



India's Prime Minister Narendra Modi with Fortune 500 CEOs in New York, September 24, 2015.



PRESS INFORMATION BUREAU

US-India ties are robust enough for plain-speaking

# Why America Inc is disappointed with Modi

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Indian Prime Minister Narendra Modi's return to Washington, DC also marks the completion of the second year of his administration. The international business community is of two minds when judging Mr. Modi's track record on reforming India's economy.

There is a strong narrative of disappointment: The business community expected deeper reforms, and stronger pro-trade policies. But at the same time, foreign investment in India is hitting record levels, which is a reflection of confidence, reduced foreign equity restrictions, and India's relatively high economic growth rates.

Of these two diverging perspectives, the 'disappointment' narrative feels more prominent, despite a great deal of personal economic diplomacy by the prime minister. It is difficult to imagine that the June visit, likely the last focused bilateral summit with President Barack Obama, will substantially alter this perception, though the visit may help to cool the tempers of certain Congressional leaders who have fueled some of the rhetoric about the Modi government's performance.

India is expected to be the fastest-growing large economy by the end of 2016. The World Bank predicts a 7.5 percent growth rate for 2016, a number echoed by many leading development banks and financial institutions. In addition, India has attracted \$41 billion in foreign direct investment equity inflows, nearly 22 percent higher than the prior 12 months and reportedly the highest total among all emerging markets.

US-India trade has remained fairly solid, down just 2 percent in the last 12 months despite the overall slowdown in global trade.

The main dark cloud is the state of foreign portfolio investment. After an initial spurt following Modi's election in May 2014, for-

**MODI'S VISIT IS UNLIKELY TO TRIGGER A DRAMATIC SHIFT IN OUR PERCEPTION OF INDIA'S RECORD ON ECONOMIC REFORMS, SAYS RICHARD M ROSSOW.**

foreign portfolio investment has seen net outflows, to the tune of negative \$2.7 billion, over the last 12 months. But there has been a mini-rally over the last two months, with fresh inflows of around \$5.3 billion.

Despite these rosy numbers, business sentiments, particularly in Washington, DC, remain subdued. This is partially due to the Modi government's inability to alter India's traditional positions on major trade issues, the lack of progress in resolving a small number of high-profile policy disputes, and the fact that some of the Modi government's most impressive reforms — coal, railways, oil and gas, auctions — have been in sectors without a strong US business constituency.

Perception on one area where the Modi government has also shown responsiveness to investor concerns — cross border taxation — is still negative due to a few high-profile cases, while real progress in other areas of cross-border taxation has been ignored.

The Modi government's key economic campaigns have helped to stimulate interest among the business community, at least by providing a 'rallying call.' But few of the deep reforms outlined above have a direct bearing on India's manufacturing competitiveness, and they have not stimulated faster adoption of internet connectivity that is critical for the

success of Modi's Digital India program.

There are reports that infrastructure projects are moving faster again. However, US firms tend to avoid the risk of being primary contractors for major infrastructure projects, so progress on that front isn't immediately appreciated by the US business community.

Modi's visit is unlikely to trigger a dramatic shift in our perception of the Indian government's record on economic reforms. We may see the governments re-commit to negotiating a high-standard 'Bilateral Investment Treaty.' But such promises have been made before — most notably in the joint statement issued during President Obama's historic visit to New Delhi in January 2015.

The most likely benefit, however, intangible, is that Modi will spend a great deal of time with Congressional leaders, as well as address a joint session of Congress. Congressional leaders have been among the most vocal critics of the Modi government's positions on economic issues, largely viewing his track record through a fairly narrow and unchanging lens. Creating a direct channel for dialogue is likely to be of some modest help.

The impact on our economic relationship from this visit will likely be modest, and the next US administration will come to office with relatively little momentum in establishing a shared economic vision with India. But if the anti-India rhetoric is reduced through Prime Minister Modi's personal courtship of opinion leaders throughout Washington, DC, this 'blank slate' could become an advantage in the right hands.

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On the other hand, apart from mellifluous rhetoric, the Obama administration has not been helpful on substantive issues such as India's membership of the Nuclear Suppliers Group. It has instead passed the buck and brilliantly succeeded in making this a sticking point in the India-China discourse — although, NSG membership was meant to be the finest offspring of the US-Indian nuclear deal in the first instance.

The point is, the US keeps presenting its wish list on economic issues and loses no opportunity to canvass for its arms vendors to secure lucrative deals in our market, but there is little to show by way of what the Obama administration has done for India in return.

In fact, Washington ignores Indian sensitivities over the directions of the US-Pakistan relationship or the reconciliation policies toward the Taliban. Washington has not moved even its little finger to demand India's participation in the Afghan peace process — although for accelerating arms sales to India, it is keen to legislate an equal status for our country and bring it on par with the US' NATO allies.

This 'working visit' becomes the last opportunity for Modi to present his own 'wish list' to Obama. Better late than never. It isn't the sole prerogative of the US side to do plain speaking when their interests are at stake.

At any rate, Modi should reject the attempt by Congress to project itself as the arbiter of inter-communal harmony in our country or to lecture to us on human rights. We do have our problems, but we don't want outside interference. Do we finger-point at America's appalling race relations even under an African-American president? No, we don't. They should reciprocate oriental civility and desire for mutual respect.

As last fortnight's Congressional hearing in Washington underscored, this is a transactional relationship, and no amount of rhetoric can obfuscate that reality.

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