

WALL STREET JOURNAL

Modi Presses Reform for India—But Is it Enough?

Prime Minister Narendra Modi Moves to Boost Growth, but Economists Call for More

By Raymond Zhong
November 20, 2014

NEW DELHI—Indian Prime Minister Narendra Modi has been on a tear, announcing everything from a “Make in India” campaign to a purge of outdated laws and a public-cleanliness drive, all aimed at boosting economic growth.

Still uncertain is what all of Mr. Modi’s tinkering will add up to.

On Wednesday, the [Organization for Economic Cooperation and Development said that for India](#) to return to the near-double-digit growth seen in the first decade of the 2000s, it will need to make sweeping changes such as cutting state subsidies and instead spending more on infrastructure, improving a stifling business environment and getting more women into the workforce.

Since taking office six months ago, the Modi administration has trimmed red tape, ended government price caps on diesel and allowed more foreign investment in some industries—all worthwhile steps, economists say, but incremental ones.

Senior officials have hinted recently that bigger moves could be in the offing—including an end to [India’s state coal monopoly](#) and making it easier for companies to acquire land.

But the government has so far appeared careful not to get out ahead of public opinion in a country where unions oppose making it easier to fire workers and millions rely on state-subsidized food, fertilizer and fuel.

“We want to make sure that these changes...stick and work for the country,” said Jayant Sinha, minister of state in the Finance Ministry and a lawmaker from Mr. Modi’s Bharatiya Janata Party.

Mr. Sinha said the new government's approach has been "systematic and methodical" and that it is using state governments as laboratories to try out new policies before rolling them out nationwide.

"We obviously have five years. We don't necessarily have to do it [all] in 100 days," Mr. Sinha said.

An improving economy has provided a tailwind for Mr. Modi's efforts. Inflation has cooled and growth has picked up. Economic output expanded 5.7% from a year earlier in the quarter ended June 30, the fastest rate in more than two years.

Nearly all forecasts expect growth to keep accelerating, though indicators of business activity are mixed. [Exports declined 5.5% in October](#) from a year earlier. But industrial production growth was surprisingly strong in September.

Mr. Modi is pitching India abroad as—thanks to his administration—a good place to do business. Expectations are high. [Japan has promised](#) \$30 billion in public and private investment over five years. China has pledged \$20 billion.

Certain prickly aspects of India's business environment continue to give outsiders pause, however. The BJP firmly opposes allowing more foreign investment in big-box retail. Royal Dutch Shell PLC this week [won a high-profile court case](#) over its Indian tax liabilities, but concerns about ambiguous tax laws and fickle enforcement of them remain fresh.

Some analysts also criticize the Modi government's recent market-opening moves as reactive rather than proactive—especially given the space for reforms created by the strengthening economy.

The easing of labor inspections, for instance, was announced last month only after exit polls showed the BJP had won major ground against the opposition Congress party in two crucial state elections.

The termination of diesel subsidies came after months of falling crude prices had already eliminated the cost of maintaining the subsidies.

The suggestion that commercial coal mining might be allowed in the future was buried in an executive order for auctioning more than 200 mining licenses—for companies such as power producers and steel mills that would use the coal themselves—that the Supreme Court invalidated this summer.

Parliament's approval would be needed to end the government monopoly on commercial coal production, which analysts say contributes to the woefully inadequate electricity supply in many parts of India—a problem that has hobbled industrialization.

The coal ordinance “is a small step forward, but not the scale of thinking that we would have hoped for,” said Ajay Shah, an economist at the National Institute of Public Finance and Policy in New Delhi.

Eswar Prasad, a Cornell University economist, said Mr. Modi is “cautious enough to make sure that he treats reform as something that is going to have a clear and direct benefit for the masses.”

The fuel-subsidy changes, which affected prices of diesel and natural gas, didn’t provoke street protests—unlike in previous attempts to trim the multibillion-dollar payouts. But for other changes, opposition could be more pointed.

Labor unions at Coal India, the government-run miner, said they planned to strike next week to protest the government’s limited coal decision.

States that stand to lose revenue are challenging Mr. Modi’s effort to consolidate national, state and interstate sales taxes and create a unified market for goods and services.

Mr. Modi in September unveiled a “Make in India” campaign to simplify bureaucratic procedures and attract manufacturers. There, the scale of the challenge is such that paring back official forms and putting government clearances online, as the administration is doing, seem just a small start.

“The question is whether he’s happy with half-hearted reform, or if he’s trying to do major reform in a series of baby steps,” said Swaminathan Aiyar, a fellow at the pro-market Cato Institute think tank in Washington.

India placed 142nd in the World Bank’s latest ranking of 189 economies based on the ease of doing business.

“When you talk to people who actually go and try to invest...there’s a big discrepancy between what is professed and what is actually practiced by the bureaucrats,” said Jagdish Bhagwati, a Columbia University economist.

India’s central-bank governor, however, has lauded the government’s progress so far. “What we need is not, at this point, grand-sounding announcements,” Raghuram Rajan said in Washington last month. “We need to fix the plumbing. We need to do the basic stuff which will get the economy back on track.”

Anand G. Mahindra, chairman of the auto maker [Mahindra & Mahindra](#) Ltd. , said he hasn’t been giving advice to Mr. Modi. But, he said, “I would have cautioned against big-bang reforms in any case.”

Mr. Mahindra said getting small firms to start investing and expanding is more important than luring big multinational companies. Of India’s mom-and-pop enterprises, he said: “When they start to invest is when India will change.”

