

BROOKINGS INSTITUTION
THE MODI GOVERNMENT IN INDIA TURNS ONE:
AN ASSESSMENT

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P R O C E E D I N G S

MR. JONES: I am Bruce Jones. I am the vice president for Foreign Policy at Brookings, and we have a great panel for you today to mark the occasion of one year of the Narendra Modi government.

In my job, I spend a lot of time monitoring and commenting on geopolitical Developments, and my research really focuses on the rise and the evolution of the so-called emerging powers, some of which have emerged, some of which have not, et cetera. And against what I think we could reasonably describe as torrent of bad news, I'm often asked to point to bright spots, and I end up always coming down to one, which is Modi's India.

That being said, I have to say I watched Modi do his global tour last fall, and I wondered whether he was: (a) successfully using the kind of drama and rhetoric of the global stage to send signals that would transform things domestically, or (b) setting awfully high goals that he was going to fall short of and be held account to at some point in time. And it seems to me as we discuss one year in, one of the things we want to talk about is the question of whether or not there's the capacity there or the commitment there to fulfill the kinds of pledges and the kinds of signals that he sent early on.

We have a terrific panel to help us think about these kinds of questions. We're going to start with Vikram Singh Mehta, who has more honorable titles than I am going to run through but whose only truly important one is as executive chairman of Brookings India. No, it is only his most important one. Vikram started his career in government, left and joined the private sector to work with Phillips Petroleum, went back into government to work with Oil India, and then left again to join Shell where he became the chairman of the Shell group of companies in India and has also served as a chairman of the Hydrocarbon Committee of the Confederation of Indian Industry.

Then we're going to hear from Diane Farrell, who is the executive vice president and senior director of the U.S.-India Business Council, which she joined in 2001. Prior to being at the U.S. India Business Council, she was at the Export-Import Bank with a concentration on India and Southeast Asia, and was also a member of the White House Business Council.

Then we are going to turn to Milan, who is a neighbor, both in Think Tank Row and where he lives at home near me. And his research focuses on the political economy of India, but I would say that his work, he is best known for a large ongoing project on the political and organizational causes and consequences of political corruption in India. So I will be interested to hear what you have to say about the state of play.

And then last, but very much not least, we'll turn to Tanvi Madan, who is a fellow here at Brookings and runs the India Project here in Washington and focuses her research on Indian foreign policy, in particular on the India China relationship, and of course, Modi was just in China dealing with that particular aspect of the issues.

So Vikram, first to you. Give us your sense, your angle.

MR. MEHTA: Thanks. Thank you, Bruce. It's a pleasure to be here.

Bruce has given me five minutes to make some opening remarks, so let me just get to the essence of the subject.

I will answer three questions. One is, what did Modi inherit last year? Second, what fresh initiatives has he taken over the past year to address some of the binding structure constraints that impact our socioeconomy. And third, what concerns might have been generated as a result of these initiatives?

Now, last year this time, Prime Minister Modi inherited an economy that by every metric of performance was doing poorly. Inflation was in double digits, growth

was slipping, the balance of payments and the current account deficit were in reverse -- were in skids in some sense.

In addition, the infrastructure projects had been held up because of the backwash of corruption, an unending series of corruption scandals that had put I think 350 projects on hold. There was also excessive oversight by the various vigilance commissioners. Policy was paralyzed and bureaucrats preferred the act of omission to the act of commission. They just did not want to put their name on any file.

Modi also, of course, inherited a parliament that he controlled in the lower house but he did not control in the upper house. We mustn't forget that. He only has 44 seats in the Rajya Sabha, if I'm not wrong. Oh, 63 seats in the Rajya Sabha.

And finally, his party, and Modi himself, are tied to a parent body that has a fairly inflexible ideological agenda, the RSS, Rashtriya Swayamsevak Sangh. So that was what Modi inherited a year back.

What has he done since? Now, when we answer that question we have to actually abstract from some of the exogenous factors that have benefitted the economy. The price of oil collapsed, and that has, of course, given our economy a huge boost. And, of course, the price of oil fell and that allowed Modi and the government to deregulate the price of transport fuels, petrol and diesel. It's also allowed the prime minister to, in some sense, rationalize the subsidy regime.

But if you were to just abstract that and consider that to be the result of an exogenous factor, you have to ask what initiatives did the prime minister take over the past year to address some of the constraints that we face? And I can think of at least five that have been initiated but not necessarily operationalized. The first is inflation has been brought under control. That is not just because of a decline in prices; that is also because of the fact that he has allowed the RBI governor, the Bank of India governor, a

fairly free hand to manage the monetary policy, and in addition to that, he has managed the food regime, the stock management of foods in a much more effective way than the previous government. For instance, in June of last year, inflation, he released five million tons of wheat and rice. So as a result of that, the inflation of food has come down from a trend rate of about 16 percent two years before this government came to power to around 6 percent now. That is a very major initiative and a positive.

Second is that he has most certainly started to focus on the infrastructure. He created in the budget the Infrastructure Investment Fund. He put in 20,000 crore rupees as a corpus, and the idea is to lever these 20,000 core rupees to then actually invest a much larger sum of money, a multiple of that to improve the infrastructure. This fund has not yet been operationalized, which is a criticism that you could level.

He is also, of course, focused on issues related to financial inclusion. So there have been a series of bills that have been passed through Parliament relating to pension, accident insurance, financial inclusion related to the bank accounts for the poor, and so on and so forth. There are other issues that have been initiated which have not actually gone through Parliament yet, such as the general services tax, land reform bill or land acquisition bill, labor reform. These are bills that have been held up partly because he does not have control over the upper house. But you have to give him credit that he has initiated many of these reforms. So that is another significance.

On the energy side, there is a very clear direction to promote clean energy. He announced within a month of his taking over as prime minister the saffron revolution, and he did that with a smile on his face. He said, "I don't think any of you actually understand what I mean. You think I'm talking about the saffron; I'm not. I'm actually talking about solar revolution." And he allowed his minister for power to

quintuple -- a lot more than that, actually -- the targets for solar energy capacity. Currently, we generate about 2.5 gigawatts of solar energy. His target now is to raise it to 100 gigawatts by 2022. As far as wind is concerned, we currently generate 25 gigawatts. He wants to double that to 50 gigawatts. And that's a very clear signal that clean energy is there on his agenda.

The flip side of this statement, of course, is the fact that he has also allowed his minister for power to announce the tripling of coal production, from half a billion tons today to 1.5 billion tons. So how he will actually square that particular circle between an agenda that focused on clean energy and yet an aggressive push to homicide indigenous coal reserves is a question that remains to be answered.

So there have been initiatives that I think -- well, these are some of the initiatives that have actually -- there are a number of others that I'm not going to go into, but the upshot of all this is that today I think no one can point a finger at the prime minister or his administration in regard to corruption. I think the crony capitalism has been destructed. That is a real major positive step that's been taken.

Now, what are the concerns? The concerns are, I will say very briefly, threefold. One is that there were some low-hanging fruits that he has not actually plucked, and he hasn't plucked them because of politics, such as he has not really addressed substantially the issues of subsidies of food and fertilizers. A second concern is that is ministers have been rather irresponsible in some of the statements, and that has caused some concern amongst many members of the minority community. A third concern that people have expressed is that power is excessively centralized. That in a way power is in the hands of the prime minister's office but it hasn't actually been delegated widely, and in a country as complex as India, we cannot run it from one particular centralized office. So those are our concerns.

Now, let me just stop here, Bruce, because I was looking at I've already gone two minutes beyond this.

MR. JONES: Yeah. And I'll come back to you about some of the concerns.

Diane, a couple years ago we had the Indian Chamber of Commerce here, and one of the members quipped that while everybody knows the tourist campaign about Incredible India, from a business concern we needed a "credible" India. And he was talking about the investment climate. What's your take on your end? Is this a more credible India it seems from the American business perspective?

MS. FARRELL: Oh, I think by every measure the answer is yes. And I think Vikram just gave a wonderful synopsis of how industry views conditions on the ground. I actually came across over the weekend, but I note that Forbes has published on Monday a survey that was done by BMR Associates where they queried top C-suite executives to get their view. So I think it's probably worth my kind of encapsulating what the stats show because they effectively affirm everything that Vikram has just said.

But is there a brief among industry that there has been a significant change and that it's more favorable to economic investment? The answer is by 87 percent respondents believe the government is pro-business. I think about that in terms of some of the politics that's being played out right now but it's pro-business and economic development. I think the emphasis is on economic development. Seventy-eight percent of these same respondents feel that the steps taken by government will lead to a better investment climate.

Now, I think what's important there is there is still a certain level of patience. While we're marking the one-year anniversary and there are high expectations, the reality is that as Vikram has also cited, either the intent to reform or some of the

initiatives, including the passage of insurance FDI, the country's commitment to land reform, even though they couldn't pass a revised land bill, they will continue an ordinance indicating their firm commitment to see, to resolve, and to make land use more effective, which will go to the next campaign, not only Incredible India, but Make an India. And everybody takes credit for both of those taglines, by the way, depending upon who you're speaking with in Delhi.

The other that's really interesting I found was the Ministry of Finance has a 65 percent approval rating among these respondents. The Ministry of Power, interestingly, Vikram, as you talk about some of the initiatives, 68 percent. And the transparency issues, the crony capitalism that Vikram just made, also affirmed by industry. Eighty-five percent of respondents talked about both the auctions of coal, as well as telecomm. And as you know, in the prior government, they have been sources of great disappointment as we discover the endemic corruption that took place in both of those areas.

So again, the investment community is taking note. And I just returned from India two weeks ago. I'm actually going back again next week. But to a person in Delhi on the industry side, they affirm that transparency is now the order of the day in Delhi, and what they're hoping for is that same sort of transparency expectation and practice trickling now to the states, which will also have an enormously positive impact when you're talking about industry actually being able to make investment.

Now, this is the other one that I think is quite interesting. Sixty percent of respondents -- so getting to the other side -- are concerned that the budgets have not been bold enough and that the pace of reform is slower than expected. And if there is a universal theme sounded by industry it is concerns over tax. So most recently we've talked about the MAT, and you've seen the government attempting to react as they've

seen foreign institutional investors begin to pull back to send a signal, but there is that lingering concern about the consistency, the predictability of tax.

As mentioned, when you got to more specific issues, they're pleased to see the institution of single window clearances, again, having to do with permitting not just land but other approvals. They're hopeful for the land bill. They're hopeful for a better, more effective public-private partnership model than has existed previously. And again, as I mentioned, they're looking for taxes.

So in a nutshell, companies do feel that the government is going in the right direction. Most companies that are spending any time really thinking about India's system recognize the young demographics, and I think all of us believe -- because, actually, I was at a building yesterday that has five sides. You can figure it out. And the question was, as we were giving a briefing, what would happen to India if Modi got hit by a bus tomorrow? And the answer that we gave was it could slow the pace but the reality is that as the voters expressed last March, India is going to move forward. It's a matter of how quickly, whether it's in fits and starts, whether it's on a sweeping basis, but either way, India will go forward.

And the final thing I'll say because it's such a priority, the prime minister speaks of it so frequently, as do his leadership, ease of doing business and the fact that the prime minister has laid a marker where India is now -- I think it's currently -- is it 142 on the World Bank scale? That his goal is to get to below 50, one obviously being the highest. And they are making a concerted effort first to look at the two cities that are measured, Delhi and Mumbai, to see how they can be more responsive to the criteria that the World Bank uses. I kind of call that teaching to the test, but beyond that, they are clearly, clearly, clearly attempting to encourage states toward what they're calling competitive federalism. And so the idea is to have the states recognize the true value of

foreign investment and to create the kind of ecosystem that's going to make it easier for Make in India to succeed, for digital India, for all of the programs, all of the catch phrases that the government of India has expressed in the last year.

And so we look forward to seeing, and we are seeing more state delegations visiting the U.S., reaching out to investors, competing with each other, and we're even hearing from the government of India and the Council itself is looking at trying to create the same sort of ease of doing business index on a state-by-state basis in order to more accurately identify within this enormous market opportunity the areas where companies can go and seek favorable investment and where most especially from the Indian perspective, citizen lives can be improved through greater economic opportunity.

MR. JONES: Great. When we come back around I'm going to ask you to elaborate a little bit more on the issue of, you know, if Modi is hit by a bus and how it's sustained, market dynamics.

MS. FARRELL: No one is wishing that, by the way.

MR. JONES: I'm not saying so but just --

MS. FARRELL: But I think we're all very hopeful for a healthy tenure.

MR. JONES: And I'm just going to welcome Antoine, who is one of our trustees to the room, so thank you for joining us.

Milan, I think when I introduced you I described you as a neighbor and I forgot to say where. Milan is at the Carnegie Institute next door, the Carnegie Endowment next door. Give us our take on all this.

MR. VAISHNAV: Great. Thanks, Bruce, and thanks to Brookings for inviting me. It seems like just a year ago Tanvi had invited us on a weekly basis in the run up to and in the wake of the elections to talk about what was happening, so it's good to be back.

I want to make three points about politics in India over the past year and then something about the prognosis, and I'll end there.

The first, and I think the most obvious but I think it's important to take this onboard, is I think we can now sort of safely say that you can look at the Indian landscape. The BJP has become the central pole around which politics now revolves in India. You essentially sort of have three phases if you look back at the sweep of Indian post-Independence history. You had the period before '89 where the Congress essentially was, you know, the central force around which everything moved. There are waves for the Congress, waves against the Congress. You had this very messy period between 1989 and 2014 where there really was no single pillar. We had the hodge-podge of coalition governments that were quite weak, very fragmented, and now you have a post-2014 period where I think the BJP has moved into the old Congress slot. Now, we don't know how long that will last, but I think there are signs that this has happened. So the BJP now controls eight states on its own, which is the highest tally in its history. If you add the states in which its allies are running the government, that's another four. So that's 12 in total. If you look at state legislatures, remember, it's the states where a lot of the day-to-day governance actually happens. Twenty-five percent of India's MLAs state assembly people are now from the BJP. And last year it overtook the Congress. The Congress number has shrunk to 22 percent.

So politics in a way I think is increasingly being defined, even within most states around one support for or opposition to the BJP. And that has set off a particular set of dynamics we can talk more about.

On the Congress, the Congress is back, sort of. You know, a year ago it was sort of left for dead. Right? I mean, it has an abysmal performance. It only won 44 seats out of 543, its worst showing by a long shot ever, so bad that it couldn't even

occupy the official position as the leader of the opposition for which you need at least 10 percent of seats in the lower house.

Fast-forward till today and it hasn't won any more state elections, it hasn't gotten any considerable number of seats, but Rahul Gandhi, who had been off the scene, literally off the scene for 56 days on sabbatical, has come back reinvigorated, rejuvenated. And has started to take the fight to this government, and he has done it using this controversial land bill that Vikram mentioned as the focal point. And he, in doing so, I think was sort of harkening back to his grandmother, taking a page out of Indira Gandhi's playbook with the kind of left-leaning populous message of essentially sort of class warfare. You know, you're either rich or you're poor. Where for the latter, you're either a have or a have not. Where for the latter, you're either a farmer or industrialist, and we're with the farmer. And I think that this is not necessarily a great recipe for long-term success. I don't think that a country where the median age is 27 is going to really go for this, but I think in the short run this could be a very heavy political maneuver, and I think that's bearing fruit. I think what happens with the Congress is going to depend a lot on the dynamics between mother and son, between Sonya Gandhi, the president of the party, and Rahul Gandhi, the vice president, and everyone is assuming the next president. I think there is a greater chance left to Rahul if he gets elevated to the top job; he would try to rebuild the Congress and fight elections, perhaps free of alliances and try to rebuild the Congress name where I think Sonia Gandhi will be much more likely to join in the coalition, especially in some upcoming elections, places like Behar and other, which could save them in the short term but then maybe has long-term implications. So I think they're trying to work through that puzzle at the moment.

In terms of regional players, I think one of the things that I'm really struck by is, remember, of the all-India vote, 50 percent goes to the Congress and the BJP if

you add them up, and the other 50 percent goes to a wide cast of characters, right, which tend to be single-state political parties. By and large, they've sort of gone along with the government on a lot of issues.

So if you look at the six ordinances that this government had to promulgate relating to mine and minerals, coal auctions, the insurance bill, of those six, five they got through with the support of regional parties. It's really only the land bill that they haven't been able to do. They've just finished the most productive budget session in years actually where they got a lot more done than anyone thought.

So with the exception of land and GST which because of their political sensitivity are going to require more massaging, I would actually argue the regional parties have not been significant spoilers perhaps to the extent that we thought.

So those are the kind of three political facts. Let me just end with something about the prognosis, and I want to take off from where Vikram left, which is I think the central tension that is running through this government, which is on the one hand a competing desire to centralize power, almost reflects an inclination to centralized power, and a kind of rhetoric about competitive federalism and devolving power and decentralization. I think the tension shows up in at least three places.

One is the dynamic between the prime minister's office, the PMO, and the individual cabinet ministries. The second is in its relationship with the union government in Delhi and the state governments. And the third is how it manages broadly coalitions. And I just quickly want to say a word about each.

In terms of the dynamic between the PMO and the ministries, the managing of the cabinet, I think the overcentralization of power, which is something that all pre-election analyses warned Prime Minister Modi against doing, has produced two causes for concern. The first is that by essentially marginalizing all but a very few

ministers, you hamper government coordination, government coordination, and the clarity of purpose. And I think it's not a healthy sign when ministers find out about ministerial priorities in the media, when they find out that their joint secretaries have been shifted out without their knowing, which is a very common occurrence in this government.

The second concern is that the steps one takes to actually improve efficiency by accumulating more power has the tendency in the medium and the long term to undermine it. So just one example, the cabinet committee which decides on all bureaucratic appointments at a senior level, the terms of reference of that committee have been revised so there are only two members now -- the prime minister and the home minister. So if you're making an appointment about someone in the finance ministry, the finance minister actually is not on that committee. And as one journalist noted, the file go to the committee but the PM is the only one who sees the files on the way in. The home minister sees them only on the way out. Right? So this is a tangible example of the centralization of power.

The second is on the center state dynamic. And I think there have been actually a number of progressive, very positive things. So one is abolishing the planning commission, which had been the bane of many states' existence, this kind of old socialist vestige of, you know, top-down command and control and replacing it with a think tank Nethieogue meant to foster more cooperative federalism.

The second is the Finance Commission transfer. So the central government has taken on board the recommendation that now 42 percent of central revenue will be devolved to the states, which is a 10 percentage point increase from the previous Finance Commission. So that's a really big deal.

But two things. One is even many of these changes have been very top-down in the way they have been instituted, so those transition pains I think are very real

because now states are coping with the fact that yes, our devolved transfers have come in, but the central government is taking its money away through other pots. And so now we have to figure out what our priorities are going to be and how we're going to spend this money.

And number two, ironically, many of these steps to increase the power of the states have further marginalized the ministries in Delhi. So it's another way in which I think they're being squeezed.

The last coalition I want to speak about is actually sort of a range of actors. So post-May 2014, I think given that the Congress was vanquished, the opposition was very fragmented, this government had, perhaps with a sense of humor, a sense that it had sort of come and conquered Delhi and took a very domineering approach, and I think that that had the result of a lot of key allies who were actually quite worried and puzzled by this, like the Sheeps Inn, like the kalidals in Punjab, who started to create some distance between themselves and the government. I think that they are slowly understanding that that is not a sustainable way of operating. They have also widened their net to expand outreach with regional parties, so I think the recent interactions with Madhubani and Bengal have been quite instructive.

The sign of relief that the government let out when Jayalalithaa, the former Chief Minister of Tamil Nadu was let out of jail on corruption charges because the charges had been thrown out, she's someone who is seen as someone with whom Modi has a good equation. That, I think, they are quite happy about. But I think the most critical coalition, again, to echo Vikram's point, is within the party. And this how do you bring the RSS and the Sunpadevar with you which have at their core a social agenda, and your mandate electorally from the voter is fundamentally about the economy. And I think there's still a debate within this coalition about what won them this historic mandate.

Was it really the economy is stupid or was it a move towards Hindutva. And I think that dispute has not fully been adjudicated, and I think certainly people who are aligned with the RSS are feeling very emboldened that their guy won, their party won, their people are in, and so therefore, they can start pushing issues that are of the Hindutva agenda. And of course, in a way, you know, they're sort of right, that there is an enabling environment to do things like ban cow slaughter, to change textbooks, to build temples in disputed areas, to silence particular critics of Hinduism. So I think that is very much happening.

And the question for Modi, and this is a big question, is he has not really been willing to wage, enter into these debates. He has neither publicly condemned many of these actions nor, he says, condoned them. But I think it's a big question mark because on the one hand he realizes that he can't fully clamp down because, after all, these are his base. These are people -- these are the foot soldiers you need to win the Behar election, so you can't completely marginalize them. So you need to keep them sort of at a simmer without coming up to a boil. Right? And so any of you who are fond of cooking know that getting that temperature, that sweet spot between a simmer and a boil is hard, and it's hard to find a steady equilibrium, and I think that this is one of the key challenges we've seen, and at times it's undermined his agenda when he's gotten that balance sort of out of whack.

MR. JONES: Great. I'm going to come back to you on a couple of those issues and get you to probe a little deeper on the corruption piece, too, and the crony capitalism piece, too.

Tanvi, one place where centralization is easy is foreign policy. Just ask John Kerry. But of course, interestingly, this is one place where Modi has brought in a new minister that he seems to trust. What is the dynamic? What's your take on Modi's foreign policy one year in?

MS. MADAN: Well, one of the things that, you know, in an echo of kind of Reagan's Morning in America promise, Modi had promised acche din or good days to those after he came to power. And in many ways, for those of us who work in Indian foreign policy, unexpectedly there have been acche din and there have been good days. It wasn't expected. Foreign policy wasn't expected to be a major emphasis. It was supposed to be, as Milan said, he ran on the economy. Largely, it was promising growth, good governance, jobs, and to get things done. And yet he has spent, as you can see from this map -- I'm not sure you can see the detail but this will be up on our website with an article next week though the kind of stars are his ministers and the flags are people, incoming leaders. This is all in the last year. And you'll see particular areas of emphasis which I'll talk about in a second, but it's been a major focus of this last year, the kind of international dimension of India's kind of activities and the governments as well.

Now, in some ways this is not entirely surprising, or frankly, for any Indian leader today avoidable. India's geography, its economy, its energy needs, its needs for remittances from abroad make it much more dependent on the world, but also interdependent than I think sometimes is realized. I think this is something anybody who comes to power comes to understand very quickly, and Modi is somebody who had spent time even as chief minister on not quite what you would call his state's foreign policy but foreign economic policy at least.

There's also the aspect of the fact that he has recognized that this is a moment to take advantage of the interest in India, not just because he got a mandate that was the strongest mandate that any Indian government had gotten for 25 years, but also the fact that these kind of trips are not in isolation. They're very much linked to some of these domestic goals that we have talked about outline kind of what those objectives are. And I think primarily it is, as he has outlined it, a strong India, both economically and

security-wise. And for that he needs stability, in not just his immediate neighborhood but in the broader region. He needs capital, technology, and investment from abroad. And he -- I don't know if this is he needs or wants, India to have a larger world on the world stage, respect or kind of some version of that.

Just in terms of areas of focus where he's drilled down, and I'll just talk briefly about kind of areas of focus or regions of focus, his approaches in some ways how they might have been different from the previous government, although there are many areas of continuity, and then kind of India's role in the world and what we've seen of it before, ending with kind of the road ahead.

In terms of regions of focus, and I think you'll see this very clearly about where he himself has spent his time, and it's been the neighborhood primarily and firstly. He started off even at his swearing-in ceremony, making that quite clear by inviting all the regional neighbors to come for his swearing-in ceremony. But secondly the Asia Pacific. And I don't think he sees this, at least from what he's said and done, he doesn't see these as distinct. He doesn't see South Asia and the Asia Pacific, or the Indian Ocean as separate entities. He sees them as part of a broad continuum. That's where he, his ministers, have spent a lot of time. And by Asia Pacific I include the U.S. for example, and he's made very clear, and we can talk about particular relationships which I'm not drilling down on in my comments. He's made it quite clear that he sees the U.S. very much a part of Asia and Asia Pacific. He says, "When I look east, I see the western shores of the United States."

In this kind of third category I would put emphasis in terms of regions, or rather kind of areas of focus, is relations with the major powers. And this is where, both in terms of the Asia Pacific but relations with major powers, you do see emphasis on China and the U.S., but also to some extent maintaining the relationship with Russia, and

we can talk about that in the question and answers, or perhaps in our discussions. And some of it, and you see if you think about what the broader strategic challenge in the neighborhood that also comes to the relationships with the Russia and the U.S. and the focus on the Asia Pacific, is kind of managing the rise of China, which has been kind of both in dealing with major powers but also Asia Pacific boxes.

What have we seen in terms of his approach? In one way he has followed largely what every Indian government has since independence but in a slightly different way, which is a diversification strategy. Maintaining a diversified portfolio partner so you can keep your options open, take advantage of multiple partnerships. What's important about that is those relationships are not equal, and we've seen different emphases on particular relationships. The U.S., for example, he has doubled down on that relationship in a way that I suspect nobody would have expected him to go as far and as fast. The intensity of engagement, I think pretty much everybody would agree, the intensity of engagement has been further and faster than we would have expected again a year ago.

You've seen dimensions of not just reaching out but also making redlines clearer. You saw this in his trip to China where in public statements much more frank than Indian prime ministers often are when they're either visiting Chinese leaders or when they are visiting China.

In terms of tools, we've seen him emphasize particular one that are a little bit of a departure, a lot more emphasis on engaging the diaspora. He sees it both instrumentally, but also in terms of the kind of broader Indian community. We've seen a lot more emphasis, at least rhetorically, and in some cases in actual fact, on values. Again, I think he sees this both instrumentally, but also in terms of actually thinking about how India can shape the character of the region and the global landscape. And we've

seen a lot more rhetorical emphasis on democracy, for example. You saw this particularly on his. And if you actually look at it, most of the countries he's visited, except for two exceptions, have been democracies.

You've seen a lot more emphasis on some of the cultural aspects, and I'll come back to this in a second, things like Buddhism and yoga. Wherever he's gone, these have been kind of elements. And another kind of tool he's used very effectively has been e-diplomacy, especially social media, engaging world leaders, but also engaging with people in other countries, kind of not leaving it to leaders of the press but trying to engage. His most recent foray was joining Wagle, including a selfie with Premier Li Ka-shing, and also in Mongolia where there was another selfie taken.

Just in terms of India's role in the world, I think we've seen kind of an emphasis on this is not something India has to ask for. The way he's put it is India will not beg, for example, for a seat on the U.N. Security Council, a permanent seat. This is something that India is deserving of and will earn by doing even better domestically, and this all comes down to that. But this is something that India -- it's not new to India.

India has always played a role on the world stage, and you've seen him do two things. One is highlight the role India has played in the past, on both hard power and soft power dimensions. In terms of hard power, you see now an emphasis which was not ignored particularly for -- it just never came up or was highlighted. Indian soldiers fighting, for example, in the two world wars, even though they were under kind of a British Indian Army hat, they did contribute in a very kind of real material way to and through money as well since at that time India was helping fund the British at least in very material ways actually contributing to global security. And in a kind of soft power way is through this, as I said, this emphasis on culture of kind of contributing things like yoga, Buddhism to the world and India as an ancient civilization and (inaudible).

But we've also seen kind of, and we'll see where this plays out, looking forward, for example, the new Indian foreign secretary who used to be ambassador here that Bruce alluded to, may talk about India transitioning from a role as a balancing power to a leading power, which is moving kind of from a more waiting to react to what other countries are doing to try to take a more forward-leading stance to show that, again, India doesn't have to ask for these roles, it is already playing it.

And some of those aspects have included the recent steps and highlighting of India's activities in terms of evacuating its own and foreign citizens from Yemen, but also the response in Nepal, though that has kind of -- I think there's been a learning experience for everybody all around in terms of how far and how fast to go on that front.

So I think one of the things moving forward is how India as a leading power might play out. In the road ahead I'm just going to talk about two elements -- very quickly, two elements that could be either challenges or opportunities. And I think one is what everybody here talked about, but all this is only possible if India succeeds domestically. It's a chicken and egg thing. On the one hand you need the kind of foreign policy successes to be successful at home, but without kind of India winning at home, India being credible India, the rest of this goes away.

And the second thing is -- and if it succeeds, India gets to do more abroad. The second thing is capacity. India is currently not structured to be that leading power in terms of bureaucratic structures, how to bring in particular constituencies, coordination, just size of organizations. We've seen some positive steps recently. One is in some ways to bring in, more in a systematic manner, states into Indian foreign policy. And second, a (inaudible) of the policy planning staff that is going to think bigger.

And then finally, one of the things that I think Prime Minister Modi will

have to do sooner rather than later, there's been a lot of complaints that he's spending too much time abroad, too much time on foreign policy. I think he'll have to explain to a domestic audience, he'll have to make the case for why him spending time on all this is going to create a job at home, or why doing all this is going to be good for farmers and their products.

So I think I'll end there and say I think that's going to be, I think, one of the major things that he'll have to do fairly soon.

MR. JONES: Great.

Vikram, I want you to go deeper on your concerns. And I was struck in particular by the question of centralization of power that sort of almost everybody mentioned. Do you view this as just a characteristic of the government or is this a more profound problem to getting from -- you frame it as a series of initiatives, not all of which have been implemented or operationalized. How important are the obstacles to operationalization?

MR. MEHTA: Well, it's, I think, a characteristic of the lead issue more so than a characteristic of the institutions of governance. The institutions of governance are clearly conducive to decentralization. We are a federal society as everyone has mentioned but has evolved increasingly to the states. A large number of economic issues are actually on the concurrent list of the constitution. In other words, they cannot be handled directly from Delhi. They have to be managed in consultation and with the support of the state governments. So you cannot pass a land bill out of Delhi and hope to implement it if the state governments are not cooperative. You cannot talk about labor reform without the support of the state governments. You cannot talk about clean energy without the support of state governments. These are concurrent subjects.

So in some senses, what my concern reflects -- and it's not a concern

that I'm suggesting is sort of remediable or that it is already on a track that is an example; it's a concern that is one that is based on three things. One is that it would reflect if that concern was real and if it got, you know if it continued, if my concern was sharpened, it would reflect the erosion of our institutions -- the institutions of checks and balances that today, you know, militate against centralization.

Two, it would definitely lead to poor governance because you cannot govern a country as complex and as diverse as ours through one entity located in one geography. You have to share that responsibility.

And three, it would, of course, then place an unacceptable burden on individuals who might well then move in the direction that would be unacceptable to a democratic polity. So you might have the framework of democracy, but within that framework you might have the trappings of autocracy. So those are concerns that would surface if the trend towards -- if centralization became a trend.

MR. JONES: Diane, you talked about this and you took a slightly more optimistic line in terms of saying if Modi was hit by a bus it would still -- these kinds of reforms would still continue. So elaborate on that.

And the other thing I wanted to bring you out on, you talked about a concern that some of the budgets and some of the initiatives weren't bold enough. I mean, historically, governments are boldest at their outset. Right? So is there a preoccupation that the boldness will diminish versus a need to see it increase?

MS. FARRELL: Well, I think I almost want to defer to Milan, if not Modi, what would happen politically? But the point that I wanted to make there was simply -- and I'm fascinated by Milan's comment that there is division within the party. Did they win because of a striking Hindi nationalist chord or did they win because of the promise of an economic future? I would argue that based upon the voters, the youthful nature of the

voters and the youthful nature of voters coming in the next election four years from now, that it was about economic expectations. And therefore, regardless of what happens, and admittedly you can talk a lot about the centralized approach that Modi took, and what's so ironic about that is here -- and I think this is actually very helpful in terms of him keeping himself in check with his wanting to control because that's the model that he feels he used successfully in Gujarat, but also recognizing that he chafed at times under the same relationship of the state to the center government. And so I think that to a degree he's attempting to appreciate and to relate to the states clamoring for autonomy at the same moment that he feels the need to have strong control because of the dynamic that he faced when he first came into office and again as part of his management style.

Nevertheless, I really have a belief -- you're right, I'm optimistic -- I have a belief in the Indian democratic system fundamentally, and as a result, in spite of the fact that he may be a very center-driven individual in terms of his own style, the people spoke and in one way or another, as I say, it might slow down progress if suddenly he were to exit the world stage, but it's not going to turn back the clock.

And I think that's where, when we talk about Congress's message, it's so interesting. I was in India watching on that Sunday where Rahul had just returned and he was giving his speech to the farmers in Delhi, the million farmers that were supposed to be in Delhi, and the PM was giving his speech just earlier that day, kind of giving his state of the nation address, and once the two speech were given they were juxtaposed and run repeatedly on Indian television. And it was probably the clearest illustration in my view, ironically because you would look at one individual and say, "There's the future. He's young." And you'd look at the current PM and say, "Well, you know, is he the past? He certainly shows his years." And yet, there was the message of the future and there was

the message of the past, and there was this -- I thought this paradox in terms of who was delivering the message at least on a generational basis. And so I really do think that however it would work out -- as I said, Milan could figure out how some coalition could come together -- but progress will continue. There's too much of an aspirational incentive, and Tanvi mentioned the success of social media, the proliferation of innovation and technology. You just can't turn back the clock. You can't put the genie back in the bottle. So that's where I think, again, it's a matter of it might take a little longer, but it will happen.

I'm sorry, the second part.

MR. JONES: Just on whether or not you think you'll continue to be bold enough.

Oh, so, yeah, and again, I think you have to have a political backdrop to really appreciate the challenges that he faces because while, you know, the expressions that he's given, whether it was here in the United States or all of those dots on the map, whether the PM has been there or whether his ministers have been there, you know, have all been focused on exactly what investors want to hear. Their goal is to ultimately adhere to global tax norms. Their goal is to ultimately adhere to global tax norms. Their goal is to get to single window clearances. Their goal is to solve the vexing land problems, whether it's ownership, whether it's some of the current requirements in the existing Land Act. And so we hear that and we react very favorably, but he has a domestic audience at home who still are a majority agrarian who are still, you know, trying to understand how their future looks, and who are living under an economic model, unlike any other, you know, developing country where they kind of skipped over manufacturing and industrialization and they went to services so successfully and so admirably. So I think that appreciating the political landscape that he has to navigate,

because we're not going to be able to vote for him to reelect him. So remembering that, you kind of have to appreciate the change will be incremental, and months back when I met with a number of his closest advisors I had said, "Oh, everyone is looking forward to the budget. They're waiting for whatever the big dramatic announcement is going to be." And the response I got on a very sort of prickly basis was, "We're making change every day." We're not waiting for that day to make some broad sweeping announcement.

And I think that what they found is whether it's for political reasons or it's just it's easier for change to take place on an incremental basis so that when you look back you can say, "Wow, look what happened," as opposed to a more disruptive kind of action that will result in a lot of political complexity.

Final point on this though is if you look, last July we were all scratching our heads and saying this government has been in office for just a few months. They didn't do as much on taxes as would have been preferred in terms of retrospective taxes and expectations. And then they pulled back from the Bali Agreement the Trade Facilitation Agreement with the WTO. And it really gave people pause wondering. And yet, if you look, and again, tax is still a problem. When you speak with the Finance Minister, he acknowledges that. They're working on it slowly, not as quickly as a lot of companies would want. But ultimately, India did come back in the fall to be a part of the WTO's actions and the Trade Facilitation Agreement.

And if you look at that, there were perhaps a few incremental tweaks but it wasn't a significantly altered document as it were, agreement as it were, but they made it their own. But ultimately, the process is moving forward, so you could, you know, you could have argued in July, whoa, you know, what did we really get here? But now you look and you say, "Okay, well, it was difficult for a period of months." It was tough diplomatically for the United States particularly, for Mike Froman, our U.S. Trade

Representative. But now it's theirs. It wasn't something they inherited from the prior government. And I think that's kind of an indication of how they are trying to work their domestic constituency in addition to keeping their eye on the big picture on economic growth.

MR. JONES: And I have to say I felt rather bad for Froman at that point in time, but for the U.S. to complain about putting our domestic constituency first is hard.

MS. FARRELL: Well, exactly. Yes, that's exactly right.

MR. JONES: Milan, Vikram talked about having at least begun to disrupt crony capitalism and make progress in corruption. Do you agree? Do you think that's been, the progress there, real?

MR. VAISHNAV: Yeah. I mean, I think there have been two things which have been quite important. One is largely symbolic, which is speaking out and using his bully pulpit to talk about the need for probity in public life and public office, and making that a regular feature of his public engagements, which I think is important. And doing things like calling up his ministers when they're dining with oligarchs at five-star Delhi hotels and saying, you know, you really shouldn't be doing that. Or when a wayward progeny of cabinet ministers are taking bribes, he's cracked down on that.

Now, the issue is -- the major source of corruption obviously is the way in which the regulatory state can be manipulated by bureaucrats and the politicians who oversee them to essentially exchange regulatory favors for bribes or kickbacks, campaign funding. I think the one area where he's really attacked in concrete terms is, again, as Vikram mentioned, moving towards auctions of natural resources. Right? So things like spectrum and coal, mining licenses which many times had been given to cronies on a "first come, first serve" basis now have an auction mechanism.

But I think the changes have to be much deeper. I mean, if you think

about the kind of rule of law landscape in India more broadly, from the outmoded kind of legal undergirdings of society to the police, which are very demoralized and service of the government to the judiciary which is badly understaff and overworked to members of parliament who have criminal cases against them including a significant percentage from the BJP, including those of a serious nature, I mean, these are all links to this chain which have to be addressed, and just tackling one without moving on any of the others is not going to get the outcome.

So I think it's been a good start, there's no question, but I think a systematic enhancement of rule of law taking on these issues. So, for instance, in Madison Square Garden, Modi talked about how he would be happy if, you know, there are so many old laws in India, if he could repeal one every day and that he was going to set out to do that. Now, they passed a bill to repeal 36 old laws, which is good, but the union government itself has said there are 1,500 laws which need to be repealed. So the task is massive, and I think he's made an incremental start.

MR. JONES: I'm going to come to the audience in a second, but Tanvi, you talked about Modi sort of continuing but adapting the diversification strategy, and notably, increasing the profile of the U.S.-India relationship in that diversification strategy, including recently talking about (inaudible), but he also sustained the relation with Russia, and he's in China now. What happens if and when he's pushed to a tough choice? If (inaudible) and Ukraine get out of control or et cetera, and he has to put his diplomatic weight on one side or another of that kind of equation, where does he fall do you think?

MS. MADAN: I think on making a choice, I think it will depend on what he sees, what the particular situation is, and what his version of kind of what Indian interest would be served. Ukraine, I mean, he wasn't in government at the time, but the attitude on the one hand is we're not going to criticize Russia directly, explicitly. We'll talk

about this privately. I suspect that has been continued. But there were a couple of things in the principle that the previous government and his government, including him in particular, has said on the principle of international law, because it has implications for India, and the two things I said was, one, territorial integrity is sacrosanct. We believe in that. And second, he gave a speech in Japan, didn't name any countries, and there were a couple I suspect he had in mind, not least because one was mentioned explicitly in a similar speech he gave during the campaign, where he said, I don't believe in the 18th century mindset that we seem to be seeing playing out across in some parts of the world where countries are encroaching into others' lands and seas; that we need to move --

MR. JONES: I wonder who he was talking about there.

MS. MADAN: The seas gives you an indication of what the second country was. But basically saying, you know, you're not going to have them come out and be Putin. This is a man who has been sanctioned himself. He's not going to come out and say -- because he sees how quickly global trends shift. I don't think you're going to see that, but when it comes to choices, I would argue that fundamentally he's already made a choice about the Asia Pacific, for example. When you have in a document them saying the U.S. is a principal partner in assisting India's rise and facilitating India's rise, that is a departure. When you have a joint strategic vision on the Asia Pacific and Indian Ocean, from a country that does not like to put these things on paper, particularly because they're concerned about provoking either countries like China or getting domestic backlash at home. When you have a Delhi declaration of friendship that nobody noticed but it's one of those things where India has lots of strategic partners, it doesn't have that many official friends. And that is an institutionalization of that, you know, inviting the president to the Republic Day Parade, big deal to bring that relationship out into the open, to give him the platform of doing a joint radio address. So I think in

some ways the choice about who he thinks -- now, I don't think India and the U.S. will always be aligned. There will be differences and they will have to be dealt with, but I think in some cases we've seen the choice. We've seen it in China as well saying very clearly that, listen, we cannot separate, we can't put aside our tensions, we can't say we won't talk about them. The border issue -- China's relationship with Pakistan, et cetera -- won't stop the development of our cooperation or our relationship, but it will limit how far we can go and it will limit the base of your choices.

MR. JONES: With your last phrase you violated what I hope to be a new thing, which is this is the first time I've ever been on a long panel discussion on India where Pakistan was never mentioned, but you just broke that which is a real shame.

Let's go to the audience and we'll take a few questions. Please identify yourself, please ask a question, and ideally aim it at one of our panelists. We'll start here.

There's a microphone up here.

SPEAKER: My name is Sachi and I'm doing my Ph.D. in Public Policy at GMU.

My question was regarding energy and it is directed to Mr. Vikram. This government has actually sort of tried to at least unify the energy regime across ministerial levels at least. I mean, sort of five or six, (inaudible) think of two right now. What has been the decision-making abilities? Has it really been a positive change for this?

And the other thing, you mentioned the fact that India is going into clean energy at the same time you mentioned that we are actually increasing our coal. I recently read an article which talked about (inaudible) not passing on the entire benefit of reduced oil prices to the consumer being a good way of actually sort of implementing something like a carbon tax and ensuring that there's more money. Can you comment

on that?

MR. MEHTA: Yeah. The last point was an article written by the chief economic advisor, Arvind Subramanian. And I read it, too, and I think he's making the case that the government has actually imposed a carbon tax by not passing it on. He hasn't actually imposed a carbon tax. The fact that they haven't passed on the price, he has now computed that to be equivalent to a carbon tax, and he's, in some senses, claiming credit for a very thoughtful initiative on the part of government. So let's give him credit for that.

The fact of the matter is that the government has not passed on the tax in order to ensure they had the revenues. They don't have the fiscal flexibility to pass on every single price benefit that the international market might offer. So I'm not exactly in agreement with Arvind's argument.

On the first point, yes, you're right. The earlier government had seven different cabinet ministers directly involved with energy. The Minister of Petroleum, Minister of Coal, Minister of Power, Minister of Renewable Energy, the Planning Commission, the Prime Minister's office. And then, of course, you have indirect ministries like the Ministry of Environment, so they were all working within their own silos. They all had their own group of government-owned companies to look after. They protected their turf. And we recognize energy as a critical component of our developmental policy but we frankly did not have an energy policy. We had different policies. We had policies on different components of energy but we did not have an energy policy.

To a limited extent, the prime minister's decision last May to collapse the Ministries of Power, Coal, and Renewables under one minister has helped break down some of those silos, but the files still move through sort of a vertical conduit, you know, and the secretaries, the civil service heads still sit in their different sort of compartments

and the conversations that take place between the secretaries is limited by the definition of their roles and responsibilities. But give him credit for having taken the first step towards actually improving coordination and towards creating an integrated energy policy. So a lot more needs to be done but I think this is a good first step and hopefully the next thing that will happen is that he will bring the Ministry of Petroleum under the umbrella of the Ministry of Energy. You create a super Minister of Energy who will then be responsible for the entire sector. You may have junior cabinet ministers who are responsible for petroleum, coal, power, and renewables, all reporting to a cabinet minister, and that's one way ultimately of India developing an integrated energy policy, which is actually crucial. I have written about it in different articles.

MR. JONES: Okay. Let's take a couple of questions at a time and we'll start at the front. So we'll do these ones here.

SPEAKER: Hi, my name is (inaudible) and I run SJ Consulting, which is a US-India business public policy consulting firm.

My question is either for either Vikram or Milam or both and it's on political economy. There have been some complaints in the recent past by doings of Indian industry, including people like Deepak Barak that the government is kind of slow-walking economic reforms as compared to what the industry expected them to do. Political commentators have suggested that this might be in part because of the drubbing that they received at the Delhi elections where they got wiped out and Arvind (inaudible) party really sort of almost took all of the seats there. And also in part because of the upcoming Behar elections in September/October.

My own perception is that while that might be part of the issue, there's also an internal division that I think Milan referred to during his comments about within the BJP, how the VHB and the RSS have this nationalistic economic agenda which in

some sectors wants to shut out foreign investment while the BJP government is trying to do the opposite.

So my question for the panelists is, what is your view of what the proximate cause is really of this incremental nature of economic reforms which belied industry expectations and wanted faster reforms? Thank you.

MR. JONES: Diane, you may want to comment on it as well. So let's do the questions at the front here.

SPEAKER: I'm Saida from the Stimson Center. My question is to Tanvi. India's rise is not possible without having stability and peace in South Asia. How do you see a modest policy towards Pakistan? Do you think you will take bold steps to solve (inaudible) problem and improve relations with Pakistan?

SPEAKER: Very informed remarks. I have two very quick questions -- one to Diane Farrell. I like very much your emphasis on aspirations of people and the demographic fundamentals. Do you think that from a medium (inaudible) perspective, this all goes very well in terms of the implementation of reforms and then India sort of moving to a higher growth trajectory?

And a quick question for you with regard to China. Do you think that given the economic, geopolitical, strategic aspects, the relationship between China and India would be different if there was anybody else in power? In other words, the imperatives of the relationship are determined by the sort of underlying deeper fundamentals. Thanks.

MR. JONES: Let's go in reverse order. Tanvi, why don't you start?

MS. MADAN: Sure. And in some ways, you know, I think it's just going to the last one first, yes, absolutely, there are structural drivers and they are kind of a major factor. I do think the kind of policymaker at the head though does actually depend.

I mean, the way I put it is there are three things. There is the underlying structural elements. There is how China is actually behaving at that particular time or Indian perceptions of Chinese behavior (inaudible), and then thirdly, it's the prime minister and his or her key advisors. And I think in terms of, for example, would another prime minister have decided to be much more frank about differences, push China on saying publicly you need to change your approach. You know, moving fast kind of saying.

Having said that, he's also promised, and could perhaps deliver more. We still don't know any border agreement, for example, would require a constitution amendment. He doesn't have the seats right now. But there's a chance that he could also go further in some ways because of his political mandate in terms of delivering certain things, including, contrary to his own home ministry's objections, liberalizing the visa policy for Chinese citizens, for example. So I think it makes a difference, though I agree with you the fundamentals are kind of important.

I think the prime minister will probably agree with you on the broader framing, which is that India's rise is -- I don't think he thinks that the neighborhood can veto it, but that it would be better for him to take the neighborhood along, and that problems in the neighborhood can very much, like kind of a Gulliver stuck in a Lilliput sort of way, tie India down and take up a lot more time and energy. And so you've seen two things.

And I think one of the things I've tried to do which is interesting is bring Pakistan back into kind of a broader south Asia; that it's not going to elevate it as a separate saying, and this is where you saw the reaching out, but also setting redlines. Here's what's possible. Even showing that, look, I can, with all these other (inaudible), even offer concessions, get boundary agreements with the assist of the Congress but, you know, make concessions and, for example, arbitration on border and maritime

disputes with Bangladesh (inaudible), offer opportunity. But on security, that's nonnegotiable, but if you're going to cross over, and if there are going to be border incidents, we're going to push you back and we're going to do it in a much stricter way. So I think the opportunity is there. I think one of the things was very clear early on and I think he thought he had a partner in Prime Minister Sharif on this -- is to start the economic relationship, the trade relationship restarted. That requires though, there hasn't been buy-in, at least that's the sense, from the Pakistani military.

And so I think there are constituencies, including business constituencies that Prime Minister Modi has who also want to do business with Pakistan and have offered kind of concessions on their part.

So just very quickly, I think there is an opening. You've seen some kind of (inaudible), but I think there has been some stepping back in terms of expectations of what Prime Minister Sharif can deliver. We also have not seen yet a major crisis on this front. We've seen some attacks in Afghanistan that India links to Pakistan, but we have not seen, and do we don't know how he will, for example, deal with Islam (inaudible) in the event of a crisis. (Inaudible), I think he would agree.

MR. JONES: Milan?

MR. VAISHNAV: So Sanji, on your point, it's a great question. I mean, I think that there's two major drivers here. One is Modi has a very unique hypothesis about political capital. He views it as an appreciating asset rather than a depreciating one, so he doesn't buy, you know, 100-day plans, one-day visions, five-year visions. I mean, this is a 10-year at least thing. And so I don't think he feels necessarily encumbered by these constructs of having to do everything.

At the same time, it's not clear to me that he has a well-defined economic philosophy. I think, you know, many people talked about it as if he was going to come

into office and kind of dust out the secret plan and sort of say, "Here you go." But I think, right, they've been trying to figure out what their emphasis is going to be. First it was on sentiment and getting macro right. Then they realized, you know, we need public investment because that needs to stimulate. Then -- well, we actually have to do some serious factor market reforms. Now it's about rural distress. How do we get the rural sector going? So, I mean, I think that's a sign that actually they don't have a clear vision and they're still sorting it out. And then I think these two things taken together, this idea about political capital, which is very different from how we see things, which is, as you said, right there's a year, you do it, and then you think about reelection. Plus this philosophy, that's reinforced by the fact that you have these veto players. You have the Congress, you have (inaudible), but it's not under control. You have the states, more than half of which are under your control. You have the Sunpadevar, which, again, as a friend of mine said, you know, imagine if you had Ted Cruz and Elizabeth Warren in the same party. There you go. This is the kind of thing that he has to deal with -- economic conservatives and people who are exactly the opposite, and the bureaucracy. So I think all of these things feed into a very cautious gradualist vision.

MR. JONES: Fondly enough, when I read them, I actually think that Ted Cruz and Elizabeth Warren are in the same party, they just don't identify as such. And Jeb Bush and Hillary Clinton are jointly running (inaudible). But that's a panel for another day.

Diane?

MS. FARRELL: With regard to pace of reforms, certainly, you know, there's always a sense of impatience. In all honesty, and having been an elected official, I can say this from my own experience, you know, politicians tend to overpromise, especially at the beginning, and then they're accused of under delivering. And I think

what this government is saying is, you know, give us more time. You can see tangible evidence of what we've done, but the reaction to the July budget, when retrospective taxes were not addressed, was very strong among the investor community, and yet -- and then the government frankly had to be very firm before the budget address in March to say we've gone as far as we're going to go on that subject. We've heard you, this is what we're doing, we're moving to the next economic priority that we have.

I was just with a major multinational company in the D.C. area this morning and I said, "So how do you feel about India?" We were actually talking about defense and all kinds of opportunities there. And the answer was, "We can't afford to ignore India. Yes, they're slow on reforms. We have to be very strategic and very thoughtful about how we do it, but we certainly intend to increase our footprint there because we recognize that we have to."

So I think that's really where that comes.

On the young population front, the statistic that the government of India cites is they have to create one million jobs every month. That is a daunting task. And so where the U.S.-India Business Council, the government of the United States, et cetera, are all working is to make sure that we can be as supportive as we can when it comes to skilling. Of course, there's Skill India as one of the initiatives that the government has come to with, but also it's in our company's best interest to have an effort to be expanding on the education side, creating more partnerships between U.S. institutions and Indian institutions, but also to be very specific about skills. So, I mean, as much as it is lovely to say education for the sake of personal enlightenment, we're really talking now about creating a model and being as supportive as we can of models that are going to create the kind of skills that frankly our companies need so that they're not just poaching from one another in the automotive manufacturing industry, which is a high

priority for the government of India in terms of seeing future jobs, future good solid paying jobs, creation of this expected middle class, they're poaching from each other continuously. And so there's an evident need for looking at this large population coming forward and working with the government of India as much as possible towards skills training and toward higher education that's going to lead to the kind of successful jobs that will help to power Make in India.

MR. MEHTA: Just to maybe add to what's been said, firstly, I actually think that the prime minister has a clear vision of what he wants. He has the clearest vision of anyone in the government today. He has dealt with economic policy for 15 years. He knows that he's been thinking about what he wants to do for India for maybe the last 10 years. He is clear in his head about where he wants to go and how he wants to take this country forward. The fact that his reforms have not been as fast-paced as some people have expected is a reflection of the realities, the context. The political economy, call it what you will, the vested interest, whatever it is, it is the fact that, you know, the prime minister of India, with a majority in the lower house, no majority in Rajya Sabha, federal polity, all sorts of interest groups, the RSS sitting on top of his head, he can do nothing but move incrementally. Industry has been impatient and I think wrongly so. They have accused him of not having delivered, but he could not have delivered faster than what he has done. I think he has put the reform program on the right track. We would all like some of those projects that are currently clogged by bureaucratic processes and approvals to be unclogged, but it's going to take time. There is no such thing as single window approval. Call it what you will. We can talk about it till the cows come home. You won't get it. Okay?

So let's just remember, it's one year into this regime. Don't forget what we inherited, or what, rather, the government inherited. It was an absolute utter mess.

To unclog just the mess that was inherited is going to take time. So the country is moving forward. There are concerns which I have already expressed, but on the economy, I think we have a prime minister who is clear headed with a very clear vision on where he wants to go forward, and business will have to support him if they want to get what they want.

MR. JONES: Okay. We have time for a lightning round. That means two or three very quick questions aimed at one of the panelists and we'll give the panelists very quick final responses.

So the gentleman in the back.

MR. DELANEY: Thank you. Mike Delaney, Office of the U.S. Trade Representative.

India has major education problems, and addressing this it seems to me would be a tremendous -- there's probably more upside economic potential in that area than virtually anything else I can offhand think of. And we're also a natural partner for India. We have well over 100,000 students from India studying here. Indians are voting with their feet. Do a quick back-of-the-envelope calculation, the tuition being paid by Indian students here probably exceeds the budget of the Ministry of Education in India, an astonishing fact.

Now, it's an unfortunate fact that inhibiting this national partnership are considerable restrictions on foreign direct investment in Indian higher education, and I see tremendous potential there for both countries. Is there any effort to address this in the current government? Thank you.

MR. JONES: Does anybody else want to ask a quick question?

MR. LAKSHMAN: Narayan Lakshman of The Hindu.

My question is to either Milan or Vikram. Has this government sort of

picked between focusing on rapid economic growth as a major strategy versus more redistributive policies? And firstly, is there a dichotomy? Because on the one hand, of course, he's won lots of credit for pushing for investment of infrastructure. He's kind of sold that story abroad. But on the other hand there have been some pretty major cuts to higher education, water, nutrition, things like that. I mean, is that something that could -- if that is the case, is that something that could catch up with sort of the broader growth and development strategy going forward?

MR. JONES: Go on.

SPEAKER: Vikram, you mentioned that the prime minister has a very clear economic vision. My question is, is that what we think it is?

MR. JONES: Okay. Lightning responses from the panel and we'll do it starting with you and we'll work across this way.

MR. VAISHNAV: Yeah. I mean, I think --

MR. JONES: I'm sorry, respond to the questions or any final thought you want to put into this.

Yeah, I mean, so on Narayan's question, I mean, I think it's tricky, right, because in a sense we look at them as cuts, a lot of the social sectors, but really it's been a different way of financing because when you take away central government monies which have been going to these things, they are in theory compensated for by the fact that you have increased Finance Commission transfers by 10 percentage points. What's different is now it's up to the states really to decide what those priorities are. Where many people are worried is that the states are going to make the wrong set of choices. So, for instance, they are going to do things which are not necessarily public goods but focus on, you know, things which are going to win them votes. And so I think that's where the challenge comes in.

Now, from Modi's perspective, he's turned to them and said, "Look, you've been bothering me for years and years and years about how you don't have any say in anything, everything has been top-down. Now I'm giving you the opportunity to put your money where your mouth is. I think the one quibble I would have is the way in which this transition is taking place is I think it's caught many of the states off guard, and it's not quite clear the glide path from the status quo where we are today and where the intended outcome is going to be. So I think there's been a lot of pushback saying, for instance, on police, the funds for police modernization have been cut, and now of this new kiddy that you have to play with at the state level you can invest in that if you want. And police officials are saying there's no way politicians are going to spend on that. That doesn't win them any votes; right? And so I think that's where the tension lies. But in theory, I think he's sort of given more power and responsibility for them to make those decisions.

MS. FARRELL: I think I'll just give a general response. I think the other context that's so important is India is very challenged when it comes to financial opportunities and priorities, and so education is obviously key. How you solve that though, they're going to try to be creative and do it through partnerships, whether it's through industry, whether it's through other academic institutions, and you're pushing a big bolder up a hill in terms of the confluence of educational reforms and the extraordinary demand because of the large student population that's coming through. The more the U.S. can partner in that, the better investment we can make quite frankly. But I do think that with all these discussions, as Vikram said in his earlier remarks, remember the context, which I all of this is great but somebody has got to pay for it. And that's not dissimilar to the states but you're looking at an even more complicated landscape when you talk about it in India.

MR. JONES: Vikram, and also just address, if you will quickly this question, how is the Modi government going to balance or grapple with the tension between, on the one hand, trying to make a shift towards renewables, being (inaudible) about climate issues, and on the other hand, an extraordinary problem with poverty and of energy access.

MR. MEHTA: Well, I think the answer to that question would be rolled into the larger question or larger issue of vision and whether or not the prime minister's vision is, in fact, as we think it is. And the prime minister's vision is, in my view, economic growth with social justice, distributed justice. And the steps that he's taken have been along those lines. Economic growth requires, of course, managing the macro economy, inflation where there's a current account deficit or current account of advanced payments. It's to manage the infrastructure. It's to ensure it's focused on employment, so Make in India is manufacturing focused employment, labor intensive initiative. It is to streamline and rationalize the tax structure through the GST, the general services taxes and initiative in that direction. It's also to streamline the legal, or rather remove some of the archaic legal sort of -- the rules that currently impede investment, and that's where you get into labor reform or land reform, the Land Acquisition Act, and a whole host of other reforms. So that's on the macro side.

But along with that, he also recognizes that energy, for example, is going to be a critical component for sustainable growth. Now, he is probably one person who has handled the energy sector across the entire value chain more so than anyone else in his cabinet or in his government, including the bureaucrats because as chief minister of Gujarat, he created an energy business in Gujarat that went from exploration and production to refining, to LNG. The only two LNG terminals are in Gujarat -- the largest refinery hub in the country is in Gujarat -- to a gas pipeline grid, the only gas pipeline grid

that connects producers of gas to almost every village in the state is in Gujarat. There is no other gas pipeline grid in the country -- to a renewable business where wind and solar have also been (inaudible). He did that. He actually has turned around the state electricity board, these distribution companies that have been running at huge losses. And today, the Gujarat State Electricity Board is actually solvent.

So here's a man who sees the need for bringing power 24/7 to his constituents, at the same time managing, somehow, the issues of sustainability. That is a challenge, and that challenge is something that he has not yet given us a clear idea how he's going to actually manage to walk the tightrope. Because, as I say, he wants to bring access, energy access on a 24/7 basis to his constituents. That means he has to actually encourage the production of coal, because that's a resource that we have indigenously. He needs to harness the resources of oil and gas to the largest extent possible, but at the same time, he has doubled the funding of the Clean Energy Fund by imposing a tax on the coal industry, and the Clean Energy Fund is directed to invest in clean energy technology, including coal gasification and integrated combined cycle plant. It is invested in ultra-super technology turbines, and so on and so forth. So there is an effort on the part of this government to try to work this tightrope. It's going to be a massive challenge in my view, and I do think that ultimately the question is what was going to be their position in the run up to Paris 21 -- COP 21.

COP 21 in itself is only a date for them. It's only a date for the government. It's not exactly something that worries them. But it says in the run up, they're going to have to ask the question to themselves, are we really going to impose some voluntary sort of restraints on our emissions? Are we going to impose voluntary emission standards on ourselves? Is the nationally determined contribution towards the mission something that we are going to accept? And are we going to go to COP 21 and

announce that?

Now, those are questions that have been raised because Modi recognizes that here's a country that has 7,000 kilometers of coastline. One hundred fifty million people are sitting on, I mean, live along this coastline who would be affected if the sea levels rose. We have 10,000 glaciers that are receding. And if, indeed, those glaciers receded further, the entire North Indian agricultural sector will be impacted. Most of our natural resources are fossil fuel natural resources, in particular coal, are in forested areas. So in order to actually harness our coal-bearing sort of resources, we will have to cut down the forest. This is a conundrum. This is an issue that he is very familiar with. I don't think he has the answer to it yet, but it is a question that he is debating within the prime minister's office and maybe with people like the Netheioque, you know, the new planning commission, and other outsiders.

Don't get me wrong. I'm not saying that here's an administration that's got it right on every score, but what I feel unbalanced in my final comments is that unbalance, I am happy to get up and mark the performance of this government highly because I believe they've taken the first step in a very long journey, and that first step is in the right direction. Now, we need to see whether the second step is in the same direction. If it is in the same direction, I'm going to be very positive about this government. But certainly the first step is in the right direction.

MR. JONES: Final word.

MS. MADAM: Just a final word on kind of the vision, and the fact that whether it's on economic vision, the vision of India's role in the world, how the center and state (inaudible), I think one of the things we'll have to see is more of him doing what he did in his campaign, which is explain to the Indian public what that vision is, and potentially, if this is possible, what he sees as the roadmap to getting there. He needs to

get buy-in for his vision from a broader set of constituents. The context that Diane and Vikram have talked about is not inflexible. And the key question, and I think this will make the difference in whether if he's just another prime minister or one that will leave a historical legacy, a positive historical legacy, will be the question of does he shape the context or does it shape him. And whether he can learn and kind of take those next few steps will also depend on that question.

MR. JONES: I started by talking about the fact that I scan the world horizon and often India to be the kind of only bright spot that I can actually -- well, of course, the U.S. And it does seem to me that if we weigh the geopolitical and conflict forces that are dragging us down on the one hand and the geopolitical and geo-economic forces that are pulling us up, the success of India, the second step, weighs very heavily in terms of how we'll ultimately look at that balance.

So I suspect we'll be back here in a year and we'll check in on the second step.

MR. MEHTA: WE need to do that.

MR. JONES: Join me in thanking our panel.

(Applause)

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