As the Modi government starts its second term, job creation sits atop the agenda. The Modi government did undertake fundamental reforms that impacted multiple sectors in its first term, such as passing the Goods & Services Tax, passing the new Insolvency and Bankruptcy Code, dissolving the Foreign Investment Promotion Board (FIPB), amending tax treaties with Mauritius and Singapore, and creating the Business Reforms Action Plans (BRAP) ranking of states’ business environments. Other crucial reforms demand immediate attention if India is to trigger the kind of growth required to create jobs for its bulging youth market and under-employed urban migrants.

My “Super 7” areas for immediate attention:

1. **Mandate Thoughtful Regulatory Processes:** Regulatory instability remains the most distressing factor of doing business in India. Firms can be cautious to make capital commitments and hire employees when regulatory uncertainty looms overhead. Certainly, no regulatory body charged with balancing consumer interest and private sector growth can abdicate its responsibilities. However, there must be a more thoughtful approach.
   a. Clearly define the problem;
   b. Articulate a preferred end-state;
   c. Conduct a cost-benefit analysis of potential approaches; and
   d. A mandatory 30-day notice and comment period.

2. **Revitalize Competitive/Cooperative Federalism:** States have more impact on India’s development trajectory than the central government. The Modi government did more to stoke competition among states than any recent Indian leader. Yet this momentum to challenge states has flagged in recent years. The standards of the Business Reform Action Plan (BRAP) must be significantly strengthened; Delhi needs to re-engage in crafting “model laws” for states to consider adopting in areas such as land acquisition and labor regulation as they did with the model Shops & Establishments Act and the Land Lease Law; and more.

3. **Unshackle Foreign Investment:** Many sectors still have foreign equity limitations, and/or underlying rules that create a differentiated regulatory environment from domestic firms. Barring sectors critical to national security, the Modi government should immediately remove all remaining foreign equity caps and regulations targeting foreign firms. Sectors that still have foreign equity limits or regulations that target foreign investors include insurance, retail, pension fund management, banking, defense, and more.

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**KEY DATA**

**+16.5%**  
U.S.-INDIA GOODS TRADE, 12-MONTH COMPARISON, PER U.S. CENSUS BUREAU

**-2.33%**  
FOREIGN DIRECT INVESTMENT, 12-MONTH COMPARISON, PER RBI

**$5.0 bn**  
FII ASSETS NET FLOWS, LAST 12 MONTHS, PER NSDL
4. **“Do No Harm” on Trade Policy**: Rhetoric aside, it is too much to expect Prime Minister Modi to become a true “free trade” practitioner. India’s However, India should **curtail attempts to block imports** through methods such as customs duty hikes, import substitution rules, and price caps.

5. **Help Start-Ups but Beware of Creating Pygmy Environment**: Through Startup India and the Atal Innovation Mission, the Modi government has focused attention on India’s environment for entrepreneurship. Other interventions to simplify the start-up environment should be encouraged. But in its typical heavy-handed approach, India has set rigid structures on the **size and age** of firms that qualify for some types of benefits such as self-certification for some environmental and labor laws. This could discourage growth among start-ups, who will prefer to remain under the protective care of the government.

6. **Get the Government out of Business**: The government of India must make concerted efforts to sell off its stakes in state-owned entities. Some are simply loss-making units that drain the exchequer. In other instances, these firms dominate industry sectors and reduce the space for faster-growing private firms (such as hydrocarbons, insurance, and banking).

7. **Widen Aperture of “Ease of Doing Business”**: India has made notable progress in climbing the World Bank’s “Doing Business” chart. However, India is clearly “studying for the test,” while ignoring many other potential reforms. Case in point- India climbs the World Bank index on “Trading Across Borders” due to the expansion of electronic paperwork and other technical steps. Yet India simultaneously increased customs duties on many products—and customs duties are not part of the World Bank index. While India’s World Bank ranking in this category increased, in practice India closed its market further.

India continues to pull in historically-high levels of foreign investment—averaging **over $40 billion in fresh equity over** the last five years. But this is due more to the size of the domestic market, rather than a reflection of the relative ease of doing business. The ongoing U.S.-China trade fight presents a unique opportunity to capture more investment as global firms diversify—but time is limited to get into the deal flow. And as India’s major firms unwind their debt crises there could soon be a new boom in domestic investment.

There is never a bad time for smart economic reform, but India today faces an important window of opportunity that seldom reveals itself so boldly.

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**INDIA REFORMS SCORECARD**

This month: As of April 2019, nine reforms have been completed, fifteen are partially completed, and six have not been started. Our entire reforms scorecard can be found at [indiareforms.csis.org](http://indiareforms.csis.org)

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