

Modi-fied India? The outcome after two years of Modi

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Prime Minister Narendra Modi came to power in May 2014 after a landslide victory in the parliamentary elections. For the first time in decades a party – the Bharatiya Janata Party (BJP) – won a majority of seats in the Indian house of parliament. Two years later India's economic development is positive and the campaigns that have been launched show initial signs of success. However, until now the ground-breaking economic reforms announced in the election manifesto have not been realised.

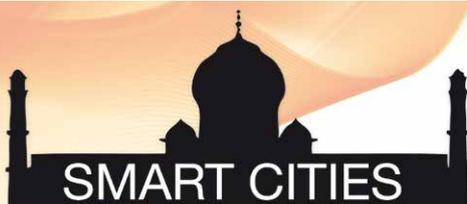
mate' of the previous government finally led to a clear victory for Modi during the May 2014 parliamentary elections. The BJP won 282 seats in the Indian lower house (Indian National Congress Party: 44 seats) and thus gained a historic political mandate to accede to power.

Modi has been able to successfully put into practice one of the electoral promises to improve the macroeconomic situation. According to government statistics, economic growth for the financial year 2015/2016 was 7.6 per cent and India rose to become the fastest expanding economy globally, while in contrast last year China's growth was 'only' 6.9 per cent (albeit at a higher level). The inflation rate is now about five per cent – about half what it was before Modi.

Since taking office Modi has attempted to set a new agenda with numerous campaigns. In addition to 'Skill India', 'Digital India' and 'Clean India' probably the most well-known campaign is 'Make in India'. This aims to attract foreign investors and to transform India into a global production location. As part of the campaign 25 chosen sectors receive special support, including the automotive and automotive parts sectors, renewable energies or infrastructure (ports, rail, roads and motorways).

Thanks to the improvement in India's 'ease of doing business' ranking more attractive general conditions should be created for foreign investors, and Modi would like to improve India's ranking with the World Bank from 130 to 50 (total countries ranked: 189). This involves not only efforts on a national level, but Modi is promoting competition among individual states to foster investor-friendly climates. Gujarat and Andhra Pradesh States are top of the rankings, but Maharashtra and Karnataka also appear among the ten most attractive Indian states. Infrastructure initiatives such as the Industrial Corridor Projects or the creation of industrial clusters should attract new investors as well as resolve logistical challenges. All Indian cities could apply to participate in the 'Smart Cities' initiative, and the first twenty cities have in fact been selected with further selection underway. Participating cities will get a lot of support in numerous areas from water/sewage and waste disposal to traffic and medical systems. The opening of vital sectors such as defence, construction and rail as well as intense supervision for new investors should also ensure that in future India attracts a higher number of investors.

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|----------------------------------|------------------------------|
| 1 Bhubaneswar Odisha | 11 Indore Madhya Pradesh |
| 2 Pune Maharashtra | 12 New Delhi Municipal Corp. |
| 3 Jaipur Rajasthan | 13 Coimbatore Tamil Nadu |
| 4 Surat Gujarat | 14 Kakinada Andhra Pradesh |
| 5 Kochi Kerala | 15 Belagavi Karnataka |
| 6 Ahmedabad Gujarat | 16 Udaipur Rajasthan |
| 7 Jabalpur Madhya Pradesh | 17 Guwahati Assam |
| 8 Visakhapatnam Andhra Pradesh | 18 Chennai Tamil Nadu |
| 9 Solapur Maharashtra | 19 Ludhiana Punjab |
| 10 Davangere Karnataka | 20 Bhopal Madhya Pradesh |

This are the first 20 cities that will be developed to 'Smart Cities' within the next years.

As former Chief Minister of Gujarat State, Modi earned a reputation as a reformer and a politician who was sympathetic to business. Therefore, not without reason this state counts amongst the national pioneers in terms of economic growth, expansion of infrastructure and investor-friendly business climate. The population's apathy under the 'stale-

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Examples such as the Taiwanese company Foxconn, which set up production in 2015 in Andhra Pradesh State, and has now announced further investments worth five billion US dollars in Maharashtra State, demonstrate initial successes for the 'Make in India' campaign. The statistics also reinforce this trend: for instance, India was named by the Financial Times as the most popular destination for green field investments during the first six months of 2015, even ahead of China and the US. However, in addition to actual transactions, pre-announced projects are also included in the statistics so these figures are to be read with caution.

Modi's international relationship building has been a significant factor with his state visits usually followed by commitment of investment. For example the Indo-German governmental consultations in October 2015 set up a fast track mechanism for German companies to deal with actual corporate concerns or also general problems like anti-corruption measures. This system has been up and running since March 2016.

This all looks good, but despite the many campaigns and positive changes, resentment is spreading among business enterprises almost two years after Modi's electoral victory. This is because up until now the announced reform plans have only been implemented on a step-by-step basis or not at all. Some of these delays are not the fault of the Modi government but all the frustration effects public opinion.

There are three particular planned changes that illustrate this: the introduction of the uniform Goods and Services Tax (GST), the simplification of land acquisition and reforms of employment legislation.

The GST bill would involve the biggest tax reform in the history of independent India – if this were ultimately passed as law. However, not only both houses of parliament must approve its introduction, but also at least half of the Indian states. Currently, the draft bill is being blocked in the Indian upper house of parliament where the Modi government does not have a majority. During the parliament's winter session in December 2015 the bill was therefore not passed and it is unclear whether a decision will be reached during the current legislative round, which still convenes until mid-April 2016. However, if during this time the new allocation of seats should be made in accordance with the last 2015 regional

elections – this always occurs with time delays – the Congress Party would lose more seats and so it would be more difficult to block the bill.

Legal provisions concerning land acquisition are regarded as the reason for delays in investments and, in particular, for infrastructure projects as well. Sometimes these stipulate that 80 per cent of the involved population must agree to the acquisition. The Modi government proposed that these consensus rulings should be suspended and land acquisition should therefore be simplified in certain areas. This may make sense for business but it is not very popular amongst voters who do not see the potential benefits – only the potential for unilateral decisions made about their homes. After several directives were approved in the upper house, Modi suspended several further directives in the summer 2015 to avoid losing any more votes in the pending regional elections in Bihar. In 2016 another five regional elections are time-tabled, followed by two regional elections in 2017. Faced with these challenges, it will be difficult for Modi to adhere to his reform proposal.

The planned change to labour legislation on a national level also led to opposition. Following the model of Rajasthan – companies here with up to 300 employees can now dismiss workers without regional governmental approval – the reform is slated to be implemented on a national level. However, in September 2015 about 150 million workers went on a 24-hour strike to challenge the plan after an appeal from the ten biggest Indian trade unions.

The implementation of the reforms will therefore also remain a challenge for Modi in future. Due to the diversity of supporters in his party such as nationalists, yet also members sympathetic to business, Modi must always build compromises to avoid losing any votes. Another reason for the slow progress of the reforms can sometimes be justified by the fact that Modi set out his programme over two five-year terms in office, so a longer time window exists for the implementation of the promised reforms. Understandably, therefore, changes are only implemented on a step-by-step basis. Nevertheless, companies ought not to disregard the fact that India as a whole is on a positive course and that many ground-breaking initiatives have already been established for a 'modi-fied India'.

What is Holi?

Holi – also called 'Festival of Color' – is one of the most known annual festivals in India. Holi celebrates spring, commemorates various events in Hindu mythology and is time of disregarding social norms and indulging in general merrymaking. The timing of Holi is synchronized with the moon, which means that the dates of each celebration varies year on year. The first day of Holi is always the day of the full moon between February and March.

The central ritual of Holi is the throwing of colored powders. This once had medicinal significance. To stave off colds and viruses the powders were traditionally made from natural medicines. Today most of the colored dye is synthetically produced.

Originally, Holi was an agricultural festival celebrating the arrival of spring with human beings and nature alike throwing off the gloom of winter and rejoicing in the colors and liveliness of the new season. This ritual is said to be based on the story of Krishna and Radha as well as on Krishna's playful splashing of the maidens with water. But most of all it celebrates the coming of spring with all its beautiful colors and vibrant life.



Holi Celebration at M+V India

The new Budget and the issues of foreign companies

In the run up to the Indian Government's Budget we conducted an online survey amongst foreign companies doing business in India and got very clear responses: India is still too complex – especially taxation and bureaucracy and importing is more difficult than it should be. There were strong pleas for the government to set a concrete date for GST, reduce duty and import taxes, improve infrastructure investment and increase the targets for the fiscal deficit. So how well did the 2016 budget address the issues of foreign companies? GST is still stumbling its way through parliament, but there were healthy changes to direct and indirect taxes and investment in infrastructure and skill development that will help India fulfill its potential.

Direct taxes

- Corporate tax is adjusted
 - 25% Corporate tax proposed for companies formed on or after 31st March 2016 and not availing any tax/other incentives
 - Small enterprises will pay 29% corporate tax*
 - All other companies will pay 30% (unchanged)
- Additional surcharge of 2% and 5% on income exceeding Rs 10 million and Rs 100 million
- No changes in the divided distribution tax and Cess (education and high education)

The Government also announced the phase out/modification of major tax incentives in a phased manner, including:

- New units starting production in Special Economic Zones (SEZs) on or after April 01st 2020 will not be eligible for any tax exemption.
- Industries enjoying accelerated depreciation of up to 100% will no longer receive this benefit from 01st April 2017. The highest depreciation rate will be 40%

* Companies with a turnover of less than Rs 50 million in FY 2015-16

- Weighted deductions on various projects/programs like skill development project, social development project, scientific research project cold chain etc will be abolished in a phased manner- most of them from 01st April 2017.
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Indirect taxes

- For most of products, Basic Customs Duty remains unchanged at 10%. However, the budget has introduced exemptions in duties for few products (e.g. machinery for LCD/semiconductor wafer fabrication, engine for hybrid electric vehicles etc.)
- 2.5% tax will be levied on diesel vehicles and a levy of 1-4% infrastructure cess on cars and higher engine capacity vehicles
- Capital goods used in office are made eligible for CENVAT credit with ceiling
- No changes in the rate of service tax rate – 14%.
- An additional cess will be introduced from June 01 2016 Krishi Kalyan (Agriculture) of 0.5%

Major investment proposed in the budget

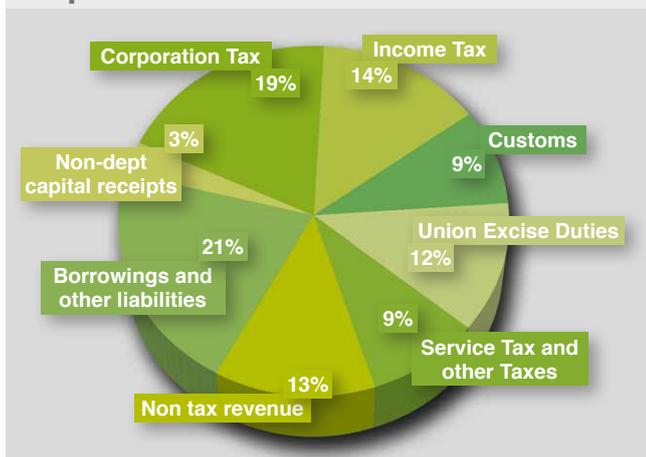
- Roads – USD 14.2 billion
- Other infrastructure (ports, railways, airports etc) – USD 32.5 billion
- Agriculture: Long term irrigation fund – USD 2.9 million; USD 800 million for Crop insurance under Prime Minister Fasal Yojana
- Rural development – USD 50 billion

Other changes

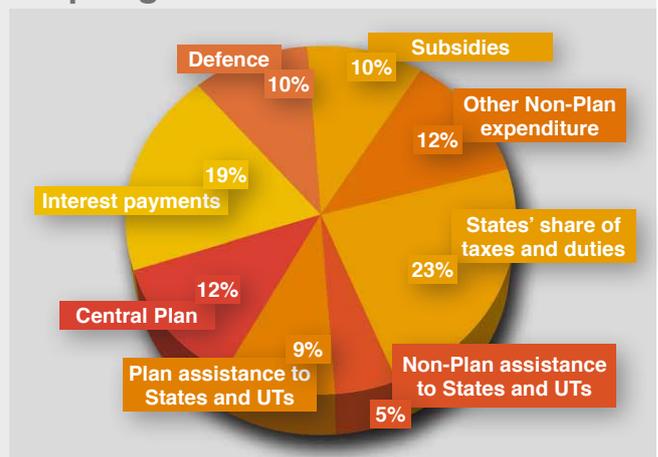
The Government also proposed changes to the FDI policies in select sectors like insurance and pension in order to improve the ease of doing business in India. Government also earmarked specific funds for skill India.

Union Budget 2016-2017

Rupee comes from



Rupee goes to



Japan vs. India – the land of confusion

Japan is the fourth biggest investor in India. Major industries which have invested a lot are transportation equipment, electronics, finance and retail and distribution. Famous large Japanese players in India are well-known companies like Suzuki, Yamaha, Toyota, Honda, Toshiba, Nissan, Panasonic, Hitachi, etc.

We talked to Yashushi Hasegawa of Fenetre, a Japanese Consulting Company, about the differences between India and Japan.

What are the biggest cultural differences between your how business is done in your country and in India?

The Japanese working culture and ethics are very different from India's. Japanese companies love to be extremely well-organized in every aspect of their businesses, and this can seem excessive to many Indian people. In both Indian and Japanese work places indirect communication with high context is preferred, but how this manifests is very different; Japanese managers don't speak a lot directly to their staff but workers are supposed to work out their bosses' expectations by themselves. In addition, Japanese managers love to micro management by monitoring their staff frequently, while India Inc. often functions on the superbly universal phrase 'do the needful'. Any of our Japanese clients need hundreds of pages to answer questions and as a Japanese person visiting Indian companies it can feel difficult to find common aspects in the two cultures.

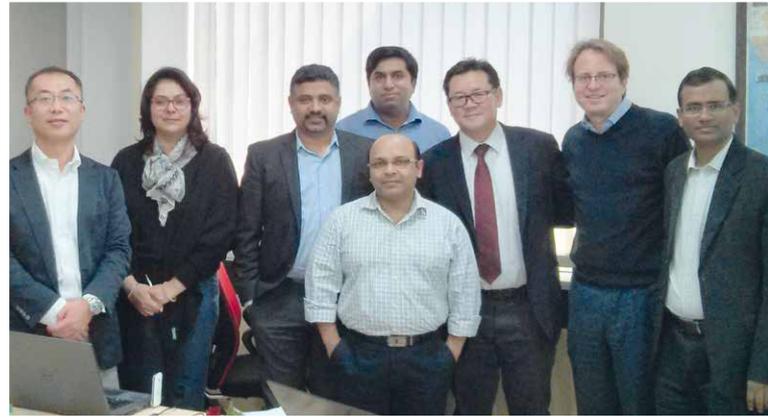
About Fenetre

Fenetre Partners is a leading consulting company of trade, investment, and international marketing, based in Tokyo, Japan. The role of the company is to serve as a bridge that connects international businesses with Japan and the global market, providing various clients with market research, market entry strategy, local partner and distributor search, trade mission support, and representatives for marketing and sales. Its clients are both foreign companies looking to enter the Japanese market and Japanese companies aspiring to go global. Founded in 2008, Fenetre Partners employs 16 staff members and has conducted international projects for over 130 companies in the past 7 years.

www.fenetre.co.jp

How do companies from your country view India?

Japan views India as 'the land of confusion'. Japanese people assume that great opportunities exist in India but at the same time they understand that it's difficulty for them to enter Indian markets. For most Japanese business people who work for multinational companies, India is not an ideal place to be sent as they rate efficiency so highly and their view on India is that everything – from transportation, to delivery, to people – is always delayed.



Yashushi Hasegawa and Satoshi Takayama of Fenetre Partners from Japan visited our office in Gurgaon early this year.

Which segments are the most outward-looking?

Due to the economic slowdown or potential economic crisis in China, many Japanese manufacturers are seeking alternatives for manufacturing sites and growing huge market instead of China. People expect that India can be a great candidate for the both purposes. The typical companies which have interests in India are industrial goods suppliers such as components, machinery, tools, equipment while most consumer goods suppliers focus on ASEAN due to their admiration to the Japanese culture.

What are the biggest challenges companies from your country face?

Every aspect in the Indian business environment can be a large challenge to Japanese companies. A lot of unexpected events happen every day and miscommunications are common place at most offices. This would annoy almost all Japanese business people. They need help from people who are familiar with both cultures.

UPCOMING M+V EVENTS

11 May 2016	Market Entry & Expansion in India Bologna - Italy
31 May 2016	Costs of doing business in India Cologne - Germany
1 June 2016	Costs of doing business in India Zurich - Switzerland
2 June 2016	Costs of doing business in India Munich - Germany
28 June 2016	India Day Cologne - Germany