



### Indian election policy analysis hopes for better relations with Europe, and a resurgent India

From an international perspective, Narendra Modi's ascension to the Prime Minister's office raises two questions. Will India adopt a more strident and bellicose foreign policy than it did under Manmohan Singh, an Oxbridge-educated economist, and his Congress party? And will the new government succeed in rebooting India's "economic miracle," which has sputtered in recent years? Indians and people the world over will be watching to see how far Modi goes in the direction of liberalization. Reforming India, which has many powerful states and innumerable vested interests, is much harder than reforming an individual state like Gujarat. And while Modi has obtained a historic mandate for his economic agenda—the B.J.P. will be the first party in thirty years to have an outright majority in Parliament—there are still widespread concerns that the fruits of economic progress are not being spread widely enough, concerns that more business-friendly reforms are unlikely to alleviate.

After five years of India being the sick man of Asia, foreign governments seem universally to want New Delhi back on its feet. What do the Modi government means for India's foreign and security policies? How different will this government be from the previous BJP-led National Democratic Alliance government from 1998–2004? Will there be continuity or change on key issues from the Congress-led UPA government of the past ten years? What will this mean for India's neighbours, especially Pakistan and China, and post-2014 Afghanistan? What about relations with the US and the Russia? Can we expect any 'surprises' on foreign affairs from Prime Minister Modi?

These were some of the views expressed during the Policy Analysis meeting which Friends of Europe organised together with EICC on 12 June in Brussels. The discussion was attended by business leaders, officials of the European Commission, European Parliament, Government of Belgium, representatives of NGOs, representatives of various diplomatic Missions, and journalists.

In his opening remarks, **His Excellency Manjeev Singh Puri**, Ambassador of India to Belgium & Luxembourg and the Mission to the European Union said that the outcome of the election proved the savvy of the Indian voter who yet again delivered a crystal clear verdict for a united, strong and modern India. The Ambassador quoted the address by the President of India, Shri Pranab Mukherjee to the Indian Parliament on 9 June in which he spelt out the new Government's policy in detail which emphasized development through good governance in a resurgent India with the Centre acting as an enabler in rapid progress through Cooperative Federalism.

On the India-EU relations, the Ambassador said:

"The EU is a valued and Strategic Partner for India. We marked the Golden Jubilee of our diplomatic ties in 2012 and this year we are celebrating the 10th anniversary of our Strategic Partnership. The EU has long been and remains even today India's largest trading partner. It is also one of our largest sources of Foreign Direct Investment and source for cutting edge technology. Indeed, last year the EU at over US\$ 9 billion was our largest source for FDI equity inflow.

Importantly, these investment flows are now a two-way process and investments of Indian companies in Europe include sectors such as steel, automobiles, pharmaceuticals and IT and contribute immensely to technological ties that should propel our relations in the future.

A game changer to catapult our relationship into a higher orbit could be finalizing the Bilateral Trade and Investment Agreement that has been under negotiation since 2007. The agreement, however, has to be a 'win-win' for both sides and be saleable for India's many stakeholders too and not just those in the EU. It

must also take into account India's huge development imperatives and the different levels of development in the two economies.

India has offered the EU concessions in goods at levels not offered till date. Services are vital for India and the agreement must address our request in services (Mode 1 and Mode 4) including data secure status. Moreover, matters of regulatory requirements need to be addressed. Indian tariffs are visible, EU's subsidies, incentives and the rising number of non-tariff barriers, on the other hand, tend to be invisible but very pervasive".

Addressing the Parliament on the government's priorities, Ambassador mentioned that the President Mukherjee said that India values its broad based cooperation with Europe and will make concerted efforts to achieve progress in key areas with the European Union and its members, he informed the audience.

Concluding his remarks, Ambassador Puri said, "To my mind, the ball is in the EU's court. I would strongly urge moving ahead with a changed mindset recognizing contemporary realities for genuine partnership and real collaboration. Please do remember that India is a natural partner espousing shared values of democracy, fundamental freedoms and an abiding interest in the global good".

Indian business leader **Mr. Shishir K Bajora** and Member of the Board of EICC, Member of European Parliament **Ms. Neena Gill** and FRIDE Researcher **Ms. Gauri Khandekar** were the Panelists. **Ms. Shada Islam**, Policy Director of the Friends of Europe moderated the discussion with her vast knowledge on India and took the participants insight of the issues that India needs to address. The panel discussion also debated how India's new government will shape the business and foreign policy of the country in the coming years.

**Ms. Shada Islam**, Director of Policy who initiated the Discussion said that the victory of the Bharatiya Janata Party (BJP) in India's election under the leadership of Narendra Modi, has given the new government a mandate to change the fortunes of the world's largest democracy. Domestic considerations aside, Modi's victory figures to have implications far beyond India's borders. And while the new government's main priority under Prime Minister Modi will be jump-starting India's sluggish growth, its ascension raises questions about India's relationship with its bilateral relationships with its neighbours and to the rest of the world particularly with United States and Europe. She said that India has a historic opportunity to regain its rightful global influence as India today stands on the cusp of great change and Modi's victory is a triumph of hope over despondency. She also said that Narendra Modi's emphatic win is a complement to India's democracy that a person born in a poor family can also get an opportunity to lead the country by his merit.

In her introduction Shada also said that reflecting on the results of the 2014 elections, it comes out that 'stable government' was the most important issue in the mind of the electorate which gave a nationwide mandate to the BJP for formation of a stable government. The people in all parts of the country and all sections of society were uneasy with instability which had troubled governments over a quarter-century and made them weak and indecisive that increasingly made for 'policy paralysis'—a general term for hesitant governance—leading to stagnation in the economy and lack of job creation on the one hand, and relentless inflation and mega corruption on the other. People felt that only a stable government can deal with the problems facing the people.

The following are some of the important opening observations and presentations on the outcome of the election and the major challenges the Modi government faces:

**Mr. Shishir K Bajoria:** A clean slate throws up unimaginable possibilities, providing room and scope for several experiments that may, until now, have seemed politically impractical. So, when the Prime Minister Narendra Modi works his way through forming his cabinet, populating his office or making up his mind on key appointments, he is actually in the process of putting in place the instruments that will fill up this space. His hope: a new India story, rewritten, repackaged and more relevant.

Only democracy can produce moments of new beginnings. Yet, it remains anchored to a constitution that inspires institutions, sets limits and balances the distribution of power through a range of principles and safeguards. The two are not contradictory, but can become so if not made to complement and constructively overlap. The PM, as the head of the executive, is crucial to this interplay and, therefore, the last stop for all decisions.

A new era in Indian Politics has arrived – this is what the general view was. The world’s largest democratic exercise, the Indian general election, finally come to a close on 12 May. The numbers are extraordinary. Nearly 554 million voters exercised their franchise, selecting 543 members of parliament from a slate of more than 8,000 candidates representing 464 political parties competing across 28 states and seven union territories. Estimates of the money spent on elections hover around \$5 billion, second only to the 2012 presidential election in the United States.

Digging deeper, the dynamics of the 2014 national election raise important questions about several bedrock assumptions that underpin the received wisdom on contemporary Indian electoral politics. The most recent election was marked by less fragmentation, weaker electoral competition, yet more popular participation. If these trends persist, India may well have closed the book on twenty-five years of electoral politics and moved into a new era.

**Ms. Neena Gill:** Breaking with the past, India logged a record high voter turnout in 2014: 66.4 percent. This number is especially impressive given that the total size of the electorate eligible to vote has risen sharply. The electorate in 2014 stood at 834 million people, up nearly 16 percent from its 2009 level of roughly 717 million.

The composition of voter turnout also revealed a surprise: the gap between male and female turnout shrank to an all-time low. Historically, women in India have lagged far behind men when it comes to turning out to vote on Election Day. As recently as 2004, male turnout exceeded female turnout by 8.4 percentage points. In 2014, the difference dropped to just 1.8 percentage points. In fact, in sixteen out of 35 states and union territories, women came out to vote at higher rates than men. Women accounted for nearly 48 percent of the overall electorate in 2014, which is in line with India’s skewed sex ratio in favor of males. After years of trailing, the share of female voters is now nearly proportional with the share of women in the electorate. Neena also mentioned about the recent election of the European Parliament and said that behind the great election machine, the men and women who run the world’s largest democracy and the citizens who participate in it with great gusto, are the real winners.

**Ms. Gauri Khandekar:** If trends witnessed in India’s 2014 election persist, the country may have closed the book on twenty-five years of electoral politics and moved into a new era. The BJP victory in 2014 marks the first time since 1984 that a single party has earned a majority of seats in the Lok Sabha, though the BJP has chosen to form a government along with its coalition allies of the National Democratic Alliance. Analysts of Indian electoral behavior had become accustomed to speaking of the “inevitability” of coalition government after 1989. The consolidation of political power in the hands of a single national party was thought to be virtually impossible in the current context of regional fragmentation. But 2014 has shown this is not the case.

An analysis of the 2014 electoral verdict shows several discontinuities with prevailing trends in the coalition era of Indian politics dubbed the third electoral system. As with many things in India, the extent of the breaks varies considerably across states. But on the whole, the most recent electoral verdict calls into question several of the core tenets of the electoral order. The 2014 verdict raises the prospect that in years to come, India’s national elections may well be “re-nationalized,” perhaps leading the country into a new era by delving into the electoral past.

**In general, the debate concentrated on:** Do these departures mean India has closed a chapter in its electoral history and is moving toward a fourth electoral system? Such transitions are inherently difficult to determine at such close range—the Modi administration has just completed its first two weeks in office—and with electoral dynamics in India still in flux. Many factors will determine whether this election is a one-time aberration or a harbinger of more fundamental change. These include how the Modi government

makes use of its parliamentary majority and decisive mandate, the ability of the Congress Party to revive its electoral fortunes, and whether the upstart Aam Aadmi Party can transform itself into a political force outside of a limited pocket of north India.

Economic challenges: Modi has to make controlling inflation a priority. Prospects of weak summer monsoon rains have increased the risk of rising food and fuel prices. Summer monsoon rains are vital for 55 percent of India's farmlands that lack irrigation facilities. In 2009, patchy rains led to the worst drought in nearly four decades and drove annual food inflation up to more than 21 percent. India has stockpiles of staples, like rice, wheat and sugar that can be released, but the government has limited means to control surges in the cost of fruits and vegetables, which have the largest impact on food inflation.

Modi's reputation as a business-friendly manager should encourage domestic and foreign investment to resume flowing into the country. Yet, for all its promise and potential, India faces real challenges, including a volatile geopolitical neighborhood, multiple domestic armed insurgencies, a precarious fiscal situation for its state governments and an extremely fragmented and diverse polity. If previous governments failed to deliver growth rates adequate to slake the country's unquenchable thirst for further material improvements, it is not because they did not want to succeed. As such, it would be foolish to wish away India's economic problems on the promise of one man's leadership.

The new Indian government represents the fulfillment of the hopes of its supporters, but it is crucial to remember that a large majority (69 percent) of the electorate — some 380 million individuals — did not vote for the BJP in this election. Its majority status in parliament owes more to the peculiarities of India's electoral system than to a national support base. As they chart their path forward, it is imperative for Modi and his Cabinet to be mindful of that fact.

Promoting peaceful relations with India's neighbors is vital for creating a geopolitical situation conducive to economic growth, as is quelling the all-too-common occurrences of violent riots and insurgencies across India. If Modi succeeds in promoting widespread growth, he will romp to victory at the next election. But if he fails, he can expect to face a restive and disappointed electorate in five years.

Modi undoubtedly faces major foreign-policy challenges. But, with a clear, confident vision and credibility-enhancing policies, he has a rare opportunity to put India firmly on the path toward peace and prosperity. New government's foreign affairs in-tray is overflowing. Most believe Mr Modi feels much easier looking eastwards, to Asian nations such as Japan, Singapore and Indonesia, than he does towards the West. It may be one of these countries that Mr Modi chooses for his first overseas visit as PM. His foreign affairs in-tray is overflowing. An election is underway in Afghanistan, with 2014 a critical year for Indian interests there.

Perhaps the biggest challenge for Modi on the world stage will be China. Few in India, where annual economic growth has dropped to less than 5% in recent years, now talk of catching up their neighbour. Indeed, for Modi, China may appear to be less a rival than an opportunity. He has been there four times on official visits — more than any other country — and, aides say, admires what has been achieved in the country. That Chinese and Japanese officials, representing governments barely on speaking terms with each other, are hoping for the same thing is evidence of the overriding international desire for an India that works. The new Chinese leader, Xi Jinping, wants to stabilise his southern boundary at a time when he plans major economic reforms at home. Beijing has long felt that the shallowness of the Sino-Indian economic relationship — lots of trade but no investment — is one reason for its volatility.

The European governments have an even narrower focus: trade and investment. Many have noticed his call for the Indian external affairs ministry to focus on "trade treaties" rather than just strategic issues. They hope this reflects a sense of policy priority for the India-European Union free trade agreement, presently in negotiating limbo, is number one on their agenda. That India's trade treaty negotiations have ground to a halt across the board is a grouse of many foreign governments. It is not just the big daddy trading partners like Europe and the United States — it is also mercantile centres like Taiwan or Switzerland who are waiting for closure on half-negotiated trade pacts. The two problematic areas in the world when it comes to Modi are the US and the immediate Indian neighbourhood.

With its decisive parliamentary majority (282 seats, plus another 50 or so held by its allies), the BJP has the mandate that Modi needs to pursue a bold and creative foreign-policy agenda. The question is whether he will use his political capital effectively to advance India's interests. Even while it adopts a more emphatic international posture, Modi's government must guard against regression to non-aligned posturing and overzealous assertion of "strategic autonomy". Instead, it must follow the global trend toward economic and security alliances.

Economic diplomacy will undoubtedly play a central role in Modi's efforts. After all, India's international prominence is based largely on its economic potential. Among India's top priorities should be measures to strengthen its relationships in its immediate neighbourhood. Modi has already highlighted the imperative of making the South Asian Association for Regional Co-operation (Saarc) a "living body", instead of the moribund group that it was under Congress. The fact that all the SAARC countries were invited for the swearing in supports conviction of Modi.

This imperative is one of the factors linking India and Japan. As many Indian strategists have noted, Japanese Prime Minister Shinzo Abe may embody the kind of self-confident and decisive leader that Modi aspires to become. Increased investment and defence co-operation with Japan will add much-needed substance to India's "Look East" policy, which could be advanced further by implementing long-planned projects with some of the countries in the region as well as by building road and maritime infrastructure and strengthening trade links. Engagement with the Association of Southeast Asian Nations – something that the Congress government was always reluctant to pursue – must also become a priority, if only to ensure regional stability.

Given the bilateral relationship's economic and strategic importance, Modi is all set to reinvigorate ties, and quickly. Modi's final foreign-policy challenge is Russia – another country that the Congress-led government neglected. Modi may now assess what kind of relationship can reasonably be expected with President Vladimir Putin's increasingly assertive administration, while recognising that it is not in India's interests to have Putin view China as Russia's only potential strategic partner in Asia.

**In essence, the debate identified the following biggest challenges Modi will face:**

**Economy:** His biggest challenge will be to revive an economy that is mired in its worst slowdown since the 1980s due to myriad issues such as strained public finances, persistently high inflation, high interest rates and rising bad loans at banks. Public finances are in dire straits as government spending has outpaced revenues. The new administration will immediately need to take a decision on slashing subsidies spending, which is threatening a budget blow-out and a sovereign ratings downgrade. Adding to inflationary worries are the prospects of below-average monsoon rains this summer, which could hit farm output and fuel inflation.

**Good ties with neighbours :** The leaders of Pakistan and other neighbours attended Modi's swearing-in ceremony, a first in India's history that signalled his aspirations to be a regional leader who could improve relations with surrounding countries. But Modi's position on whether to hold serious talks with Pakistan, India's nuclear-armed neighbour and rival, is not yet clear. The BJP has long advocated a tough stance on Pakistan and opposed the last prime minister's attempts at talks. Further afield, Modi will need to reinvigorate India's relationship with China and the United States. Ties between the two largest democracies have cooled due to trade disputes and the arrest of an Indian diplomat in New York.

**Centre-State relations:** The new federal government will need to mend frayed ties with state governments, who often complain of New Delhi's big brother attitude. A fear of losing fiscal powers forced some states to delay the rollout of a nationwide goods and services tax (GST), which economist estimate would have boosted India's economic growth by as much as 2 percentage points. Opposition from states blocked a plan of the previous government to counter terrorism.

Modi needs to act fast as states hold the key for a revival in capital investments, which barely grew last fiscal year as delays in clearances grounded many infrastructure projects. States wield much of the power in approving projects as only a quarter of approvals come from the federal agencies. Among the

expectation from Modi, the following issues were mentioned: Removal of corruption; Creating jobs, Small and Medium Business environment, world class rail, education and govt health care, Proper law and order, etc.

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Beijing surely has concerns about Modi's tough rhetoric on the border dispute and his plans for a rapid modernisation of India's defences. Some in Tokyo might value Modi for precisely the reason that he is ready to make India count in the new geopolitics of East Asia. Many in Asean have long urged India to contribute more actively to the Asian balance of power. Most Asian leaders are betting that India under Modi might be a more purposeful interlocutor than the UPA government. That is one advantage of signalling strong political will; even those who have differences with Modi in one arena are likely to welcome the opportunity to do business in another.

For Prime Minister Narendra Modi, securing India's energy needs over the next decade ranks among his greatest challenges and one that will likely see him both compete and cooperate with China, the United States and Russia. These three are the world's biggest energy consumers, with India in fourth spot. For all of them, energy security is a constant goal, driving their search for new resources, new technology and new investment opportunities around the globe.

**Moderator Shada** concluded the debate with her observation that Modi's emphasis on economic matters will require him to adopt a "soft policy towards the rich countries." In this, the U.S. will be of "primary interest" to the Modi government, he says. Indeed, shared economic interests will see Modi and the U.S. put aside past differences – since 2005, the U.S. has denied Modi a visa over his complicity in the Gujarat riots of 2002 – and do business with each other. However, it is with Asian powers such as Japan, China and Singapore that Modi's economic diplomacy will be the most energetic. Having established strong economic ties with these countries as chief minister of Gujarat, he is likely to build on this foundation. In this Japan will hold special appeal to Modi. Not only is it a rich non-Western country in Asia, and thus more acceptable to the BJP's thinking, but Japanese Prime Minister Shinzo Abe's own nationalistic and militaristic policies will strike a chord with Modi.

### **Indian Government moves to allow 100% FDI in railways**

The NDA government is moving fast to allow 100-per cent foreign direct investment in railways in order to upgrade infrastructure for freight and high-speed trains. The Department of Industrial Policy and Promotion (DIPP) under the commerce and industry ministry is reported to have circulated a draft cabinet note on the matter for inter-ministerial consultation.

Reports say the move to allow 100-per cent FDI in select segments such as high-speed train systems, dedicated freight lines built through the public-private partnership route and in certain areas of suburban rail networks has now been extended to more areas. Besides high-speed train systems and dedicated freight lines, the cabinet note proposes to allow foreign investment in suburban corridors and freight lines connecting ports, mines and power installations. However, existing passenger and freight network operations will not be opened to foreign investors. The DIPP is looking at all the areas in railways where FDI can be permitted so that Indian Railways can realise its full potential. The railways is a critical sector for driving India's economic growth and has the potential to raise GDP by over one per cent. Official sources point out that there is an urgent need to modernise, strengthen and expand the Indian railway network which would require larger investments than what the government can provide.

The Indian Railways needs funds to the tune of Rs5,00,000 lakh crore for modernisation, a large chunk of which will come from the private sector, according to Railway minister Sadanand Gowda. High-speed trains and dedicated rail corridors are top on the agenda for the BJP government and the intention to upgrade infrastructure was officially announced in the president's address to the joint sitting of Parliament. The BJP's election manifesto had also committed to modernise and upgrade railways and launch 'diamond quadrilateral' project of high-speed train network. "Railways is desperate for investment. It needs money for expansion. It needs money for safety. It needs money for modernization and for railways the quantum of investment that you need India cannot suffice, so FDI would be a very good opportunity," The Times of India quoted commerce and industry minister Nirmala Sitharaman as saying on 16 June in New Delhi.

### **India slips to seventh spot on FDI confidence index**

India has slipped to its lowest position in over a decade in the foreign direct investment confidence index, which has been topped by the United States for the second year in a row, a study has showed. The survey of 300 global executives by global consulting firm A T Kearney found that the US was ranked top destination in the world for foreign direct investment. India was ranked second for three years in 2005, 2007 and 2012 and was placed on the third spot in 2010.

India attracted \$25.5 billion in FDI inflows in 2012, down from \$31.6 billion in 2011, according to 2014 A T Kearney Foreign Direct Investment Confidence Index released recently. This is the lowest ranking for India since 2001. The US moved to the top position last year displacing China as Washington made progress towards sustainable and steady economic growth.

"The cooling-off in investor sentiment we foresaw last year appears to have taken shape, with a two-place drop from 5th to 7th — its lowest rank since 2001," the report said. In 2013, the then ruling UPA government raised limits on FDI in telecommunications, asset reconstruction, credit information, aviation, and defence production, the report said adding that foreign investment in oil refining and single-brand retail, currently capped at 49 per cent, will now be granted automatic approval.

AirAsia India, a joint venture between Malaysian budget airline AirAsia and Indian conglomerate Tata Sons, has been given the nod by Foreign Investment Promotion Board. The initial investment of \$ 50 million makes AirAsia the first foreign airline to set up a subsidiary in India.

German luxury tableware brand Villeroy & Boch has established a joint venture with marketer Genesis Luxury, opening its first store in Mumbai and planning to grow to 16 stores in the next five years. This partnership comes after two years of struggling to clear administrative hurdles and acquire real estate without a local partner, the report said. "In a long-awaited decision reached in late 2012, the Indian government permitted partial foreign ownership of supermarkets and department stores, a major step for the country's highly underdeveloped retail market," it said.

"Until late 2013, however, no foreign companies moved to enter, daunted by complex requirements, including one for 30 per cent content from small and medium-sized Indian enterprises," the report added. "In December 2013, though, Tesco, Britain's biggest retailer, announced that it was seeking permission to take a 50 per cent stake worth \$ 110 million in Trent Hypermarket, an arm of Tata. This move came soon after Walmart ended its wholesale joint venture with the country's conglomerate Bharti to operate 20 stores in India, citing the local product requirement as the critical stumbling block," the report said. A T Kearney said the US tops the index for the second year in a row, demonstrating sustained investor confidence in the strength of its ongoing economic recovery. "In addition to being the most likely destination for FDI, no other country has experienced as profound a change in the expectations of the business leaders we surveyed.

A full 49 per cent of respondents — compared to 39 per cent in 2013 and 23 per cent in 2007 — indicated that their outlook for the United States is significantly more positive now than it was two years ago," it said. White House Press Secretary Jay Carney said: "Not only did the US extend its lead, but the improvements over the past two years have been profound. And the US continues to show greater positive momentum than any other country."

### **51% FDI in defence will be a game changer for India: Source**

Raising foreign direct investment cap to at least 51 per cent in the defence sector will help India become a major manufacturing and export hub, reducing dependency on imported equipment. "India can be a game-changer only by allowing at least 51 per cent FDI in the sector. With access to critical technology, the domestic companies will be able to manufacture products indigenously and make India a global defence manufacturing and export hub," said a government source. India imports defence equipment worth over USD 8 billion annually. It is one of the largest defence importers in the world with only a minuscule component of exports.

Allaying concerns of few domestic industries, the sources said that the proposal mooted in the draft note has enough safeguards to protect this sensitive sector.

"Giving controlling stake to a foreign player will be an incentive for them to bring modern technologies in India. Besides making India as their manufacturing centre, they will also export from here. It would lead to creation of jobs," said a source.

While the government is holding inter-ministerial consultations, intense lobbying is being witnessed within the major industry chambers, the sources said. A section of the domestic industry, with less than 1 per cent share in the sector, holds a view that the FDI should be restricted to 49 per cent, while another view is that without a majority stake why would the global investor invest in India, they added.

They said that capping FDI to 49 per cent is not going to help. It would be a status-quo type situation.

"India should not lose this chance. To become self-reliant in defence sector, 51 per cent FDI must be allowed. Between 2001 and August 2013, 49 per cent foreign investment (26 per cent FDI + 23 per cent FII) was allowed. During this time, India has attracted only USD 5 million investments, which is lowest in any sector," the source said.

Between 2001 and 2013, India has received about USD 320 billion in foreign investment. The figures clearly reflect that India has not received any investment when the cap was 49 per cent.

The sources also argued that due to sagging economies in the West, multi-national companies want to expand their manufacturing base in Asia and India can become a major centre for that.

"Now the country cannot afford to miss the bus. Fixing foreign investment cap to 49 per cent will not help in getting modern technologies. Figures are clearly reflecting that 49 per cent foreign investment has not changed anything. It will be a game spoiler," they added.

The Department of Industrial Policy and Promotion has circulated a draft Cabinet note to relax foreign investment policy in defence sector. They have proposed up to 100 per cent FDI in case of state-of-the-art technology and 74 per cent (FDI + FII) in case of technology transfer.

The sources further said that defence PSUs too are not able to meet India's requirement.

"Currently, over 70 per cent of India's defence requirement is done through imports. The government can reverse this trend by permitting 51 per cent FDI in the sector, they added.

Several Indian companies including Mahindra and Mahindra, Tata and Ashok Leyland have interest in the sector. Further liberalisation of the FDI policy would help them in joining hands with foreign firms to produce equipment.

India is expected to spend over USD 250 billion in the next 6-7 years in procurement of defence equipment for homeland security. Indian private and public sector firms would not be able to provide equipment so the country will end up importing all the requirement.



"Countries like China and Mexico have emerged as a major hub for defence manufacturing, why can't India move the step towards that direction. India can become a very important place for foreign firms to set up manufacturing units here. They can also export to whole of Asia from here," said a source. In the discussion paper, the DIPP has said that the bulk of the domestic production is met either through the Ordnance Factories or the Defence PSUs. Even when defence products are manufactured domestically, there is a large component of imported sub-systems.

Western governments are rushing to visit Prime Minister Narendra Modi, drawn by the prospect of multi-billion-dollar deals as the Indian government prepares to open the nascent defence industry to foreign investment.

Senior politicians from France, the United States and Britain arrive in quick succession over the next 10 days as Modi prepares to accelerate the modernisation of the country's mostly Soviet-era weaponry.

Modi intends to build up India's military capabilities and gradually turn the world's largest arms importer into a heavyweight manufacturer - a goal that has eluded every prime minister since independence in 1947.

On the table is a proposal circulated within the new government to raise caps on foreign investment - with one option to allow complete foreign ownership of some defence projects.

### **India poised to return to high growth path: OECD**

India is poised to return to a high growth path while its BRIC peers Brazil, China and Russia are expected to record below-trend growth rates, an OECD report said on 10 June.

"CLIs (composite leading indicators) point to growth below trend in Brazil, China and Russia. Nevertheless, the CLI tentatively indicates a positive turning point in India, suggesting a return to faster growth," the Organisation for Economic Co-operation and Development (OECD) said.

India has grown below 5 per cent in each of the two previous financial years mainly because of the global slowdown coupled with domestic economic sluggishness.

In the current financial year ending March 2015, the Reserve Bank of India expects the economy to pick up and grow at over 5.5 per cent. Moreover, the formation of a new Government with a sufficient majority has revived investor sentiment, which is reflected in the stock market surge and strengthening of the domestic currency.

CLIs, which are indicators of turning points in economic activity relative to trend, suggest "the growth momentum is weakening in most major emerging economies."

For the OECD as a whole and for the US and Canada, CLIs point to stable growth momentum. In case of the UK, the growth momentum is expected to stabilise at above-trend rates, while in Japan it points to a disruption in its growth momentum, the report said.

Paris-based OECD is an economic think tank for 34 member countries, including many of the world's most advanced nations and emerging countries such as Mexico, Chile and Turkey. It also works closely with emerging giants China, India and Brazil. The report said that in the euro area as a whole and in Italy, CLIs continue to indicate a positive change in momentum. In Germany and France, CLIs point to a stable growth momentum.

### **In manufacturing push Indian Government decides to make e-clusters in 8 cities**

Communications and Information Technology (IT) Minister Ravi Shankar Prasad on 17 June said the government would develop new manufacturing clusters for electronic goods in eight cities as part of its agenda to boost manufacturing. Prasad said manufacturing was a priority for the government and the sector had the potential to employ 28 million.

The ministry would develop the clusters in Bhopal, Bhubaneswar, Hyderabad, Maheshwaram, Bhiwadi, Jabalpur, Hosur and Kakinada.

Prasad said the government had identified eight other cities where it would offer subsidies and incentives to companies setting up facilities. The government would extend the modified special incentive subsidy scheme (M-SIPS) to Ahmedabad, Ghaziabad, Vadodara, Gandhinagar, Nagpur, Nashik, Aurangabad and Thane. In July 2012, the government had notified M-SIPS, under which refunds would be given on capital expenditure for new units or for expansion of more than 25 per cent of existing capacity in specific new or existing electronics clusters. The earlier government had allocated Rs 10,000 crore for the scheme.

According to Prasad, the government would promote semiconductor fabrication in India. The earlier government had in February approved the establishment of two semiconductor units. State-owned Bharat Sanchar Nigam and Mahanagar Telephone Nigam have been directed to improve the quality of services. Their performances would be monitored, according to Prasad. The government has decided to spend Rs 5,000 crore for setting up 8,000 mobile towers in the northeast, said Prasad.

On spectrum allocation, Prasad said he was working out a "transparent arrangement for spectrum issues," keeping in view the objectives of consumer welfare and the country's growth in mobile telephony. The government has approved preferential market access guidelines that force it and its agencies to give preference to locally-made electronic and telecom equipment for procurements.

PMA was mooted to incentivise domestic manufacturing in the country, which presently depends on large-scale imports to meet its demand for electronic goods.

The policy is one of the many initiatives taken by the government in the past two years to get an electronics manufacturing ecosystem going. According to government estimates, India imports about \$40 billion of electronics items.

#### **India leads the way in combating climate change: Time**

Indians were more than twice as willing to pay more for clean energy as residents of Brazil, Germany, Turkey, South Korea or the US. India is leading the way in efforts to combat the challenges of global warming while sceptical Americans still question climate change, according to a new global survey by Time magazine.

Of the six countries polled, Indians were the likeliest to express deep concerns about energy and consumption and were the most committed to conservation and the most optimistic about their ability to reduce emissions.

More than 9 in 10 Indians reported that conservation issues were "very important" to them, compared to 68% overall, the US news magazine's survey about attitudes toward energy found. Indians were more than twice as willing to pay more for clean energy as residents of Brazil, Germany, Turkey, South Korea or the US.

"Each of these countries has moved to minimise their environmental footprint in different ways," the Time survey noted. "Germans are in the habit of powering down their computers. Brazilians are assiduous about switching off lights. The US leads the way in recycling."

"But Indians reported the most comprehensive approach to energy conservation, with 8 in 10 Indians reporting that they have altered their personal habits to curb consumption," Time said.

Those changes include several simple tasks that go a long way toward shaving both costs and carbon emissions, it said. "Indians are the likeliest of the six nations surveyed to carpool, take public transportation, and walk rather than ride in a vehicle.

"They unplug appliances from the socket when not using them more frequently than anyone else," the survey noted. While conservation correlates with financial discipline across the six countries in the survey, "India is also unique," the Time said noting, "It is a burgeoning superpower with stark energy challenges." "These systemic challenges appear to have shaped attitudes toward energy, driving both social consciousness and innovation," it said.

Asked what concern guides their energy habits, Indians cited minimising their environmental footprint (46%) over curbing costs (34%) or maximising comfort (21%).

Though Indians are widely cognisant of climate issues, they're more optimistic than their peers about the world's ability to cope with the challenges, Time said. More than 60% of Indians say they believe the world can slash carbon emissions 80% by 2050, compared to 37% of respondents overall.

Of the six nations surveyed by Time, India was only one in which a majority was optimistic about the potential to achieve that level of cuts. The survey was conducted among 3,505 online respondents equally divided between the US, Brazil, Germany, Turkey, India and Korea.

Polling was conducted from May 10 to May 22. The overall margin of error overall is 1.8%, Time said.

### **EU to send high-powered delegation to India over ban on mangoes**

A top-level team of experts from the European Commission will visit India in September to inspect the measures put in place by the country in order to help lift the EU ban on the import of Indian mangoes.

The EU's "temporary ban", supported by the UK's Department for Environment, Food and Rural Affairs (Defra), came into force on 1 May and was to remain effective until December 2015 after authorities in Brussels found consignments infested with fruit flies that they feared could damage European salad crops. Indian-origin British Labour MP Keith Vaz, who visited Brussels recently and met Dacian Ciolos, EU Commissioner for Agriculture, and other senior officials.

Vaz has been spearheading the British Parliament's campaign to get the ban overturned. He invited the EU Commissioners for Agriculture and Trade to visit India to discuss these issues face to face with the Indian government.

"Indian mango growers are suffering daily and some have been bankrupted as a result of this unfair and illogical ban. British businesses have lost millions. India had only had 37 interceptions of its mangoes in 2013, whereas Pakistan had 136 interceptions and the Dominican Republic had 46 in the same year. It is not clear why India has been picked on in this way," Vaz said in a statement.

"What is essential is that the visit of the delegation is a success and that when they come they are fully satisfied that all issues are addressed. To keep this ban going to December 2015 would cause irreparable damage to the EU-India relationship," he warned. Vaz said that the election of the new Indian government under Narendra Modi serves as the perfect occasion to put right this wrong.

"The EU would be foolish not to want to support a deal with the country with the fastest growing economy in the world. Britain needs to do more. "I've written to Prime Minister David Cameron to ask that British officials go to India to help with ensuring that all outstanding matters have been dealt with before the delegation arrives," he said.

### **Mobile phone subscriptions to overtake global population by 2015**

By early 2015, there would be more mobile phone subscribers than the world's population, thanks to rapid growth in India, China and Burma, according to a report by Swedish technology giant Ericsson.

As per the report released in London, of the 6.8 billion global mobile subscriptions in the first quarter of 2014, 790 million were in India. The global figures included the addition of 120 million new subscriptions in the first quarter. The global growth was led by India with 28 million new subscriptions during this period. According to the projections in the report, mobile subscriptions would hit 7 billion by the end of 2014, and overtake the world's population of 7.2 billion in early 2015.

The year 2016 would see the number of smartphone subscriptions exceed those for basic phones and by 2019 the number of smartphone subscriptions would be expected to reach 5.6 billion. Smartphone sales in India shot to 44 million units in 2013 from 16.2 million in 2012.

By the end of 2019, mobile broadband subscriptions are expected to account for over 80 per cent of all mobile subscriptions, as against around 30 per cent in 2013.

Mobile broadband too would gain a larger share of total broadband subscriptions across many markets, complementing fixed broadband, and in certain segments replacing it.

LTE's share of mobile subscriptions would stand at 85 per cent in North America in five years, outpacing Europe where the 4G technology would have a 30 per cent share, according to a report from telecom vendor Ericsson.

Continuing its robust growth, LTE subscriptions reached 240 million, in the first three months of the year, with around 35 million new additions. The increasing popularity of the technology is being helped by the launch of more commercial networks around the world and the availability of cheaper handsets.

By 2019, the number of LTE subscriptions would be 2.6 billion and by that time population coverage in Europe would have grown to around 80 per cent, however, the region would only see an LTE subscription penetration of 30 per cent as against 85 per cent in North America, Ericsson said.

LTE penetration had already reached over 30 per cent in Japan by the end of last year and over 50 per cent in South Korea-the highest in the world.

However though LTE was becoming more common, the report went on put its popularity in some context. The technology's share of the total number of mobile subscriptions (6.8 billion) stood at 3.5 per cent during the first quarter and by 2019, LTE's share would be around 28 per cent as against 49 per cent for 3G connections based on Wideband Code Division Multiple Access (WCDMA) and (High Speed Packet Access) HSPA.

#### **Drugs, sex and alcohol could boost growth in Europe**

Europe's governments are turning their attention to prostitution, drugs and contraband as possible ways of boosting their economic growth profiles, as they struggle away from their debt crises. Italy caused a stir when it announced last month that it would begin including revenues from drug trafficking and the sex trade, as well as contraband tobacco and alcohol, to calculate gross domestic product (GDP) from next year.

One effect would be to reduce the public deficit as a ratio of output, if EU authorities were to accept the idea. That would be a big help to countries trying to get their public deficits below the EU ceiling of 3.0 percent of output.

In 2012, Italy's central bank estimated the value of the criminal economy at 10.9 percent of GDP. Including these figures could therefore boost the country's growth to above the government's 1.3 percent estimate. Last month, Britain said including illegal activities such as prostitution and drugs into national accounts would add about 10 billion pounds (12.3 billion euros, \$16.8 billion) to GDP, equivalent to about one percent of national output.

Using the undeclared or so-called black economy to calculate national statistics is part of a range of changes recommended by the European Union's statistical institute, Eurostat, to be implemented in September.

Eurostat said including such data would allow a better comparison between countries with different laws. "GDP is not an indicator of morality," said a spokesman, adding that only transactions carried out consensually would be included.

But others are less convinced. Eric Vernier, researcher at the Institute of International Relations, said including "gross criminal product" in growth figures is a cynical attempt to combat the eurozone's debt crisis. "The problem is to put this new statistical method on the table at the moment when everyone has

budget problems," he said. "There has been a general acceptance of this accounting approach since the crisis: what matters most is what goes into the state coffers."

- 'Denial of basic morality' –

Many of Europe's struggling governments will welcome any boost to growth figures that will reassure both disillusioned voters and markets.

But the decision has sparked outrage among politicians and rights groups.

The French minister for women's rights, Najat Vallaud-Belkacem, and Belgium's Interior Minister Joelle Milquet, have both written to the European Commission to express their "astonishment" over the proposals.

"Prostitution is not a voluntary commercial activity. To believe that it can have an ideological bias is a mirage and an insult to the millions of victims of sexual exploitation worldwide", they said.

"Prostitution cannot be assumed to be a transaction freely agreed between parties. The question also arises concerning drugs, especially hard drugs, considering the issue of addiction," added Ronan Mahieu, head of INSEE, which calculates France's GDP.

A spokeswoman for the Association for the Protection of Women's Rights in Britain said the group was "surprised and saddened" by the decision.

While in France, Marine Le Pen, the leader of the extreme-right National Front party which came top in recent European Parliament elections, described it as a "denial of basic morality".

- 'Shadow market' –

Europe's black market is already huge, according to experts.

Friedrich Schneider, professor at the Johannes Kepler University of Linz in Austria, estimates that the European Union's "shadow market" is equal to 18.6 percent of the bloc's 2014 GDP. But calculating the value of illegal activities is no easy task.

An EU document from 2012, littered with acronyms and complex mathematical formulas, gives guidelines on how to calculate the "inputs" of the prostitution industry, such as the cost of renting an apartment, or "transport and storage" for drug traffickers.

It even includes how to interpret the "ratio of purity" in narcotics. Schneider argues that undeclared illegal activities and "value creating" services such as prostitution should be included in the calculations, but not totally criminal activities.

On this basis, Germany, Italy and France account for about half of Europe's black-market activities. In recession-hit Greece, he estimates that black market transactions account for an estimated 23 percent of GDP, lower than the estimated 40 percent of the less-developed economies of Eastern Europe, but far higher than the roughly eight percent in Luxembourg.

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