69 percent](#) of India's workforce has undergone formal skill training. This is a shockingly low proportion, especially when compared to 96% of workers in South Korea, 68% in the UK, and 52% in the US. Additionally, [more than 90%](#) of India's labor force has not completed higher education and less than a third have graduated from primary school. As assessed by the World Economic Forum's Global Competitiveness Report, India's higher education and training system is ranked 93rd in the world. This is the lowest ranking among the BRICs countries (Brazil, Russia, India and China) and of the states in Bloomberg's predicted [top 10 largest economies in 2030](#). Studies show that low graduation rates coupled with low quality educational institutions (Mehta and Kapoor, 2007) have contributed to a growing divide between the skills currently available and those required (Uni and Sarkar, 2012) to drive India's continued development and economic growth.

Historically, India's education and skill development services have been decentralized across various ministries, such as the National Skill Development Agency (NSDA), the National Skill Development Corporation (NSDC), and the Directorate General of Employment and Training (DGET), as well as NGOs, industrial associations, and donor organizations. Saurabh Johri explains that this decentralization leads to a wide range of standards and quality even within industries and poor mobility between jobs due to [lack of training accountability](#). Most existing training curricula are outdated, with an emphasis on technical know-how rather than increasingly crucial analytical and problem-solving skills. Further, India's apprenticeship programs are restricted by webs of red tape concerning permissions related to the length of training programs and the environments in which apprenticeships are allowed.

These obstacles notwithstanding, the demand for skilled labor is only expected to increase. By 2022, analysts predict that the demand for skilled workers [will exceed 282 million](#), particularly in the construction, automobile, textile, and transportation sectors.

To take on these challenges and harness Indian potential, experts at our March 2014 conference recommended a framework to bridge the skills gap in India in an attempt to converge public and private sector efforts for maximum efficacy. Involving corporations in "industry led skill development initiatives" could help align skill development programs with actual industrial demands. Looking to the success of the American education and training system as a model, Saurabh Johri also recommended three areas of Indo-US collaboration. Johri suggested India work with the US to develop a training system similar to the US' community colleges and vocational training schools. He also emphasized the potentials of technology sharing and finally, skill transfer, which would spur India's progress towards its skill development goals and support cross-border movement of workers.

Government Spending on Education (% of Total GDP)



Source: World Bank

Modi Government on Education

Throughout his campaign, Narendra Modi signified his commitment to improving the quality and reach of education and skill development. The [BJP election manifesto](#) pledged to increase spending on education from [4% of GDP to 6%](#). Modi purported to universalize primary education and elevate the quality of higher education to make Indian universities competitive with top global universities. Additionally, the incoming government pledged to increase access to vocational training through correspondence and online classrooms and bring private companies into the campaign for skill development. These efforts were to be monitored by a National Commission on Education established by the BJP with the mandate to produce a report two years after its inception regarding the progress made in education and reforms still needed. However, this plan for oversight by one centralized body has yet to come to fruition.

While Modi's election was viewed [optimistically](#) for the education and training sectors based on his track record in Gujarat, his first year in office has been widely seen as "[disappointing](#)" and even [controversial](#) when it comes to education. In January 2015, the government actually [reduced education funding](#) by more than 20% in its 2014-2015 revised budget estimates. The effects of this cut were predicted to be primarily absorbed by the eight new IITs (Indian Institutes of Technology) previously set up by the UPA government, and which were set to move to permanent campuses by July 2015.

Despite maintaining a commitment to expanding and improving education, the 2015-2016 Union Budget cut education spending by [2.02%](#) from where it had been in the 2014-2015 revised budget. This decrease is even more drastic when compared to the change from the initial 2014-2015 budget outlay, which allocated a full 16.54% more to education than the current budget.

In his [February 2015 budget speech](#), Finance Minister Arun Jaitley announced the government's intent to ensure that each state has one major Central Institute. Jaitley proposed the establishment of AIIMS (All India Institute of Medical Sciences) in Jammu and Kashmir, Punjab, Tamil Nadu, Himachal Pradesh, and Assam as well as an AIIMS-like institution in Bihar. On the technical side, Modi government expressed its intent to open IITs in Karnataka, Jammu and Kashmir, and Andhra Pradesh.

In April 2015, the Commerce Ministry proposed, in a strategy paper shared with NITI Aayog (the in-house government think tank that has replaced the Planning Commission) and the ministries of External Affairs and Human Resource Development, a scheme to “internationalize” education by allowing foreign universities to establish campuses in India. This proposal is remarkably similar to the Foreign Education Institutions Bill introduced by the UPA in 2010, and adamantly opposed by the BJP at the time. The effort would have the potential to [“promote India as a hub in Asia for quality education”](#) and create an “Educated in India” brand, bringing education into the “Make in India” campaign.

India-US collaboration

There is some level of pre-existing Indo-US collaboration on education, in the form of initiatives like the [India-Support for Teacher Education Project training program](#) through USAID, Fulbright-Nehru program, and the US-India Higher Education Dialogue. In September 2014, the Modi government announced its intent to deepen this collaboration with the [Global Initiative of Academic Networks \(GIAN\) program](#), which will create a short-term exchange framework for US STEM (science, technology, engineering, and mathematics) professors to teach at Indian institutions.

Skill Development

In the field of skill development, the Modi government has taken arguably more concrete, albeit limited action towards structural change. On July 31st, 2014, the first dedicated [Department of Skill Development and Entrepreneurship](#) was established. On November 9th of the same year, the department was [upgraded to a full-fledged ministry](#). The government has continued to combine and streamline its efforts in education and skill development, with the Ministry of Skill Development [absorbing administration](#) of all Industrial and Training Institutes (ITIs) and Apprenticeship Training Programs.

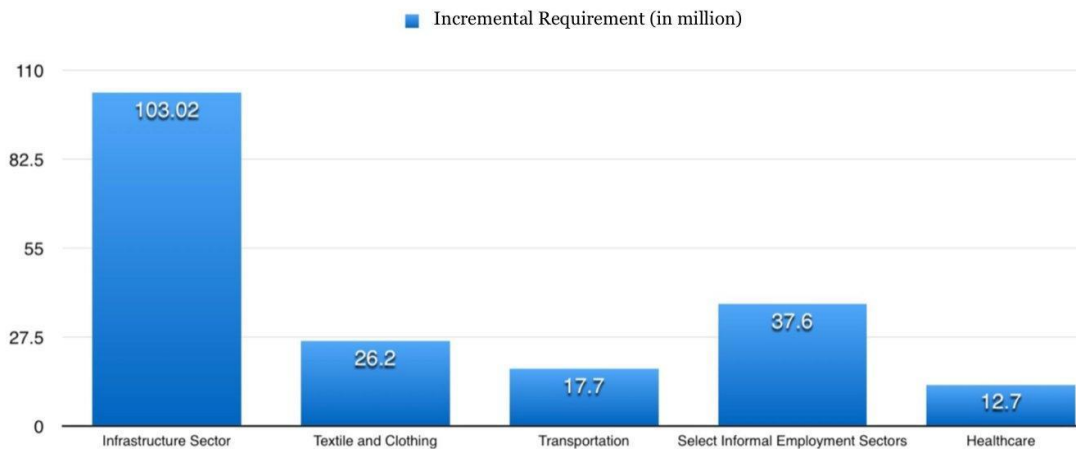
On July 2, 2015, the first integrated [National Policy for Skill Development and Entrepreneurship 2015 was approved by the Union Cabinet](#). The policy will center

on four key areas of skill development. One stream will focus on overcoming existing challenges to skill development, which include low quality skill training infrastructure and trainers, and a lack of integration with education. Secondly, the policy seeks to align skill supply with demand by engaging industries in specialized skill development and creating a framework for quality assurance. By extending its efforts to the socially and geographically marginalized, including women, with efforts like the [“Girl Child Education” group](#) the Modi government emphasizes a policy of equity. Lastly, the policy seeks to educate potential entrepreneurs, foster mentor-entrepreneur relationships, and connect entrepreneurs with incubators and credit markets.

The Indian government has also [proposed a framework of Common Norms](#) to be utilized across all government industries and departments. If adopted, this measure will greatly improve coordination across the entire skills sector, which currently includes over 70 different skill development programs across government departments alone. While this is a national initiative, state governments will be expected to align with national Common Norms as well.

On July 15, 2015, Modi announced his new scheme “Skilled India,” whose goal is to make India [“the world’s human resource capital”](#) by training over 400 million Indians in the next seven years. This will be accomplished through a comprehensive 12-week training program, to be hosted at existing industrial training institutes. To ensure access, decommissioned railway carriages will be refitted as mobile classrooms to serve remote areas. Defense veterans will also be tapped as skill-trainers at specialized skills universities to be set up in every state. There is also a proposal to [make skill training a fundamental right](#). Although funding details of “Skilled India” have yet to be made available, it is expected that private sector partnerships will help drive this skill training push.

Incremental Skill Gap Across Various Industries in India in 2022



Source: IDFC Limited

Challenges and Opportunities

One year into the Modi government, India's academic and vocational education systems face a variety of challenges including the persistence of inadequate education for workers and a dearth of training programs in marketable skills. Cuts in funding for education between 2014 and 2016 have only exacerbated the problem. Yet a variety of opportunities remain for the Modi government to capitalize on its vast human resources. The commitment to establishing a Central Institute in each state, creation of the streamlined Ministry of Skill Development and Entrepreneurship, and development of a Common Norms framework for skill training have helped spur standardization and elevation of quality in education and training. Further, if India can effectively open up to business, with which it can collaborate on targeted skill development programs; and to foreign partners, which can facilitate knowledge exchanges, its graduates and labor force will not only sustain, but also multiply India's growth.

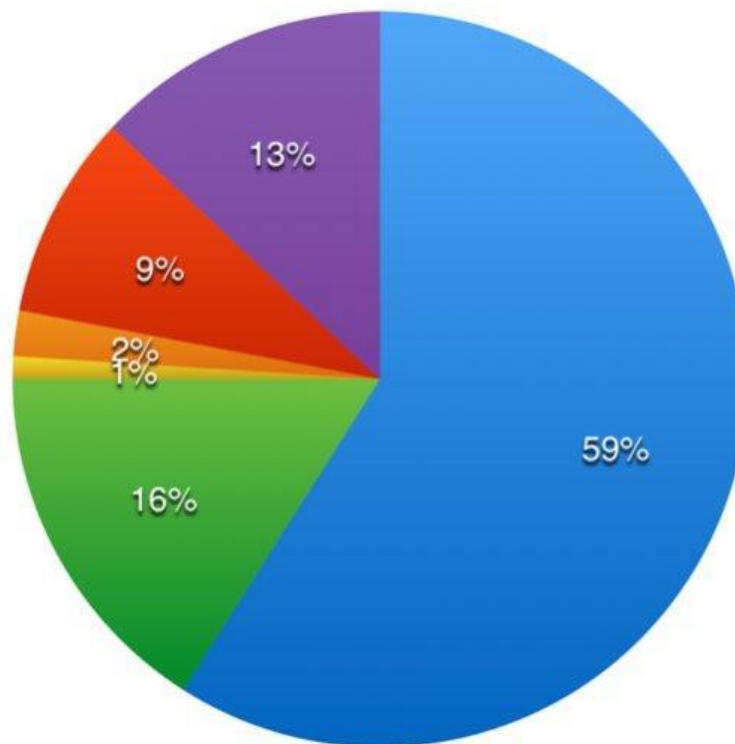
India's Energy Challenge

Introduction

India's energy consumption is growing at an exponential rate. Today, [India is the third largest energy consumer in the world](#), accounting for 4.4% of the world's total energy. Sustained and unprecedented economic growth in the country has placed an uncontrolled demand on the country's energy resources. While India's energy basket has a mix of all sources of energy, including renewables, 59% of its energy supply is fueled by coal. This forces India to import large amounts of coal to balance the domestic production deficit. At Hudson Institute's March 2014 conference, [Nitin Zamre identified](#) this increasing stress on domestic resources and the country's dependency on energy imports. He claimed that the supply and demand imbalance in energy is prevalent across all sources and requires immediate intervention by the Indian Government in light of severe supply constraints in the future.

India Installed Power Capacity May 2014

● Coal ● Hydro ● Diesel ● Nuclear ● Natural Gas ● Other Renewable

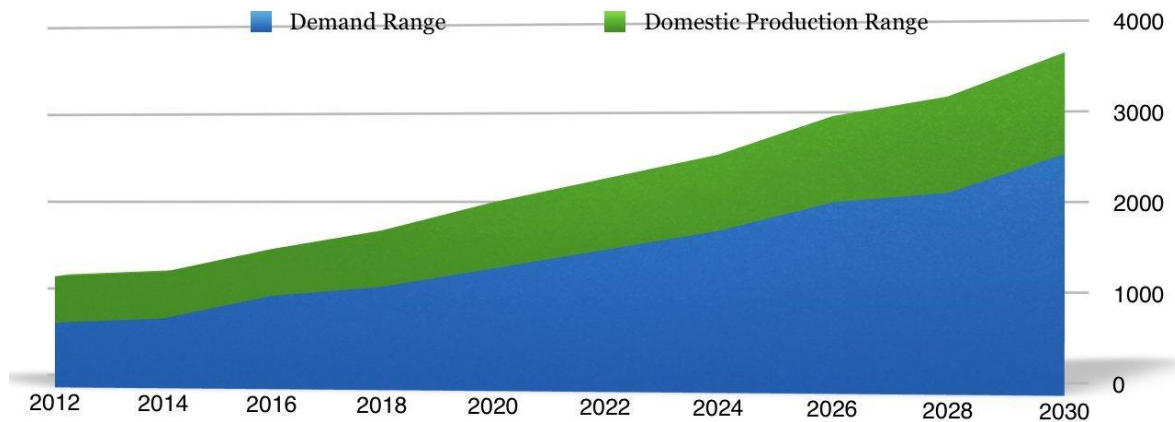


Source: US Energy Information Administration

The Modi Intervention

Acknowledging that the energy sector plays a pivotal role in India's development, Prime Minister Narendra Modi [integrated](#) all power and coal policies under one ministry in order to streamline execution. With a big drop in crude price—oil standards have plummeted more than 50 percent since June 2014—the Modi government has been able to stop [subsidizing](#) diesel and raise natural gas prices. Although these reforms will help India's energy sector in the short term, the long term effects seem bleak. Reducing subsidies may seem rational when prices are plunging, but these global energy price drops are likely temporary. Whether lowering subsidies today will continue to galvanize India's energy reforms in the future still remains up in the air.

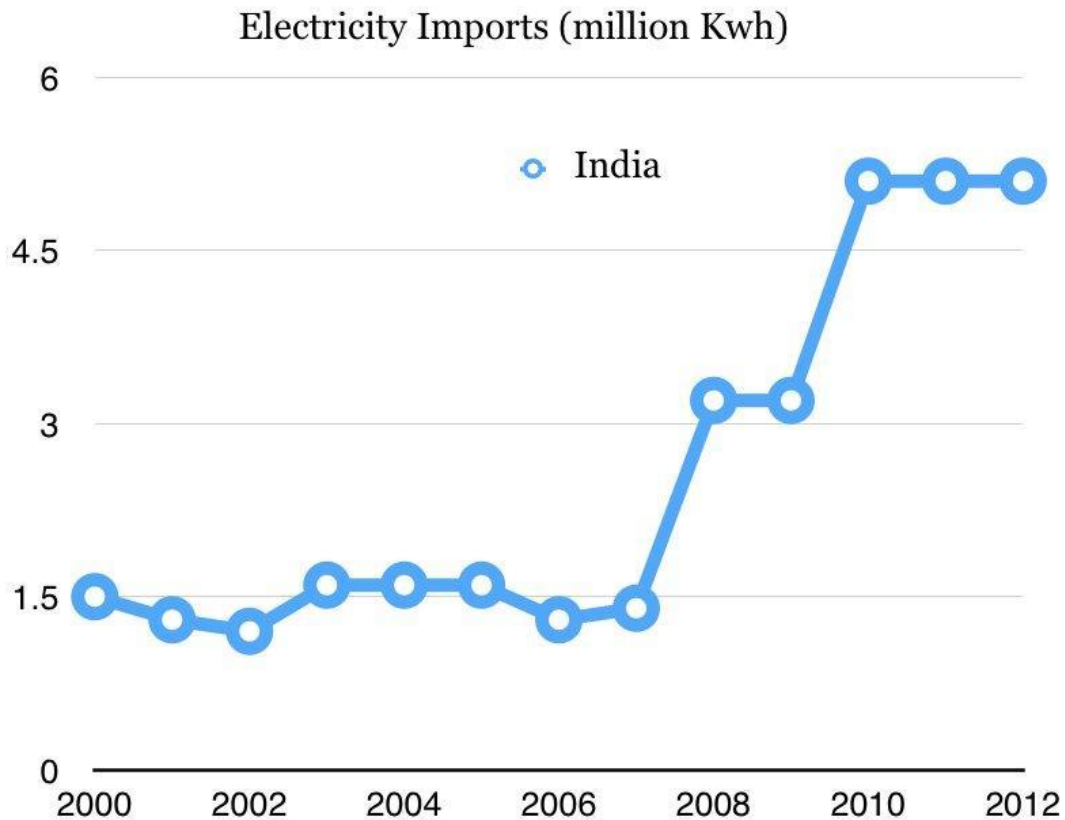
Scenarios for Coal Demand and Domestic Production in India (Million Tonnes of Coal)



Eradicating the Dependence on Imported Coal

Under the previous UPA-led government, India started importing a significant amount of coal—[approximately 77 percent](#) of its energy supply—to compensate for its domestic production deficits. Importing coal at high global prices leads to an increase in power costs as well as other industrial sectors. In May 2014, Energy Minister Piyush Goyal surprised the world by [announcing](#) a proposal to cease the importation of thermal coal within the next few years. The government [aims](#) for a 10% reduction in energy imports by 2022 and a 50% cut by 2030. The logic behind Goyal's [plan](#) is compelling: imported coal is inflationary, as it does not aid India's energy-system security. [The Financial Times reports](#) that Mr. Goyal's comprehensive plan includes ramping up the domestic production of coal, especially by the state-backed coal miner, Coal India Limited. A component of this comprehensive plan is the auctioning of coal mines. However, the country has a tarnished history when it comes to the auctioning of coal mines to private companies. In September 2014, [214 coal deposit auctions](#) and leases were cancelled by the Supreme Court upon the discovery that US \$33 billion of government owned coal assets had been illegally allocated to select companies for "free." Mines

stopped production and the reduced domestic coal supply drove up energy costs. Nonetheless, [in February 2015](#), the Indian government auctioned, via a tender, coal mine deposits through transparent yet aggressive bidding in the hopes of refueling the dejected domestic coal mining industry. The plan to significantly step up Coal India Limited's domestic coal productivity is only part of Minister Goyal's comprehensive plan. The other component involves investing in the installation of India's sustainable renewable energy capacity.



Investing in Renewable Energy Sources

In an attempt to increase India's renewable energy sector, Goyal made public plans to [secure](#) 100 GW of solar power and 60 GW of wind power by 2022; including US \$100 billion of renewable energy infrastructure investment and US \$50 billion of grid upgrades. In addition, the [Ministry of New and Renewable Energy](#) spearheaded the development of small hydro power projects up to 20,000 MW to harness at least 50% of the country's hydroelectric potential in the next 10 years. The Institute for Energy Economics & Financial Analysis reported in December 2014 that the government has emphasized the advancement of solar energy through a solar subsidy adjustment of US \$800m for solar development schemes and solar power parks. Taking a cue from the electricity industry policy shift a month later, Adani Enterprises [publicized](#) a US \$4bn investment in construction of an integrated solar panel manufacturing complex in a joint venture with SunEdison Inc. [Many foreign investors](#) with advanced technology, such as China's

Trina Solar and Japan's Softbank, have also invested significantly in India's solar panel manufacturing. In addition, Goyal is toying with the idea of pushing the National Thermal Power Corporation into exponentially expanding its renewable power generation. Although the government proposed reaching an additional renewable energy generation capacity of 4.46GW by 2015, [as of March 2015](#), only 44 percent of this target has been achieved. This is likely due to the large parcels of land renewable energy power plants require. [Foreign Policy](#) reports that approximately 50,000 acres of land is needed for the planned solar power plants, an expanse of land that is often dispersed amongst many people.

The Future of India's Nuclear Energy

Since coming into power, Prime Minister Modi has strongly emphasized his interest in making nuclear energy a fundamental part of India's energy basket. India currently possesses 21 operational nuclear power reactors, which account for a nominal 3 percent of the country's energy generation. [Modi pledged](#) to boost the nuclear energy contribution to 25 percent by 2050 as well as triple the country's nuclear capacity to 17 GW by 2024. There have been a few crucial developments in the nuclear arena during Modi's first year in office, especially in terms of nuclear agreements with other countries. In January 2015, Modi announced a ["breakthrough" pact](#) with the US to kickstart a number of stalled projects, while in April 2015, he was able to secure a supply of 3.2 million kilos of Uranium from Canada in a [landmark nuclear deal](#). [Modi is also in talks with France](#) to sign a nuclear manufacturing deal between Areva and the state run Nuclear Power Corporation of India (NPCIL). Nevertheless, Modi's government has been unable to make critical changes in the country's nuclear regulatory climate, including in its [civil nuclear liability law](#). The current law is unfavorable for nuclear generation and foreign investment, as evidenced by the failed nuclear agreements with Russia and Japan. According to [The Diplomat](#), the Modi government needs to reform its suffocating regulatory atmosphere if it hopes to increase foreign nuclear investments and nuclear energy productivity in the future.

The Need for Energy Security

[In terms of energy security](#), NITI Aayog, a think tank that replaced India's Planning Commission, has "proposed a group which is now looking at energy security plans for the next 100 years." The proposal entails the creation of a central body, the National Energy Commission, to work with all ministries that deal with any matter related to energy to construct a common strategy for energy security. As of July 2015, the National Energy Commission proposal is still pending with the prime minister's office.

Challenges and Opportunities

India's dependence on imported coal and subsequent high energy prices has continued to hurt India's energy sector. There is a [need](#) for diverse and sustainable energy resources, increased investment in domestic resources, and efficient delivery to the consumer. India's economic future depends on its ability to aggressively expand renewable investment and cut back on energy imports, whilst focusing on energy diversification and the reduction of the current massive account

deficit. [It is also important](#) for the government to develop bilateral and regional strategic partnerships to enhance innovation and technology in the energy sector. With the strategic implementation of reforms, India can draw upon its untapped energy potential. The drop in global oil prices gives the government the opportunity to cut back on fuel subsidies and increase certain energy prices. In addition, the government has proposed many projects for the advancement of renewable energy sources, especially solar energy. Most significantly, if the proposal is approved, the National Energy Commission can potentially play a big role in protecting India's energy security.

Healthcare

Introduction

India is set to become the most populous country in the world, surpassing China [by 2050](#). In order to reap the benefits of its large population, India will need to provide healthcare to the masses. The Indian healthcare system cannot keep pace with consistent population growth and increased life expectancy ([up 5 years in the last decade](#)). The Indian government needs to increase its resources and commitment to the healthcare sector in order to provide for its rapidly growing population.

Background

Currently, India only allocates about [1% of its GDP](#) to address healthcare challenges, whereas China dedicates 3% and the US spends about 8.3%. Low government expenditures combine with high levels of wealth inequality to create high out of pocket payments for a large sector of the population without access to public hospitals. In India there are only [seven hospital beds](#) and [6.5 physicians](#) per 10,000 people.

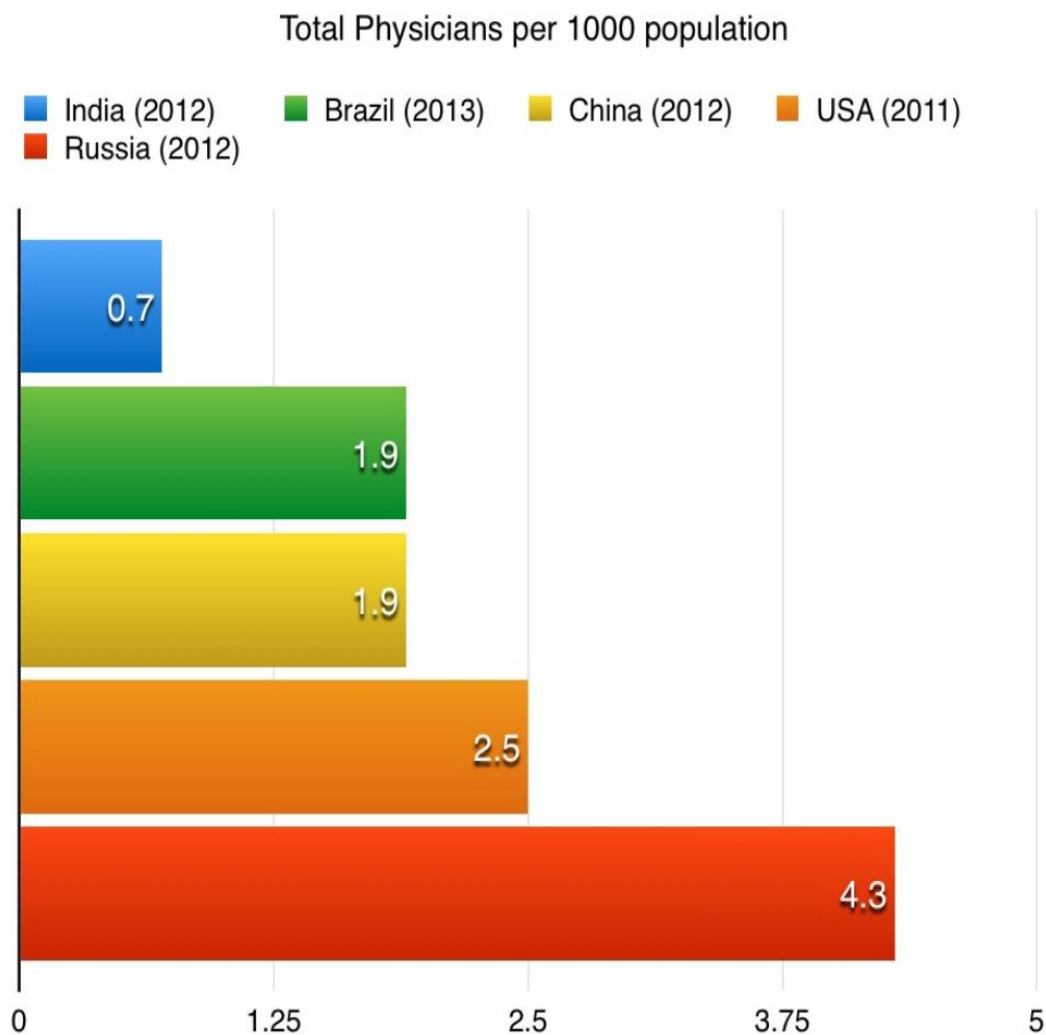
India's existing healthcare workforce is largely underutilized and woefully inadequate compared to the scale of the need. As India's population continues to grow, the resource and personnel gaps will expand as well. The National Skill Development Corporation (NSDC) estimates that by 2022, India's healthcare sector will require about [7.4 million workers](#).

Additionally, India's healthcare infrastructure lacks both availability and quality of resources. India has the highest number of people in the world who practice open defecation, which accounts for [a full 48%](#) of its population. Sanitation issues associated with open defecation cause diarrheal diseases and reduce the clean drinking water supply. As it stands, [more than 21%](#) of India's communicable diseases are water-related. Beyond building up hospitals and personnel staff, the government also needs to improve access to basic sanitation and clean drinking water.

The growing and transitional nature of the Indian population presents India with new challenges in the field of disease control. Based on sheer numbers and lack of good quality medical supplies, it is becoming more difficult to control the outbreak of existing infectious diseases. India is a top producer and exporter of vaccines, yet it is home to [one-third of the world's unimmunized children](#). At our March 2014 conference, Dr. Kristina Lybecker explained that with increases in life expectancy,

chronic and non-communicable diseases which hardly registered in India before are becoming increasingly prevalent.

Ahead of Modi's election, Lybecker offered [several concrete suggestions](#) to guide the new Prime Minister's hefty health mandate. Lybecker first emphasized the need to build up India's healthcare infrastructure by improving sanitation services, increasing access to safe drinking water, and adding more healthcare workers to the labor force. She called for government policies to promote healthy lifestyles and preventive care, including greater vaccination coverage. Lybecker also stressed the importance of developing and increasing the availability of quality generic medicines. Finally, she recommended a multi-stakeholder approach to creating and implementing health policy and bringing women into the efforts as agents of change in Indian healthcare.



Source: World Bank

Modi Government

As part of Modi's campaign, the BJP announced its [intent](#) to provide all Indians with government health insurance. To accomplish this, the BJP promised to set up an umbrella regulatory body for healthcare and reorganize the Ministry of Health and Welfare by combining internal departments and improving delivery systems. The incoming government also hoped to elevate the practice of yoga and traditional Ayurvedic medicine. Finally, they also talked about using technology like the ubiquity of cell phones to create "telemedicine" and "mobile healthcare" and raise awareness and define standards.

Following Modi's election in 2014, BJP Finance Minister Arun Jaitley professed the government's scheme to achieve "[Health for All](#)," which would be realized primarily through the Free Drug Service and the Free Diagnosis Service initiatives. As part of the scheme to improve access to diagnostic services, Jaitley planned to set up four new All India Institute of Medical Science (AIIMS) like institutions in Andhra Pradesh, West Bengal, Maharashtra, and Uttar Pradesh; as well as two National Institutes of Ageing at existing AIIMS in New Delhi and Chennai. The government also announced plans to encourage the development of, and access to pharmaceuticals by creating new drug testing laboratories and providing central assistance to the state-level Drug Regulatory and Food Regulatory Systems. Towards the goal of effective universal health care, Minister Jaitley [proposed](#) the establishment of fifteen Model Rural Health Research Institutions to focus on identifying and serving the needs of local populations.

In early August 2014, Prime Minister Modi affirmed his goal of [providing health insurance for all](#) Indians. The plan was meant to begin initial stages in April 2015, and include coverage for all citizens by March 2019. Other provisions are to [include](#): offering free generic drugs in public hospitals, upgrading health services infrastructure, and employing contract doctors, nurses, and specialists to offset the deficit in health workers. Initially, implementation of such a scheme was estimated to cost around [\\$26 billion](#) over the next four years; once all are covered, health assurance would cost the government \$11.4 billion annually.

However, since its announcement nearly a year ago, Modi's universal health insurance plan has failed to take off and faced considerable obstacles and cutbacks. By the time the plan was presented to Modi in January 2015, costs had been cut down to \$18.5 billion over 5 years; yet this still posed [too much of a strain on funds](#) to be approved.

The trajectory of Modi's universal health care initiative is symptomatic of a larger pattern; ambitious health plans hampered again and again by financial concerns. Just six months into his first year, the Ministry of Finance ordered a [20% cut to](#) Modi's 2014-2015 health care budget and India's HIV/AIDS program suffered a 30% cut. In January 2015, the Union Ministry of Health and Family Welfare released a Draft National Health Policy casting doubt as to whether it would be possible to [ensure health as a fundamental right](#) in India, given the current level of development of economic and health systems. Initially, the Ministry recommended

a 4 to 5 percent of GDP increase in government health funding to reach millennium development goals; however, the recommendation was quickly revised back to 2.5%, a more “potentially achievable target.” Yet when the 2015-2016 budget came out in February, health care expenditures were slashed once more, down [17% from the previous year’s budget](#). Experts have raised concerns over the effect of these cuts on efforts like India’s tuberculosis control program, which seeks to treat the [two million cases](#) of tuberculosis in India every year.

While the Modi government has been forced to recalibrate its large-scale health plans, incremental advances have been made in various subsectors of the health industry. Modi took a significant step towards preventive medicine access in July 2014, when he announced that four new vaccines would be added to India’s Universal Immunization Program (UIP.) These vaccines will target Rotavirus, Rubella, Japanese encephalitis, and polio. As of September 2014, India is also working with [Australia](#) on development of a potential new malaria vaccine.

Additionally, In July 2015, Modi added 39 drugs to a list including over 500 drugs that are [price-controlled](#), in an attempt to make antibiotics more affordable. Whether or not price caps truly contribute to accessibility is questioned by the healthcare research firm IMS Health, which argues that price caps actually benefit high-income rather than low-income patients.

In October of his first year in office, Modi launched his major sanitation drive, [Swachh Bharat](#), or “Clean India.” The goal of the program is to provide toilets to over 60 million homes in India by the 150th anniversary of Mahatma Gandhi’s birth in 2019. This measure is a step towards eliminating the myriad health problems associated with poor sanitation and waste disposal, such as: diarrheal deaths, hepatitis A, and malnutrition. Since the Swachh Bharat program began, Modi’s government has succeeded in building over [5.8 million toilets](#). However, many remain unused, due to a failure to effectively communicate the benefits of latrines and incentivize their usage.

In keeping with the Modi government’s emphasis on holistic health policy, India launched [National Mental Health Day](#) on October 10th, 2014, part of “Mental Health Action Plan 365.” This plan is the first policy on mental health the Indian government has established. Previous stand-alone laws regarding the mentally ill, such as the 1912 Indian Lunacy Act and the 1987 Mental Health Act, were few and far between, with an emphasis on [caretaker issues](#) rather than patient well-being. Health Minister Harsh Vardhan explained that the [aims](#) of the new policy are to destigmatize mental health issues, increase understanding, and extend access to mental health treatment, especially for the impoverished. The plan is intended to provide information and training on mental health issues to general practitioners and fund the opening of departments of psychology and psychiatry across the country.

Modi has also demonstrated his commitment to elevating the benefits of yoga on a [national](#) and international level. In November 2014, India established a Ministry of

Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy systems (AYUSH), to promote awareness and use of traditional medicine. On June 21, 2015, Modi's proposal at the UN for an [International Day of Yoga](#) came to fruition, with [191 countries and 40,000 individuals](#) participating.

India has looked to expand international bilateral cooperation on health issues as well, and with the United States in particular. On June 25, 2015, India and the United States inked several [Memorandums of Understanding](#) on cancer research, environmental and occupational health prevention, and on antimicrobial resistance research.

The government has also worked to bring healthcare initiatives under the Make in India umbrella. As of late 2014, India was importing close to 70% of the medical devices it uses. In an attempt to make India's health manufacturing more self-reliant, the Modi government has approved [100% foreign direct investments](#) (FDI) in medical devices. This measure will support opportunities for development and capacity building in the health manufacturing sector. Recently, the Department of Pharmaceuticals has proposed the establishment of a National Medical Device Authority, to serve as a regulatory body for medical devices. If implemented, this initiative could also encourage local manufacturing and [reduce reliance on imports](#).

Challenges and Opportunities

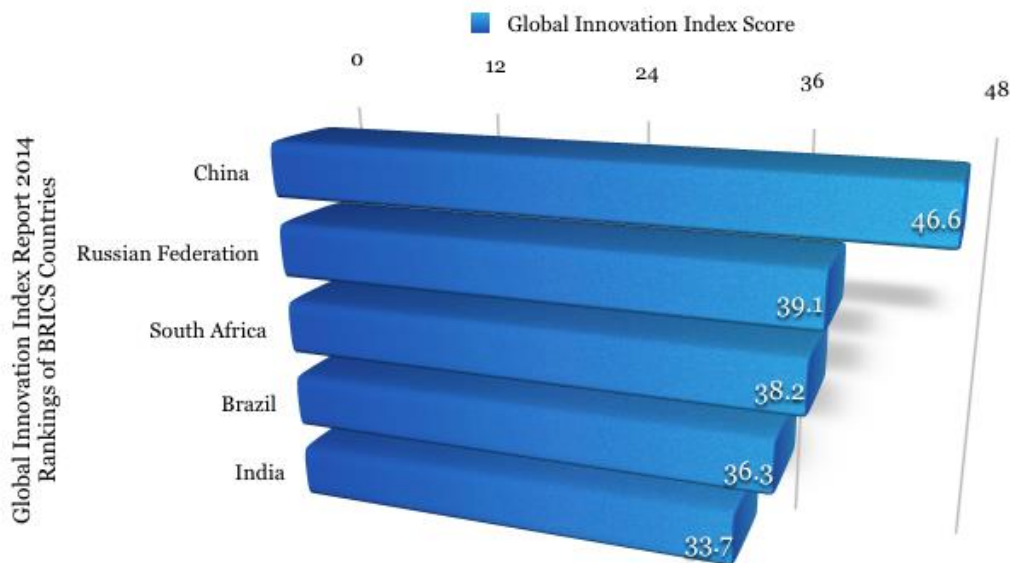
Despite the modest steps the Modi government has made towards increasing the level of health care available to its citizens, there are still many challenges. The persistence of unsanitary public practices such as open defecation and the long-standing stigma towards mental health issues limit the efficacy of health care advances in India. Increased investment is required, both by the government and private sector actors, to build India's healthcare infrastructure, train and equip healthcare professionals, and provide drugs.

The Modi government has the opportunity to use its smaller-scale successes as a springboard to larger reforms. The addition of more institutes like AIIMS across the states is a step towards increased healthcare access. The continued implementation of Swachh Bharat and opening up to joint drug development with international partners are good avenues for incremental, bottom up change with large-scale benefits. Beyond these measures, India may want to look to a joint [public-private sector](#) approach to push through the kinds of sweeping reforms that PM Modi intends, without getting tied up in red tape.

Intellectual property rights & Innovation

Introduction

Despite garnering accolades for becoming the world's fastest growing economy, India has yet to fulfill its potential in the field of innovation. This year, [The Global Innovation Index's 2014 report](#) dropped India ten places to 76th while every other BRICS country climbed in the rankings. Even with the Indian government's campaigns to encourage domestic innovation, an unsubstantial commitment to research and development (R&D) has thwarted these efforts.



Innovation in India

At Hudson's March 2014 conference, [Robert Shapiro](#) argued that R&D is a critical driver of indigenous motivation, yet India only allocates .76% of its overall GDP to this sector. This is a meager disbursement when compared to investments by the United States and even the other BRICS (Brazil Russia India China and South Africa) nations. India's economic growth is further impeded by the government's domination of R&D activities through a "[bureaucratic and rigid](#)" system. In addition, weaknesses in higher education and the absence of private venture capital limit businesses' ability to stimulate domestic innovation. In 2007, the Indian government accounted for [62%](#) of all R&D investments, while businesses accounted for just 34 percent. In order to further economic development and

become more competitive on the global scale, India must increase its commitment to innovation and R&D.

India boasts a number of institutes of higher learning especially in the areas of science and technology. However, there are insufficient resources and support available for a majority of these institutions and their scientists and experts. The solution is foreign investment in Indian R&D. However, in order to ensure this investment, foreign actors need to be assured that intellectual property (IP) rights will protect them from local imitations and ensure a sizable market. [Studies](#) demonstrate that it is far more costly for developing countries to ignore IP rights than protect them. A recent [World Bank](#) study pointed out that, “the world’s greatest economic gains have been achieved by developing nations that have both protected IP rights and have aggressively opened their economies to foreign technologies and business methods.” Countries with weak IP rights receive relatively less foreign direct investment (FDI) and less technologically sophisticated investments. Stricter laws could enhance modernization and indigenous capacity for economic innovation.

Modi Administration

Over the past year, Modi has worked to improve the climate for innovation in India. In April 2015, while speaking at [a three-day Global Exhibition of Services](#), Modi stated that “India must also work on intellectual property rights guidelines to match global standards.” He further asserted that “if we (India) don’t work towards bringing our intellectual property rights at par with global parameters, then the world will not keep relations with us. If we give confidence to the world on IPR, then we can become a destination globally for their creative work.” This is in contrast to the views expressed by Commerce and Industry Minister [Nirmala Sitharaman](#) that India is fully aligned with international intellectual property rights standards and that “there is no need for anyone to question us.”

The government’s [Make in India](#) program is designed to increase investment, innovation, skill development, and protect [intellectual property](#), while also building manufacturing infrastructure. The government has also attempted to improve infrastructure to support IP administration and aims to strengthen the IP regime’s services. In November 2014 the government announced the creation of [a six-member intellectual property rights](#) think tank within the Department of Industrial Policy and Promotion (DIPP) to draft [India’s National Intellectual Property Rights \(NIPR\) Policy](#) and to advise on IPR issues. In December 2014, the think tank submitted a first draft of the National IPR Policy and sought feedback from the public. The policy is [comprehensive in nature](#); it seeks to raise IP awareness, strengthen the innovation ecosystem, recommend legislation, review all IP rules, and create an IP exchange that can be integrated into national policy. Finally, it calls for a high level body to oversee the development and implementation of India’s IP laws. Despite making the IP regime better understood, this policy has the potential to languish at the fringe of bureaucracy. As early as August 2014, Mark Schultz argued that any new NIPR (National

Intellectual Property Rights) policy must go “hand in hand” with India’s ‘Make in India’ policy to provide substantial gains.

In June 2015 the Department of Industrial Policy and Planning released a [multifaceted strategy](#) to strengthen the IP regime and transform the IP Office. These changes include an addition of 1033 employees to address backlogged patents and trademarks flowing through a transparent, centralized server and online e-filing system. The e-filing system provides a 10% rebate on online submission and allows the use of debit cards, credit cards, and internet banking to complete payment transactions. Micro, small, and medium enterprises receive a 50% fee reduction. The plan encourages international cooperation by operationalizing the Madrid Protocol to protect trademarks in 90 countries and recognizes the International Search Authority and the International Preliminary Examining Authority. These changes address many of the suggestions covered in the NIPR think tank’s draft publication, but their success relies upon the strength of the judicial enforcement.

US & India

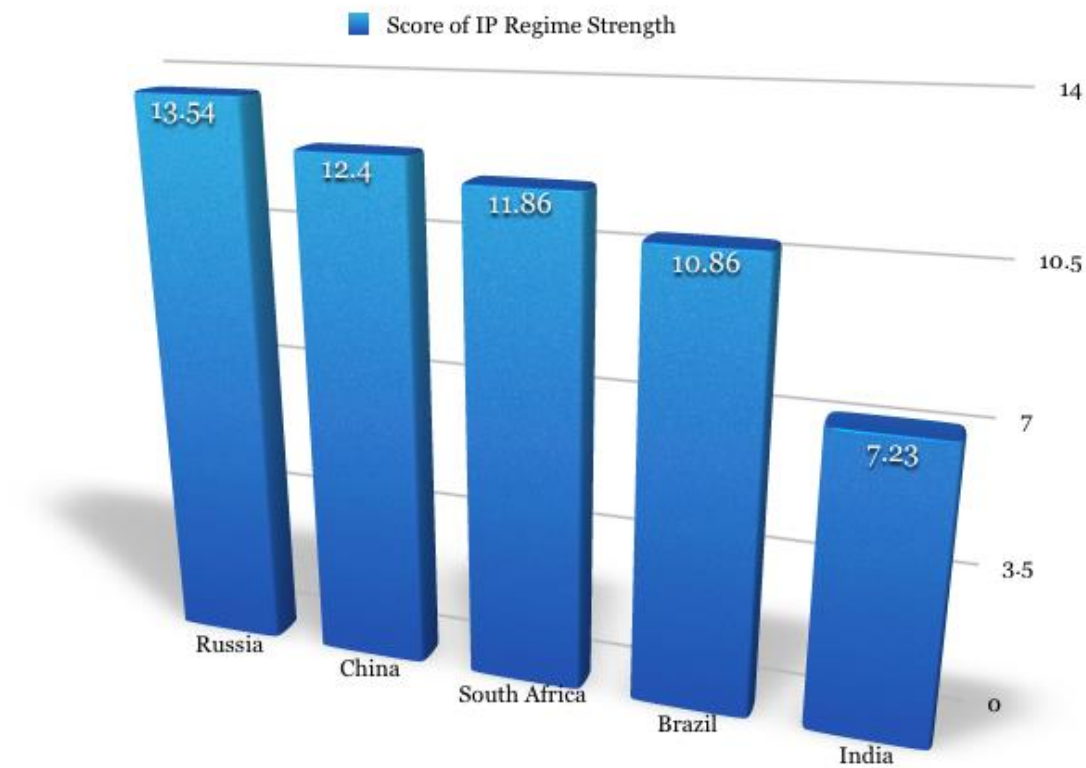
A [survey](#) of US-based multinational firms demonstrated hesitation to do business in India due to its failure to protect IP rights. Intellectual property rights have become a bargaining chip in India-US trade negotiations and have sparked fears that foreign multinational companies will monopolize local economies and horde technology from others. India’s weak IP laws are holding [three sectors](#) back in particular: technology, entertainment, and pharmaceuticals.

Over the last two years, the Indian government has [attacked foreign pharmaceutical companies](#) aggressively. In March 2012, firms were permitted to make generic copies of a kidney cancer drug still patented by Bayer AG. Pfizer’s patent on Sutent, a tumor and kidney cancer drug, was revoked later that year. Gilvec, a leukemia drug, was denied patent protection in early 2013 and Roche relinquished rights to the drug Herceptin after warnings that the Indian government would challenge the patent in court. Meanwhile, the Business Software Alliance reported that India’s piracy levels are at [60%](#) and US [\\$2.9 billion worth of software](#) was illegally installed in 2013.

A first step in bilateral collaboration between the United States and India on IP rights came in September 2014 during Prime Minister Modi’s official visit to Washington. Modi appealed to the Indian-American community to invest in India, pledging to [repeal obsolete laws](#). True to his word, [125](#) meaningless Appropriation Acts were rescinded by May. [He also met with multinational corporations](#) to discuss corporate sector procedural reform and enhanced investment incentives. Obama and Modi issued a [joint statement](#) declaring commitment to the promotion of a positive business environment. The leaders established an annual high-level Intellectual Property (IP) Working Group which will hold “appropriate decision-making and technical-level meetings” as part of the Trade Policy Forum.

According to the United States' ambassador to India, [Richard Verma](#), success of "Make in India" is dependent on the overall economic and investment climate and "a high-standard BIT (bilateral investment treaty) would further enhance investor confidence and send an important signal to US investors, especially infrastructure investors, that India is open for business."

In late April, the US Trade Representative's Office report placed India on the US priority watch list for IP rights violations, but it acknowledged signs of progress. Modi's recent [demands](#) for a stronger IPR regime, a new bill increasing the limit on foreign investment in the insurance sector, and a new five-year foreign trade policy provide substantive progress towards implementation of the [WTO Trade Facilitation Agreement](#).



Global Intellectual Property Center's 2015 Index Rankings

Challenges and Opportunities

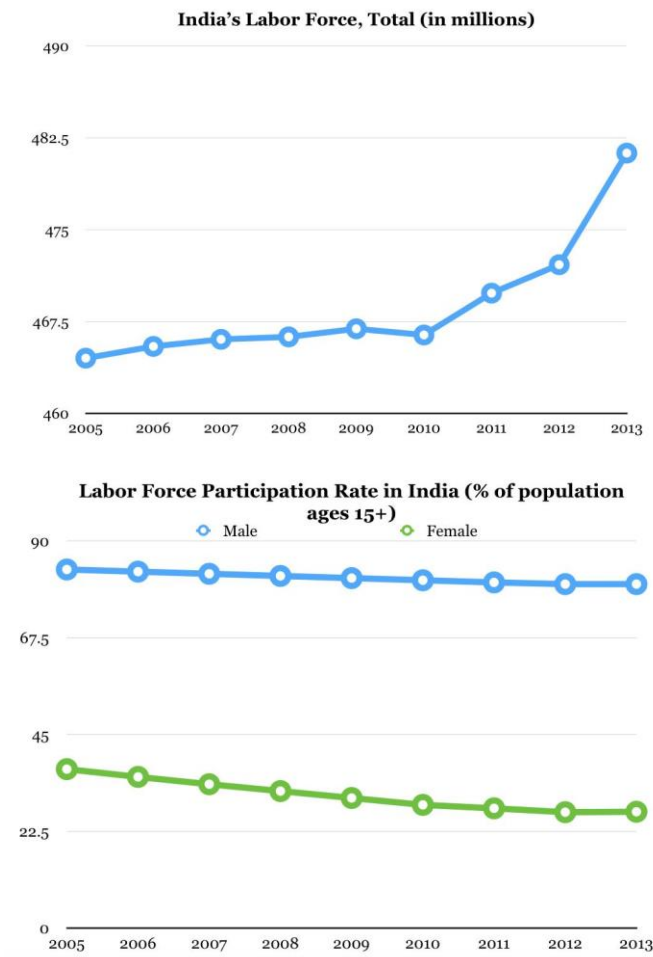
India's low gross domestic expenditure on Research and Development as a percentage of GDP (.76%) and government domination of research and development provide poor support for domestic innovation. The country's weak intellectual property regime discourages foreign direct investment and technologically complex investments. This combination creates obstacles in the technology, entertainment, and pharmaceutical sectors. India has the opportunity to leverage its new NIPR policy in conjunction with the "Make in India" campaign to overcome these challenges. The DIPP think tank's draft and subsequent changes

to the IP regime, as well as the reorganized IP office, promise better protections and heightened innovation.

Reforming the Labor Market

Introduction

India's young population gives the country an edge over nearly every other major Asian economy for the foreseeable future. From a purely statistical standpoint, India appears to have a comparative advantage in labor. Over a quarter of the world's workers are Indian (nearly 500 million workers, [according](#) to the International Labor Organization), and an additional 300 million Indians will enter the eligible labor force by 2025. As a result, India will benefit from a [labor surplus, at a time when](#) the global economy is facing a labor shortfall. India's labor market will thus be a great asset to the country's economic strength.



Yet, India has failed to properly utilize this advantage thus far. Myriad laws bar India's labor force from achieving its true potential. Laws like the [Industrial Disputes Act](#) (IDA, enacted in 1947) constrain businesses who want to hire or fire employees. The IDA requires that any firm that has over 100 workers must obtain

permission from the government in order to fire or hire employees, severely constraining India's manufacturing potential. For over a decade, economists have [highlighted](#) the necessity of reforming these laws, to little or no avail.

Modi Government & Labor

The election of Narendra Modi in May 2014 brought hope to Indian observers that a strong, reform-oriented prime minister would take the difficult steps necessary to address the nation's labor problems. However, these challenges remain steep. For instance, gender equity in the labor market has yet to be achieved. While [80%](#) of men 15 years of age or older are active in the labor force, only [27%](#) of women are. Additionally, a large portion of the Indian workforce remains outside the reaches and benefits of the organized economy. By some [estimates](#), at least 400 million Indians are working in the informal economy. According to the data [supplied](#) by The US Bureau of Labor Statistics, up to 80% of the workers in India's manufacturing industry, including the contract workers, are unregulated and remain outside the organized sector.

The [BJP election manifesto](#) briefly discussed the importance of labor to Modi's vision for jumpstarting the Indian economy. The manifesto described the desire to review the country's labor laws and set up a pension and health insurance safety net for laborers across the nation.

State-led initiatives

The Modi government has adopted a policy allowing two states led by BJP governments—Rajasthan and Madhya Pradesh—to adopt labor reform initiatives. Rajasthan and Madhya Pradesh have enacted radical labor reforms, such as streamlining the process of hiring and firing employees, allowing the states to establish a more competitive business environment. However, reforms at the state level alone are insufficient. It is necessary to expand these reforms to the national level to make India's labor market globally competitive.

At Hudson Institute's August 2014 conference, two experts examined the issue of labor in India. While some labor reforms had been announced at the time, the efforts were primarily contained to the state level. Hudson Institute President Dr. Kenneth Weinstein [observed](#) that the reforms being carried out in Rajasthan could potentially be useful as a model for the rest of India. These included revisions to the Factories Act, Industrial Disputes Act (IDA), and the Contract Labor Act. The Factories Act dealt with factory safety conditions but instead stifled factories with regulation. With reforms to the Contract Labor Act, contract laborers would have wages and benefits on par with regular workers. By enacting these reforms, Rajasthan is creating a stable, prosperous business environment.

The potential of implementing such reforms, while also improving workmen's compensation to enhance the labor markets was [highlighted](#) by Takshashila Institute expert Mukul G. Asher. Emphasizing India's favorable demographics, he suggested several different initiatives that the Modi government should undertake to improve India's labor market. These include: allowing women to work at night,

shifting labor from agriculture to non-agricultural occupations like manufacturing, and continuing Rajasthan-like reforms. This would simultaneously improve benefits for workers by ensuring a minimum pension, modernizing the Industrial Training Institutes (ITIs), and rethinking the MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) to include non-agricultural training programs to encourage labor mobility.

Shramev Jayate

On October 16, 2014, Modi [announced](#) the first set of initiatives to be implemented in the labor market. Resembling Mukul Asher's recommendations, the program will increase the number of apprentices that the ITIs will train. Among the initiatives announced in Modi's [Shramev Jayate](#) program for labor reform includes simplifying some of the regulation processes as well as providing employees new access to benefits. The regulations have also been [streamlined](#) for various compliance processes. Instead of filling out 16 different reports for each of the labor laws, employers now only need to complete a single report. The inspection process will also be detailed online for transparency's sake. Finally, the [program](#) will make it easier for employees to access their savings held by the government. However, these reforms are relatively minor in scope.

In June 2015, the government [announced](#) it was preparing a bill for the upcoming parliamentary session concerning labor reform. If passed, it would be the largest [reform](#) of the country's economy since India opened up in 1991. In line with recommendations proposed at Hudson's August 2014 conference, the Modi government has decided to use the examples of Rajasthan and Madhya Pradesh in drafting the reform bill. This includes changing regulations to make firing and hiring easier for companies and increasing the severance package for workers, among other reforms in the bill. The three largest labor laws, the Trade Unions Act, Industrial Disputes Act, and the Industrial Employment (Standing Orders) Act, will be [merged](#) together to form a single code for industries to follow. Indeed, all 44 central laws for labor will be [merged](#) into four different codes for labor including wages, social security, industrial relations, and safety and welfare.

Challenges & Opportunities

Modi's reforms in the labor market have been incremental in part due to the potential backlash that the government could face from unions across the country. Indeed, some BJP officials have [expressed](#) doubt as to whether the central government should take the political risk of reforming the labor markets. The bill will face opposition not just from labor unions but also from political parties from the Congress to those on the left of the spectrum. In order to reduce this opposition the Modi government is [working](#) to bring states and trade unions around to support the reform bill. India's labor market faces several challenges: outdated regulations, gender inequality in the workforce, laborers who remain outside the formal economy, and political pushback against potential reforms. At the same time, the Modi administration has several opportunities to properly utilize India's laborers to further grow the country's economy. With a comparative advantage in labor, measures to improve women's participation in the labor markets, promoting

labor mobility between agriculture and non-agricultural occupations, initiatives like the *Shramev Jayate*, and a labor reform bill, the government has many opportunities to address these challenges. The next four years will show whether Modi can harness India's economic strength through labor market reform.

Trade, Investment, and Capital Markets

Introduction

Following Modi's landslide victory last year, India's potential for economic expansion seemed closer to realization. However, India's history of corruption, excessive government intervention, and limited liquidity have prevented the growth of functioning capital markets and stable investment returns. Sturdy capital markets are required to achieve high rates of development and advancement in India.

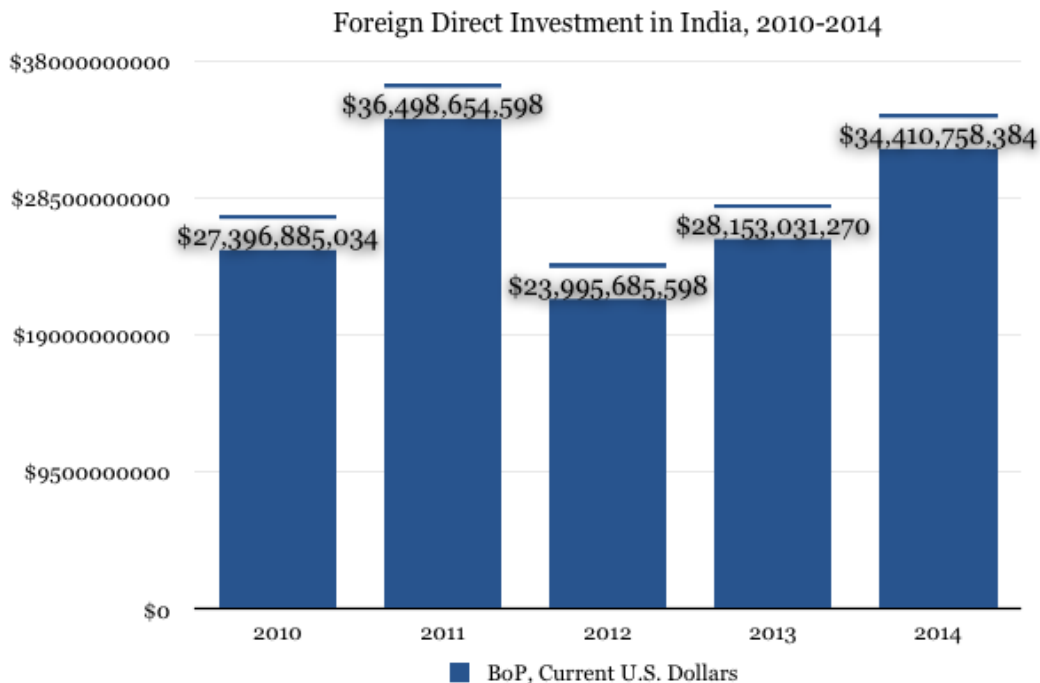
Background

During Hudson's conferences in both March and August 2014, [experts offered](#) a number of solutions to increase trade, foreign investment, and the growth of capital markets in India. Nagesh Kumar emphasized the need to facilitate entrepreneurship and innovation in order to revive manufacturing. Chaitanya Pande predicted that if India can organize its savings into "productive channels" the next ten years will be marked by massive opportunity for Indian capital markets. In order to achieve this, Pande argues that regulatory and institutional frameworks, as well as intermediation of retail savings, must be reformed. He also claims that India will require \$500 billion in the next five years to fund its infrastructure needs.

Modi Administration

Modi has made efforts to increase government transparency in order to fuel foreign investment and domestic innovation. He has implemented numerous investor-friendly and open-door trade policies in the areas of capital markets, infrastructure, and foreign investment to encourage modernism and reformism in the Indian economy.

Modi has also planned to spend \$15.7 billion on infrastructure projects in 2015. He proposed an infrastructure company, [the National Investment and Infrastructure Corp](#) to attract private investors from around the world. In his first year in office, Modi decreased capital requirements for private sector airport developers, resolved to contribute up to 40% of public-private highway development, and agreed to allow companies to own private power plants to facilitate loan processing.



Data Source: World Bank

India & WTO

However, in a disappointing setback in foreign trade relations, [India refused to meet the World Trade Organization's deadline](#) on the Trade Facilitation Agreement (TFA). The deal aimed to streamline international trade procedures, potentially resulting in the addition of \$1 trillion into the global economy. India [expressed concern](#) that the TFA would “undermine” the country’s budget for specific food supplies needed for its large impoverished population.

At the Hudson-Takshashila joint conference in August, Michael Owen Moore [argued](#) that it is vital for India to resolve this issue and remain in the WTO as a major player. Regardless of the results of international negotiations, Moore asserted that far reaching economic reforms will encourage trade and investment into the country.

The U.S. and India were able to reach a mutually agreeable [solution](#) after a bilateral summit in September 2014. Assurances were made that India’s food security programs would be held intact “indefinitely until a permanent solution regarding this issue has been agreed and adopted.”

Goods & Services Tax

In December 2014 Modi proposed [the Goods and Services Tax](#) to comprehensively tax the production, sales, and consumption of merchandise and services nationally. Its purpose is to consolidate state economies and foster growth. Narayan

Ramachandran [argued](#) that the GST creates profitable value-added taxes on certain products with the exception of alcohol and petroleum, and therefore should be implemented. Notable economist Mihir Sharma, however, [claimed](#) that the GST “could kill demand, growth, and recovery.”

Trade Deficit

The Modi government has also addressed India’s outstanding trade deficit. [Figures](#) for India’s latest fiscal year (ending in March) showed that India’s merchandise exports stood at \$310.5 billion with imports at \$447.6 billion. Unfortunately, this meant a wider trade deficit (\$137 billion for 2014-2015) than the previous fiscal year (\$135.8 billion).



To balance the deficit, the Ministry of Commerce [unveiled its new foreign trade policy](#) in April 2015, announcing \$900 billion in export targets for 2015-2020. This will be achieved by introducing new incentive schemes for goods and services. Commerce minister Nirmala Sitharaman stated that the plan coincides with Modi’s recently announced strategies of “Make in India,” “Digital India,” and “Skill India.” The new foreign trade policy intends to diversify India’s service and product exports in engineering, pharmaceuticals, textiles, and yoga. (Graph sources: World Bank)

Foreign Investment

2015 also marked a number of noteworthy international visits for PM Modi, in which he discussed investment, trade opportunities, and agreements with prominent world players. During his April [visit to Canada](#), Modi discussed the role of civil nuclear technology and energy in increasing bilateral trade. During his [tour of France and Germany](#) in April 2015, Modi encouraged non-resident Indians

living in Berlin to promote India as a manufacturing center in line with his “Make In India” initiative. He secured a joint [agreement with](#) France to expedite the development of the Jaitapur nuclear plant. In addition, India and France signed twenty pacts for research in civil nuclear energy, urban development, and railways. France also pledged €2 billion towards sustainable development and agreed to co-finance the research and plans for a high speed railway system in India. On Modi’s trip to Bangladesh in June, Modi [announced](#) his desire for connectivity between all of India’s neighbors through various economic development plans. These plans include a coastal shipping agreement between India and Bangladesh, promoting Indian investments and increasing the power supply to Bangladesh, and cultivating joint regional development with Bhutan and Nepal.

On July 16, Finance Minister Arun Jaitley [announced](#) new measures to simplify foreign investment rules. Various types of foreign investments will be grouped together to form a single composite cap in several industries including tea, mining, and retail. Banks in India [reacted](#) positively to the news, and expect to raise up to \$1 billion in capital as a result. Other industries like defense and insurance have had their FDI cap [increased](#) to 49%, before having to undergo extensive government regulations.

Challenges and Opportunities

The changes that have been implemented thus far have moved India in a favorable direction towards reaching its economic potential. Despite its progress, however, India is faced with the challenge of overhauling its foreign trade policies and its infrastructure. Restoration of investor confidence is also required in order to facilitate greater influx of foreign direct investments.