

## Indian economy

# Modi the reformer reappears as coronavirus hits India's economy

Prime minister targets land, tax and labour laws but critics say focus needed on health



Indians watch Narendra Modi's address to the nation in which he promised economic stimulus measures worth 10% of GDP to counter the virus slowdown © AFP via Getty Images

**Amy Kazmin** in New Delhi 56 MINUTES AGO

When he swept to power six years ago, Narendra Modi wooed business with promises of sweeping reform.

Many executives believe the Indian prime minister has largely failed to live up to those pledges. But this week, with the country's once fast-growing economy heading for its first contraction in decades, Modi the grand reformer made his reappearance.

In a televised address to the nation, the prime minister urged his countrymen to seize the moment presented by the [disruption](#) to global supply lines from the pandemic to attract job-generating, manufacturing investment.

On his list are reforms that have long confounded India, such as modernising the country's antiquated agricultural supply chain and unravelling its complex tax system, as well as reforms to its financial and legal systems — essentially what Mr Modi called fixing India's "land, labour, liquidity and laws".

Some businesspeople believe the pandemic could be Mr Modi's 1991 moment — a reference to India's last great economic crisis when the country pushed through structural reforms that set it on track for almost three decades of growth.

"It is now imperative for the country to move forward with [bold reforms](#)," Mr Modi said in the speech, in which he also promised a stimulus package worth 10 per cent of the nation's gross domestic product. "It is the need of the hour that India should play a big role in the global supply chain."

Mr Modi has raised — and dashed — hopes of structural reforms before. When elected in 2014, he was widely expected to tackle impediments to investment, including the difficulty of acquiring land for industry, and restrictive labour laws that discouraged formal employment. But his appetite for such battles, with their potential to antagonise voters, waned after an initial bid at land reform prompted an outcry from farmers.

After Mr Modi's landslide re-election victory last May, the Confederation of Indian Industry appealed to him to use his [renewed mandate](#) to pursue "faster and bolder reforms" to boost India's competitiveness. Instead, he focused on the [divisive sociopolitical agenda](#) cherished by his Hindu nationalist base.

But with India now reeling from a coronavirus shutdown, Mr Modi is focused on reviving an economy that was already [faltering](#) before the outbreak. This week, he announced the \$266bn stimulus package, the details of which are still being unveiled.

"We have to see if [the crisis](#) brings out the true reformer in Modi," said Eswar Prasad, a Cornell University economics professor. "It might be easier to push through reforms because resistance is probably somewhat weaker."

Some suggest the coronavirus shock offered a context similar to 1991, when a foreign exchange crisis allowed then finance minister Manmohan Singh, who later served as prime minister, to usher in market reforms to India's socialist-oriented, state-controlled economy.

“This was the PM's Carpe Diem [seize the day] speech,” industrialist Anand Mahindra tweeted shortly after Mr Modi's television address. “We will know tomorrow whether or not this is going to be a transformational moment like 1991.”

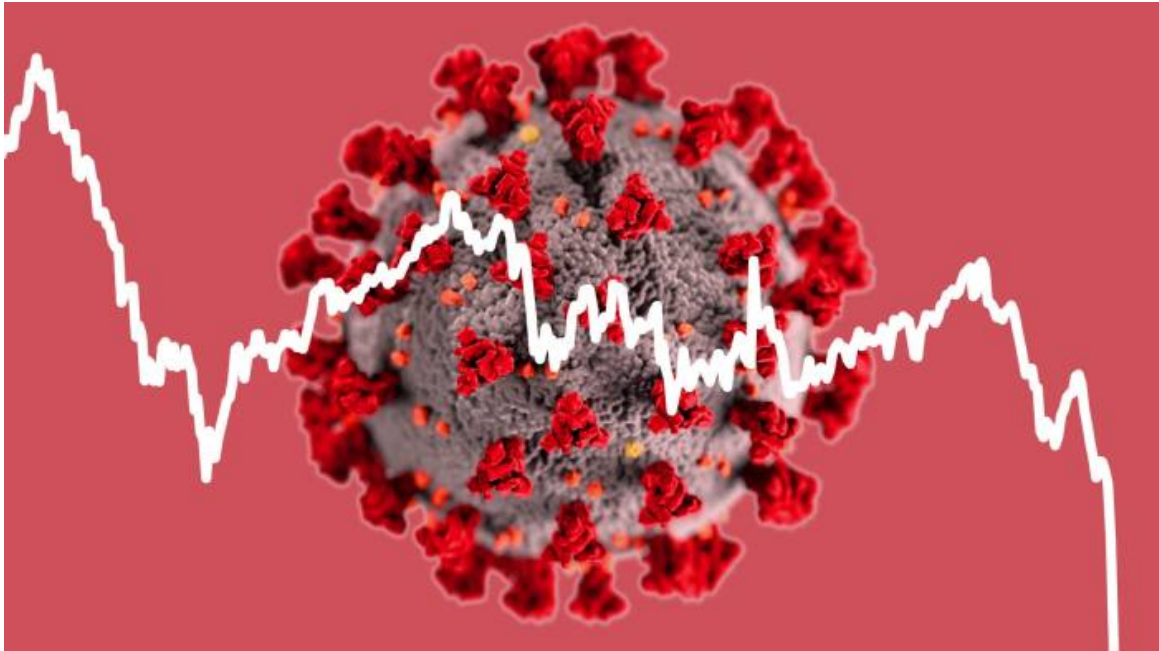
New Delhi also believed the global turmoil offered an opportunity to woo investment from global companies seeking to diversify their supply chains away from China, amid rising tensions between Beijing and Washington.

“There is a lot of suspicion about China globally and let's see if we can [take] advantage,” said member of parliament Swapan Dasgupta, a close supporter of Mr Modi. “It's potentially a turning point.”

But economists said the world would be watching closely how Mr Modi's latest impulse to reform translated into action. In an early indicator of what might be to come, several states ruled by Mr Modi's Bharatiya Janata party have announced they are suspending most of their restrictive labour laws for the next three years.

Economists said that kind of piecemeal strategy, which has already drawn an outcry from unions, had little appeal for industry. “If they suspend the law . . . that leaves open the possibility that it will come back on the books,” says Mr Prasad. “For businesses making long-term decisions, that kind of policy uncertainty is not very encouraging.”

## Coronavirus business update



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Jahangir Aziz, head of emerging markets research at JPMorgan, also warned that moving on the “unfinished” structural reform agenda left since India’s 1991 crisis would be insufficient to attract investment in a world haunted by a [lethal virus](#).

“It is almost certain now that for all FDI [foreign direct investment] — all investment decisions from today onwards — one of the critical criteria for where to locate will be the state of [public health](#) in that country,” said Mr Aziz.

Mr Modi has yet to reveal any plans to strengthen the country’s long-neglected public health system, now struggling to cope with a steadily rising tide of Covid patients. India was set to overtake China in terms of infections with 78,194 confirmed cases and 2,551 deaths.

“If you look at the logic of talking about land, labour reforms, capital markets, it is as if the government believe this virus has made no change to the factors that will drive FDI post the pandemic,” said Mr Aziz. “It may be a 1991 moment but we really need a 2020 moment.”

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