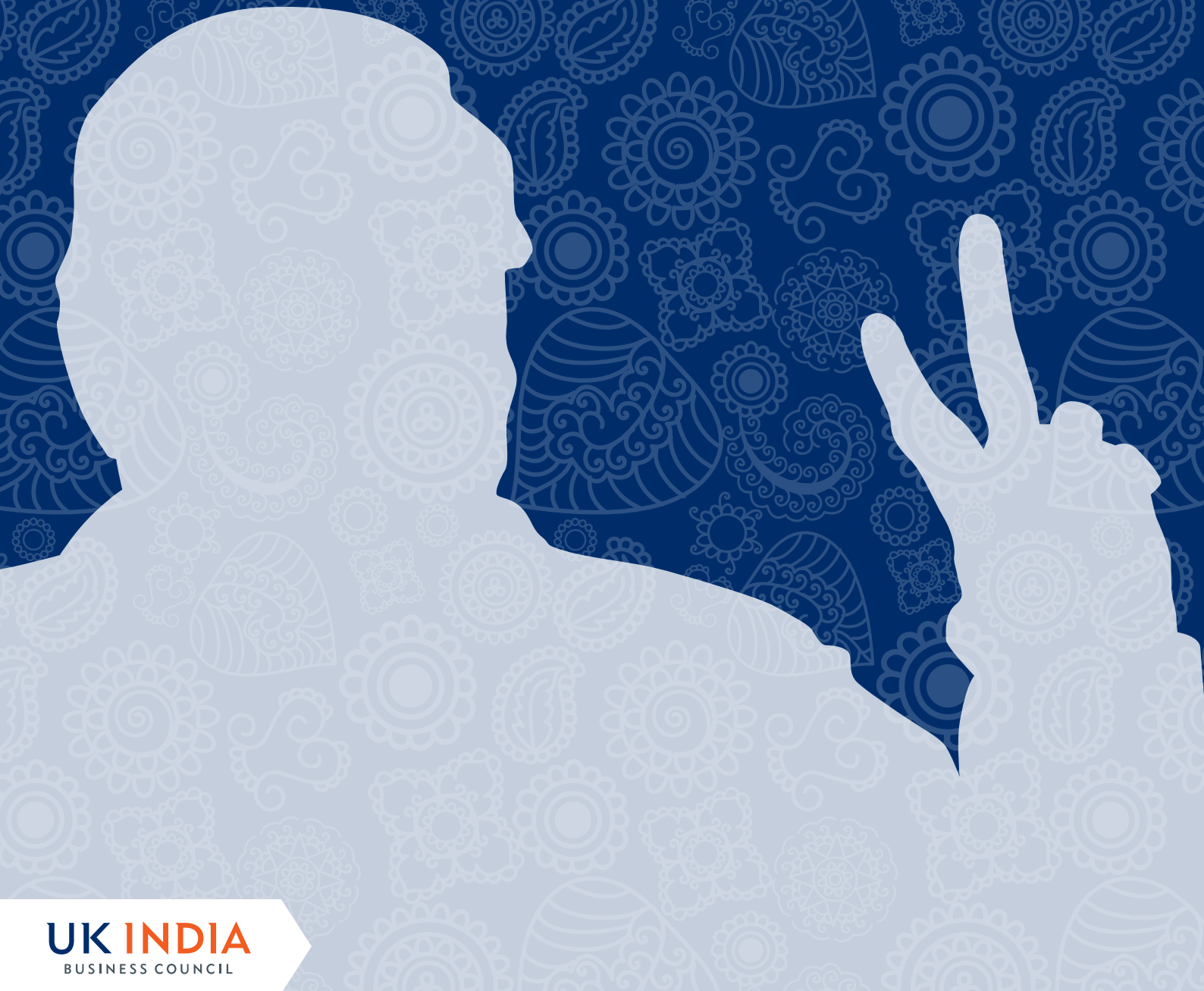


MODI GOVERNMENT PROGRESS REPORT

THE HITS AND THE MISSES
UK INDIA BUSINESS REPORT 2016





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**THE LAST TWO YEARS
HAVE BEEN EVENTFUL IN
BOTH UK AND INDIAN
POLITICS, WITH BOTH
COUNTRIES' POLITICAL,
SOCIAL AND ECONOMIC
LANDSCAPES CHANGING**

01

INTRODUCTION

May 2016 saw the culmination of two years of the Modi Government – a crucial milestone, given the expectations raised and the ambitious promises made. While in the first year, the Modi Government was brimming with optimism and confidence, the second year saw setbacks, alongside success.

Public opinion is divided about whether the PM is achieving what he set out to do.

MEANWHILE, JUNE 2016 SAW THE UK REFERENDUM AND THE NATION'S DECISION TO EXIT THE UK. BREXIT WILL MAKE THE UK'S RELATIONSHIP WITH WORLD-LEADING COUNTRIES, INCLUDING INDIA, EVEN MORE IMPORTANT.

The UK India Business Council decided to produce this report to capture and relay the views of UK and Indian businesses, on progress being made by the Government of India and its impact on the UK India economic relationship.

The contents of this report are derived from discussions held at seminars, roundtables, webinars, interactions with senior government and business figures, as well as from research findings.

To keep up-to-date with the latest UK and India trade, economic and political developments follow us on Twitter [@UKIBC](https://twitter.com/UKIBC)

BACKGROUND

26 MAY 2014 MARKED A LANDSLIDE VICTORY FOR THE BJP – FOR THE FIRST TIME IN 30 YEARS, INDIA HAD A MAJORITY GOVERNMENT.

Hailed by many as the man who was going to revitalise India's flagging economy and propel it into the 21st century, Narendra Modi assumed office amid great fanfare with an ambitious agenda to transform India into a world class manufacturing and export hub.

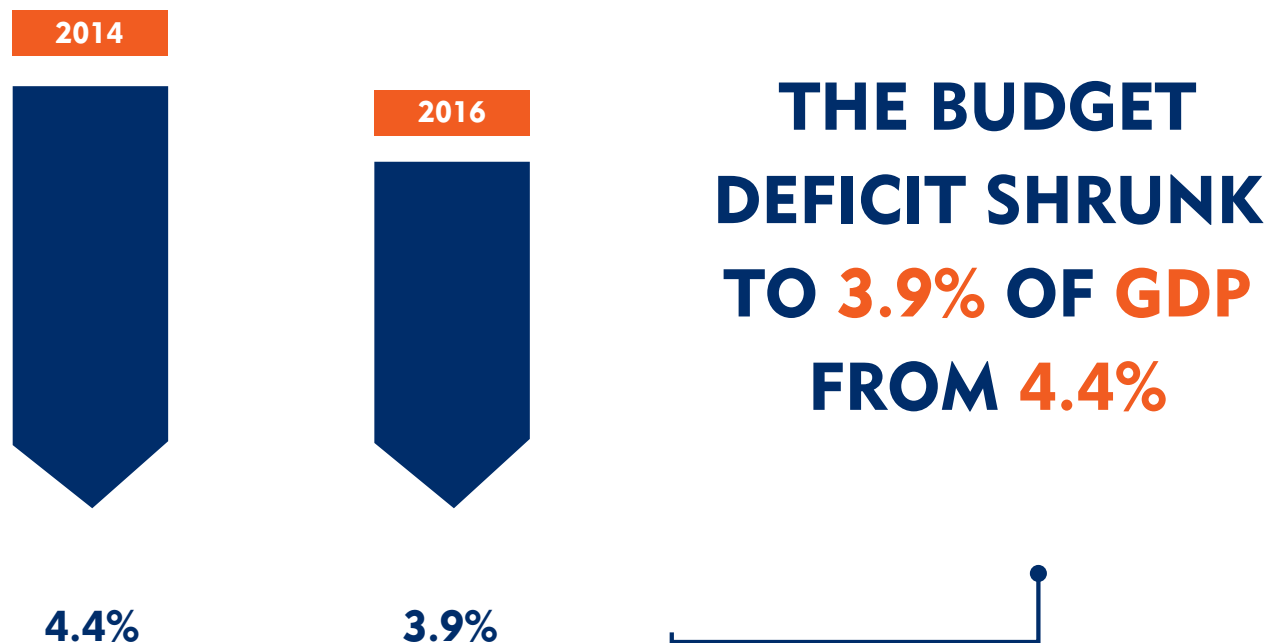
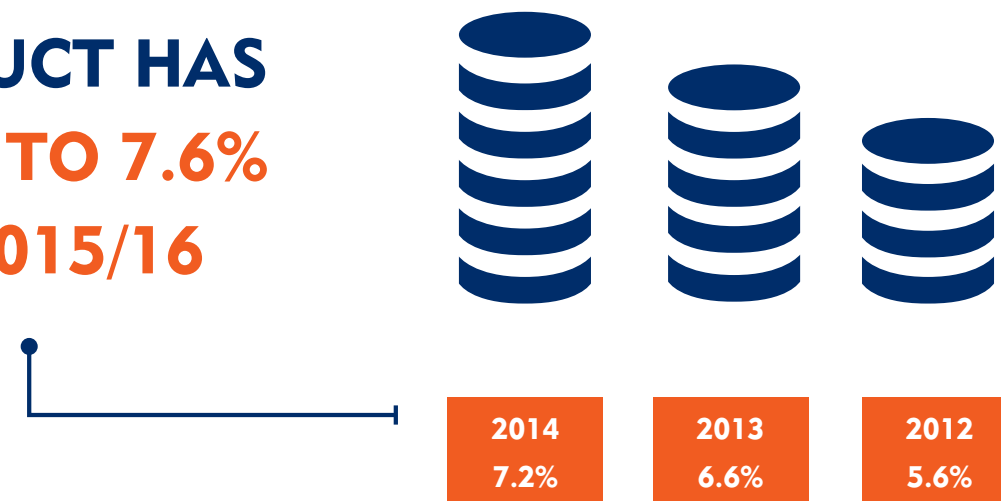
Programmes such as 'Make In India', 'Digital India', and 'Smart Cities' were launched to catalyse GDP growth, while NITI Aayog, competitive federalism and the 'Ease of Doing Business' programme promised to significantly improve the operating environment.

TWO YEARS ON FROM THIS HISTORIC ELECTION, WE REFLECT ON THE CENTRE'S PERFORMANCE AND REVIEW HOW THESE PROGRAMMES HAVE IMPACTED THE INDIAN ECONOMY, BRITISH TRADE AND INVESTMENT FLOWS INTO INDIA.

Data gathered from the public and private sector indicates that the NDA government agenda is having an overall positive effect. An analysis of 12 key macroeconomic indicators show India has been on a better footing since 2014 – its GDP has risen to 7.6 per cent, inflation is almost half, and its budget deficit has shrunk to 3.9 per cent of GDP from 4.4 per cent. Foreign direct investment (FDI) and foreign exchange reserves have also reached new peaks.

In considering the performance of the Government, it is important to keep in mind the political arithmetic. While Modi won a majority in the Lower House, the Government inherited a minority in the Upper House. As the Upper House has strong powers, this is the chamber in which the opposition parties are blocking important legislation.

THE GROSS DOMESTIC PRODUCT HAS RISEN TO 7.6% IN 2015/16



LOOKING BACK ON 2 YEARS OF MODI GOVERNMENT...

AFTER TWO YEARS OF THE BJP-LED GOVERNMENT,
THE UK INDIA BUSINESS COUNCIL REFLECTS ON CHANGES
THAT HAVE IMPROVED THE INDIAN ECONOMY.

#MODI2YEARS

MODI'S KEY INITIATIVES INCLUDE...

100 SMART
CITIES

DIGITAL INDIA

SKILL INDIA

MAKE IN INDIA

STARTUP INDIA

EMPOWERING STATES

THROUGH CO-OPERATIVE AND COMPETITIVE FEDERALISM

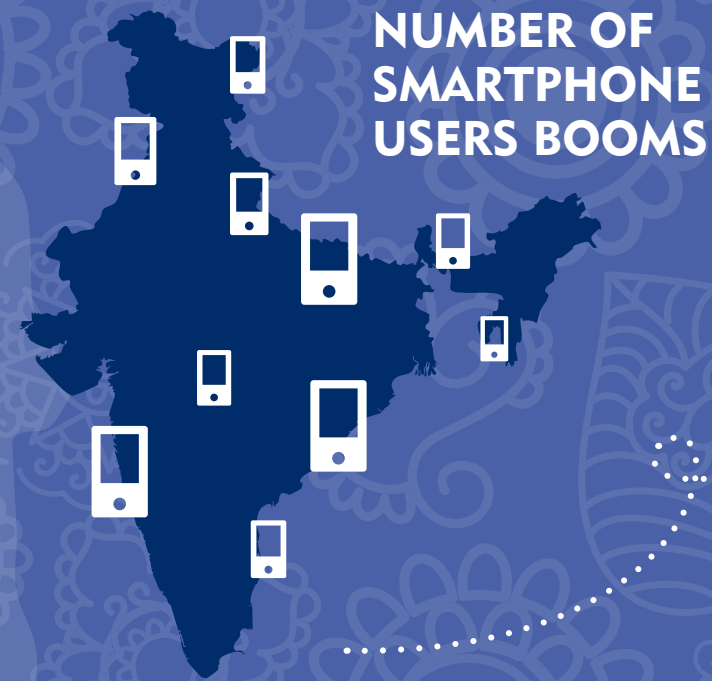


RISE IN EASE OF DOING BUSINESS RANKINGS...



THE ABOVE STATS WERE OBTAINED FROM THE FOLLOWING SOURCES:

*THE WORLD BANK, THE DEPARTMENT FOR INDUSTRIAL POLICY AND PROMOTION, TELECOM REGULATORY AUTHORITY OF INDIA, GOVERNMENT OF INDIA,
CENTRAL STATISTICS OFFICE, STATISTA, INDIAN MINISTRY OF POWER



NUMBER OF SMARTPHONE USERS BOOMS



ROAD CONSTRUCTION THROUGH PRADHAN MANTRI GRAM SADAK YOJANA INCREASES BY 46%

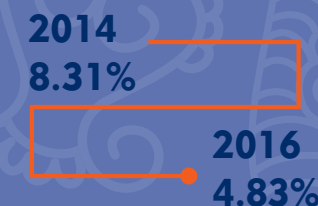


FOREIGN DIRECT INVESTMENT SOARS

AN INCREASE OF \$17.29 MILLION



INFLATION DECREASES BY 3.48%



£2.20 TRILLION

GOVERNMENT BUDGET ALLOCATED
TO INFRASTRUCTURE BUILDING PORTS,
ROADS AND AIRPORTS

BROADBAND USERS RISES BY NEARLY 130%



POWER GENERATION GROWS



RESEARCH FINDINGS

While the infographic on the previous page provides a useful snapshot of the Indian economy since Modi came into power, it doesn't provide the complete picture of how the Government has fared over the last two years. In order to gain a better understanding of the UK perspective of Modi's reforms and India's attractiveness as an investment destination, the UK India Business Council surveyed its members.

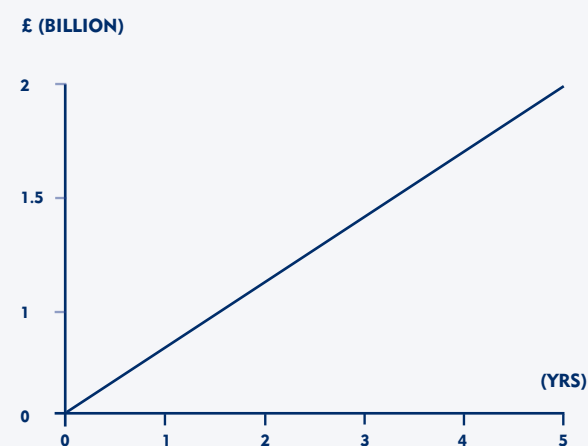
This study captured views on new policy initiatives, and whether operational efficiency has improved within the lower levels of bureaucracy which have traditionally been the most difficult to navigate.

Here's an overview of the findings:

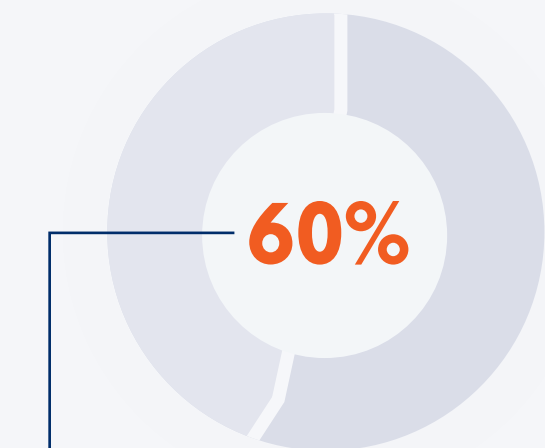
IN TOTAL, UK BUSINESSES PLAN TO COMMIT

£2 BILLION

OVER THE NEXT FIVE YEARS.



FDI REFORMS AND INITIATIVES SUCH AS MAKE IN INDIA & SMART CITIES WERE FOUND TO BE THE MOST IMPACTFUL FOR UK BUSINESSES OPERATING IN INDIA.

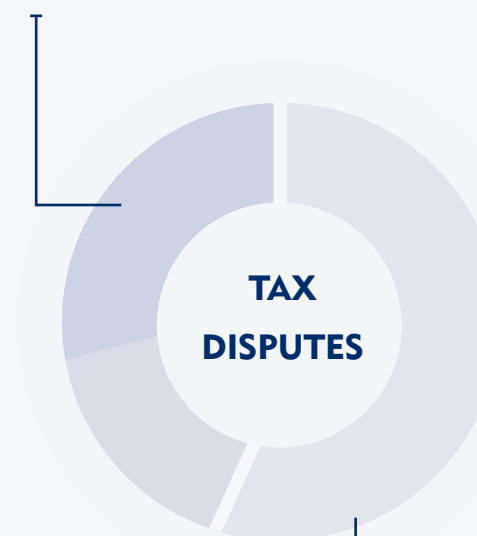


UK BUSINESSES CONFIRMED THAT THE NEW POLICY MEASURES HAVE ENCOURAGED THEM TO INCREASE INVESTMENTS IN INDIA.

'RESOLVING TAX DISPUTES' REMAINS A CHALLENGE FOR

29%

OF RESPONDENTS, HIGHLIGHTING THIS AS AN AREA WHERE THE GOVERNMENT OF INDIA NEEDS TO IMPROVE.



TELLINGLY

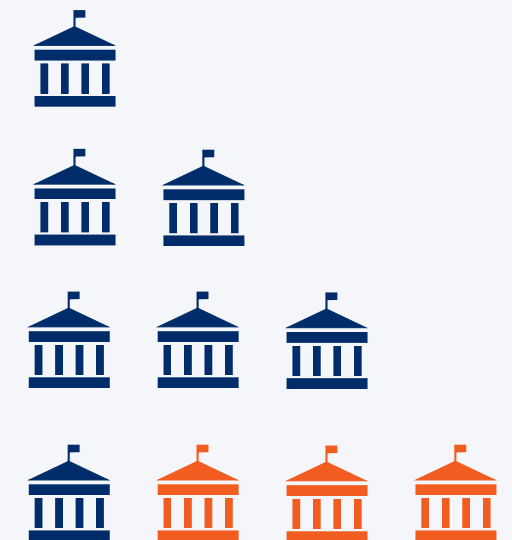
54%

AGREED THAT REFORMS WERE YET TO PERCOLATE DOWN TO THE LOWER LEVELS OF BUREAUCRACY.

RESPONDENTS GAVE AN OVERALL SCORE OF

7/10

TO THE MODI GOVERNMENT



COINCIDENTALLY THIS WAS ALSO THE SCORE GIVEN BY THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA WHO WENT ON TO DESCRIBE THE MODI GOVERNMENT AS:

'A WORK IN PROGRESS'

*These results were reinforced by intelligence gathered at our events. Discussions held delved deeper into Modi's signature policies to reveal what worked well, and what didn't.

THE NINE PILLARS

01

AGRICULTURE



02

FARMERS WELFARE



03

RURAL SECTOR



04

SOCIAL SECTOR



05

SKILLS AND JOB
CREATION



06

INFRASTRUCTURE



07

FINANCIAL SECTOR
REFORMS



08

EASE OF DOING
BUSINESS



09

FISCAL DISCIPLINE



05

THE 2016 INDIAN BUDGET

Appreciation of the February 2016 Budget was slow to emerge, but when analysts and other watchers absorbed and reflected on the measures announced, it was clear that the Finance Minister, Arun Jaitley, had delivered a positive, pro-growth and broad-based budget.

Together, the measures continued the momentum of economic liberalisation and the growth of domestic demand by boosting the population's spending power.

However, Mr. Jaitley's pledge to double the income of farmers by 2022 has come under tight scrutiny. It has been dubbed as an unrealistic target by commentators since it would require agriculture to grow at an annual rate of 14.86 per cent in the next five years – a growth level which the Indian agriculture has never seen. It is worth noting here that agriculture is vital to the Indian economy with almost 60 per cent of its population dependent on it.

**WHILE, AT THE SAME TIME,
ADDRESSING SOME IMPORTANT
SOCIO-ECONOMIC CHALLENGES,
INCLUDING THOSE FELT IN POORER
RURAL INDIA.**

POLICY AND REGULATION – THE HITS

THE BEST POLICY AND REGULATION DEVELOPMENTS SINCE MODI CAME TO POWER, AND HOW THEY HAVE, AND WILL, EFFECT DOING BUSINESS IN INDIA.

MAKE IN INDIA

A key point of discussion was the success of the Modi Government's landmark Make in India programme. Businesses believe this programme is an important plank in India's growth story as its successful implementation will create jobs for the growing pool of young workers in India. This in turn will boost domestic demand and unleash a cycle of growth for the country. However, concerns were raised on the slowdown in employment in India's formal, organised sector, which in any case employs only 12 per cent of the country's labour force. The recent youth-led movement for jobs reservations in Gujarat and Haryana are examples of growing discontent among India's youth on the issue of job creation.

DIGITAL INDIA

This flagship programme of Ravi Shankar Prasad's Communications Ministry aims to create a knowledge economy and good governance.

DIGITAL INDIA IS PERCEIVED TO BE A POWERFUL VISION TO BE ADMIRER AND SUPPORTED. INNOVATIVE BUSINESS APPLICATIONS AND PUBLIC SERVICES DELIVERED DIGITALLY HOLD HUGE POTENTIAL FOR THE ECONOMY, BUT THE PACE OF DEVELOPMENT NEEDS TO BE ACCELERATED.

Policies that promote widespread, high-quality digital products and services can go a long way to deliver rapid business growth, innovation and investment across the economy.

SMART CITIES

The Smart Cities Mission aims to develop and modernise 100 cities across the country, making them citizen-friendly and sustainable. The Ministry of Urban Development is responsible for implementing the mission in collaboration with state governments. Selected cities will be allocated ₹ 10 billion over a span of five years. Since it was launched in June 2015, 33 cities have been chosen to be supported by the Smart Cities Mission. Companies expressed enthusiasm about this exciting initiative which they believe has the potential to have far reaching effects and offers huge scope for UK-India partnership if implemented correctly.

EASE OF DOING BUSINESS

The Indian Government's initiatives to improve transparency and the ease of Doing Business, at both the central and state levels, has been applauded. In the World Bank's Ease of Doing Business Report released last year, India's ranking improved by 12 places. Furthermore, twice as many senior global executives

picked India over China as their top investment destination over the next three years, according to an Ernst & Young survey. However, government reforms are not filtering through to the lower levels of bureaucracy and across states.

Although the ease of doing business has increased dramatically in India there is still areas that need work. Key ease of doing business improvements include:

- FDI reforms in defence, insurance, railways and retail.
- Reduced documentation for exports and imports.
- Passage of the first national bankruptcy law.
- Ebiz – a 'One-Stop-Shop' online portal for business.
- Increased transparency in sectors, such as power and natural resources.
- National Intellectual Property Rights policy.
- Customs clearance – automation of the entire process to increase efficiency and ensure timely delivery.

Research has found that the most impactful of these policy reforms has been FDI, the Bankruptcy Code and the National IPR policy.

THE INSOLVENCY AND BANKRUPTCY CODE

The Government of India has been applauded for the timely passage of India's first national bankruptcy law – the Insolvency and Bankruptcy Code 2016. It comes at a time when bankers are grappling with a huge rise in non-performing assets, and includes recommendations made by the India-UK Financial Partnership. This law aims to transform the Indian financial landscape – ensuring a consistent supply of credit and time-bound settlement of insolvency, as well as attracting new capital and expertise into business revival, and enabling a corporate bond market. Once passed, the code will simplify exit procedures for companies and will thus serve to further improve the business environment.



NATIONAL IPR POLICY

India's first ever National IPR Policy has been welcomed. It is a significant step in improving India's IP regime globally and will stimulate creativity and innovation in the economy. This renewed focus on the quality and speed of issuing patents has led to a six-fold increase of capacity in the Ministry of Commerce and Industry. Its manifold benefits will go a long way in promoting knowledge exchange and technology transfer.

COOPERATIVE AND COMPETITIVE FEDERALISM

The new avatar of the Planning Commission, NITI Aayog has a mission to promote cooperative and competitive federalism. Radically redefining the centre-state relationship, it facilitates collaboration between the Union and States as equals, while simultaneously encouraging states to compete with each other to cut red tape and attract investment. It was, however, pointed out that the competitive advantages, quality and efficiency of state administration vary widely across India. As a result, some states will do well where others may struggle. A question remains on how the Union Government will support struggling states.

REFORMS IN THE BANKING SECTOR

The Modi Government has recognised the need for reforms in the banking sector. An asset quality review undertaken by the RBI last year threw up several weak accounts, most of which have exposure to the infrastructure sector. The clean-up exercise will eventually lead to stronger balance-sheets for banks. Companies welcomed Indian Government's revival plan for public banks, coined as 'Indradhanush' which touches upon several incremental reform measures, such as the creation of a Bank Board Bureau (BBB), linking the compensation of banks' top management to performance, improving governance standards, and focussing on quality of business rather than the quantity.

GOODS AND SERVICES TAX

After being held up in the parliament for years, the Goods and Services Tax (GST) was finally passed unanimously in the Upper House of the Indian parliament. It is widely believed to be among the biggest reforms in decades and is expected to deliver an immediate boost to the economy once implemented.

The goal of the GST is to turn India into a 'single market'. This would be a marked departure from the fragmented nature of the market currently where exporting goods from one state to another is riddled with multiple checks and taxes. The 'One Nation, One Tax' policy would enable a more efficient and hassle free business environment. The GST would also be a boon for the consumers who now will bear less tax burden than before since the tax rate will be lower, and hence the goods will be cheaper. Up until now, the consumer paid taxes on the final output value of the product at the retail end, rather than the value added by the retailer. This will no longer be the case under GST. Consequently, the tax rate is expected to come down to around 18 per cent.

The GST is also expected to reduce corruption and tax evasion across the country. By ridding India of multiple taxes and tax authorities, it decreases the chances of any wrong doing. It is therefore no wonder that this bill was the most eagerly anticipated since the Modi Government came to power.

POLICY AND REGULATION – THE MISSES

WHILE RECOGNISING MUCH PROGRESS HAS BEEN MADE OVER THE PAST TWO YEARS, BUSINESSES HAVE ALSO EXPRESSED CONCERN OVER CERTAIN KEY REFORMS THAT HAVE NOT YET TAKEN PLACE, AND SOCIAL ISSUES THAT THE GOVERNMENT COULD HAVE AVOIDED OR HANDLED BETTER

UK BUSINESSES QUESTIONED THE STRENGTH OF THE BROADER GOVERNMENT WERE ALSO QUESTIONS AS TO THE STRENGTH OF THE BROADER GOVERNMENT AND 'TEAM INDIA', AND FOR A TENDENCY TO CENTRALISE POWER IN THE PMO.

LAND ACQUISITION BILL

One of the biggest legislative challenges faced by the NDA Government has been the inability to get lawmakers' approval for the Land Acquisition Bill.

This proposed law would streamline the process of acquiring land for important projects. Though the Centre took the ordinance route to clear the bill, it was re-promulgated twice and lapsed on August 31, 2015.

However, there are efforts by the authorities to resolve the Land Acquisition issues through the states.

BLACK MONEY

Bringing back money stashed in off-shore accounts was one of BJP's poll promises. The Government gave a three-month window for compliance, but only 644 declarations were made. Finance Minister, once said the bulk of black money is within India, but little has been done to contain the feeders of parallel economy.



COMMUNAL & SOCIAL ISSUES

It was noted that while economic progress was taking place, communal and social issues remain work in progress. The NDA Government should continue to prioritise efforts to mitigate the stresses arising from issues in relation to nationalists and minority communities particularly within the education arena.

WHILE COMPANIES STRESSED THAT THE BLAME FOR THESE CONTROVERSIES DO NOT REST WITH THE PM, IT WAS FELT THAT A CLEAR MESSAGE FROM HIM WOULD HAVE HELPED MANAGE THE SITUATIONS BETTER.

MODI-CENTRIC GOVERNMENT

An observation made by some businesses was that PM Modi is accused of running a 'one man' government. Some believe that his powerful personality coupled with the lack of talented cabinet ministers is the main reason behind it. Members felt that an absence of capable ministers is a major challenge for any government to deliver fast-paced reforms and policies. The reshuffle in early July brought more ministers into Government, so it is hoped this will enhance its administrative effectiveness. Although, eyebrows were raised at the move of finance professional, Jayant Sinha, from the second position at the Finance Ministry to the same role at Aviation. Mr Sinha was well-regarded by the business community and understood their needs and concerns.

TAXES

In response to the 2012 retrospective tax legislation passed by the previous Government, the NDA promised to end 'tax terrorism' and usher in a non-adversarial tax regime.

However, in March 2015 Cairn was issued with a draft assessment order by the Indian tax authorities, which cited the 2012 legislation and the Government have not resolved the Vodafone retrospective tax case, despite further court rulings in the company's favour – most recently in October 2015 in the Bombay High Court.

Both Cairn and Vodafone have rejected the Finance Minister's Dispute Resolution Scheme (which offers to waive the interest and penalty in return for the principal amount) announced in his budget for 2016-17, and have proceeded to international arbitration. These high profile and long-running disputes continue to damage India's reputation as an investment destination. Our members believe that pragmatic and investor-friendly measures need to be taken to restore international investors' trust in Indian tax policy.

RBI GOVERNOR

There was also surprise and disappointment across the business community at the announcement

in June by India's highly respected central Bank Governor, Raghuram Rajan that he would step down at the end of his three year term, in September. This announcement came in the wake of very public demands from a BJP MP for Mr Rajan's term not to be extended. Rajan was a highly credible figure who gave Indian and foreign investors confidence in India's economic stability. He was instrumental in putting in place a robust monetary policy framework and long overdue banking reforms that are just starting to show results. His outspoken views on the importance of tolerance and mutual respect, and his call for more independence and greater transparency for the central bank did not endear him to Modi's right wing supporters who pushed for his removal. There has been some criticism in the Indian press of the Indian PM's refusal to defend Rajan and a view that this was poor judgement on the part of the PM, reflecting a tendency to prioritise politics over economic stability. The question now on everyone's mind is whether his successor will be able to continue the good work started by Rajan.

GREAT EXAMPLES OF UK INVESTMENT IN INDIA

01



02



03

HOLLAND & BARRETT

04



08

UK BUSINESS SUCCESSES SINCE MODI CAME INTO POWER

RECENT UK GOVERNMENT FIGURES STATE THAT BRITISH COMPANIES HAVE COMPLETED £5.1 BILLION WORTH OF DEALS IN INDIA IN 2015-16. THIS HIGHLIGHTS THE GROWING UK INVESTMENT IN INDIA.

01

VODAFONE IS ON COURSE TO MEET ITS ENHANCED COMMITMENT TO INDIA THAT WAS MADE DURING MODI'S VISIT TO THE UK IN NOVEMBER 2015, THIS HAS BEEN THROUGH A SERIES OF NEW INVESTMENTS – TOTALLING £1.3 BILLION – WHICH ARE FURTHER IMPROVING ITS CAPACITY TO MEET CUSTOMERS' NEEDS.

03

HEALTH FOOD CHAIN HOLLAND AND BARRETT'S £20 MILLION INVESTMENT INTO A PARTNERSHIP WITH APOLLO HOSPITALS WILL OPEN UP TO 1,000 STORES IN INDIA.

02

PERKINS ENGINES IS OPENING A STATE OF THE ART \$150 MILLION MANUFACTURING FACILITY IN AURANGABAD TO MAKE IN, AND EXPORT FROM, INDIA.

04

TWO MAJOR BANKING AND INSURANCE COMPANIES ARE CURRENTLY DISCUSSING A MERGER WHICH COULD LEAD TO THE CREATION OF INDIA'S LARGEST INSURANCE COMPANY FOR THE PRIVATE SECTOR.

KEY TAKE AWAYS

IT IS CLEAR THAT BUSINESSES BELIEVE THAT THERE HAS BEEN A GREAT DEAL OF PROGRESS MADE IN THE LAST TWO YEARS.

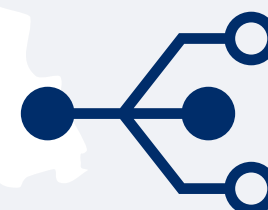
THE TOP FIVE INCLUDE.

FDI
LIBERALISATION



TIGHTER BANKING
REGULATIONS

PASSING THE GOODS
AND SERVICE TAX BILL



THE ROLL-OUT OF
DIGITISATION ACROSS
THE COUNTRY

AN AMBITIOUS SMART CITY
AND WIDER PROGRAMME OF
INFRASTRUCTURE DEVELOPMENT



However, game-changing reforms are still awaited to improve the ease of doing business further.

IT WAS ALSO CLEAR THAT THE TONE FROM THE TOP NEEDS TO CASCADE SO THAT THERE IS PRACTICAL IMPLEMENTATION ACROSS THE STATES AND DOWN THROUGHOUT THE BUREAUCRACY.

Prime Minister Modi needs more time for his policies to bear fruit. Particularly the wider economic and social objectives of the 2016 Budget, which will spread income and development across rural areas, and further stimulate growth.

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BUSINESS COUNCIL