

MODI ALLURE DIMS FOR MULTINATIONALS AWAITING 'BIG BANG' IN INDIA

By Victor Mallet in New Delhi and James Crabtree in Mumbai



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Narendra Modi's honeymoon is nearing its end for the growing ranks of investors disappointed by the dearth of radical economic reforms undertaken during the Indian prime minister's first four months in office.

Marten Pieters, chief executive of Vodafone India, spared neither Mr Modi's Bharatiya Janata party government nor its Congress predecessor when he last week pronounced the country's vital telecommunications sector "simply a mess".

"Last year China invested \$50bn in its networks. We did five [\$5bn]," Mr Pieters told a conference in New Delhi organised by The Economist.

Vodafone had sought an advance tax ruling nine months ago so that it could raise equity to bid for spectrum in an auction next February without another tax dispute, but had yet to hear the outcome. "Last week," Mr Pieters added drily, "I got the news that the officer dealing with the file has retired."

Indian and foreign business leaders backed Mr Modi in May's election because he offered a change from a decade of corruption and indecision. Yet many now fear he is squandering his strong mandate.

They are also frustrated by his government's failure to rescind retrospective legislation and rulings that have left multinationals confronted with surprise tax bills running into billions of dollars.

"If he wants to make India a manufacturing hub, we will need the big bang reforms," said Gurcharan Das, former head of Procter & Gamble in India.

Mr Modi has so far taken none of the revolutionary steps business had hoped for, such as full privatisation of state companies or liberalisation of labour laws.

He never promised those, in any case, and Mr Modi does score high marks for re-energising the bureaucracy. Supporters, including BJP members of parliament, insist the new prime minister is pushing ahead steadily with economic reforms that will create jobs, promote manufacturing and modernise India. "This is not 20-20," said one MP, referring to the dramatic high-speed cricket game popular in India. "This is a five-day Test match." In the meantime though, Mr Modi's government has backed out of a world trade accord sealed by its predecessor that was meant to trim red tape and reduce customs burdens. It has also failed to implement an increase in the price of natural gas paid to producers. "We can't make a [planned] \$4bn investment without knowing what's going to be the policy for gas pricing," said Sashi Mukundan, regional president of BP. "China has implemented it. India is still waiting."

One problem identified by investors is that cabinet ministers lack experience and technocratic skills to run a \$1.8tn economy, while decision-making is concentrated in the prime minister's office.

"It looks like we are pinning a lot of hopes on just one individual," said Banmali Agrawala, head of General Electric in south Asia. A senior executive at an Indian conglomerate agreed: "There's nobody there who has any experience running anything. The problem is that the BJP does not have depth of administration."

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Economists at Nomura forecast foreign direct investment into India will rise to \$30bn this financial year from \$22bn last year, but that will flow mostly into sectors such as pharmaceuticals and e-commerce, rather than power and infrastructure where India most needs capital.

Oil and gas groups are deterred by the financial disputes in which successful explorers such as Cairn India have become embroiled. Nor are global power companies keen to enter the dysfunctional energy market, despite a huge projected electricity shortfall. Balfour Beatty, Britain's largest construction company by sales, quietly pulled out of India last year, having decided that it could not make money in a country whose previous government pledged to spend \$1tn on new infrastructure by 2017.

Mining is another no-go area. Global groups such as Rio Tinto have long wanted the chance to dig up some of India's vast coal reserves. But amid the recent "Coalgate" scandal over the allocation of mining rights, foreign investors would be reluctant to enter even if Mr Modi opened the door.

"There isn't the space for international miners to make a return," says the chief executive of one global group. "And frankly, you'd be a bit crazy to think about going into India even if they did change the rules, given all the legacy problems in the sector."