

The background of the top half of the cover is the Indian national flag, featuring the saffron, white, and green horizontal stripes. The Ashoka Chakra is prominently displayed in the center of the white stripe. The title 'REBALANCE & REFORM' is overlaid on the left side of the flag.

REBALANCE & REFORM

**C. RAJA MOHAN
MANOJ JOSHI
ASHOK MALIK
SAMIR SARAN**

AN AGENDA FOR THE NEW GOVERNMENT



OBSERVER RESEARCH FOUNDATION

2014

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Published in: 2014

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Design

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FOREWORD

THE recent general elections have generated extraordinary expectations. The new government, which won a strong political mandate, now faces the onerous task of meeting these hopes. However, addressing the multitude of challenges facing the nation can never be the sole responsibility of a government; it is a responsibility best divested amongst all stakeholders: both public and private. The road ahead will not be built unless the country can pave the way with a new consensus amongst the diversity of competing interests that continue to speak in conflicting voices. The task ahead is difficult, but not impossible. It will require new ideas, out-of-the-box strategies and, above all, pro-active engagement with and amongst the various participants critical to the success of this project.

Over the last 25 years, Observer Research Foundation (ORF) has actively contributed to the shaping of the public policy debate in India. Beginning with its inception in 1990, when ORF brought together leading economists and policymakers to generate an agenda for economic reform, it has consistently sought to promote effective policies that strengthen India's national and international interests.

This report continues that tradition by presenting a holistic and relevant agenda for the new Central government. It offers a diagnosis of the current problems and provides actionable recommendations straddling the economy, the country's defence imperatives, its foreign affairs and regional challenges, governance matters and larger questions of resource management and energy security.

The report suggests various steps to revitalise the India story. Declining growth, high inflation, increasing trade deficit, stagnant industrial production, and a poor investment climate have dampened India's economic prospects. This trend has to be reversed: employment and the creation of opportunities for all sections of society must become the focus of all development plans; the investment climate must improve, if India is to retake its position as one of the leading economies of the world.

With regard to India's interactions with other global players, a reactive approach has blunted the edge that India's position on the world stage should logically have accorded it.

“Declining growth, high inflation, increasing trade deficit, stagnant industrial production, and a poor investment climate have dampened India’s economic prospects.”

Many a time the same approach has served only to alienate partners and escalate bilateral tensions. The time has come for India to recast its approach to its neighbours and the world.

A rising India will no doubt be susceptible to traditional and non-traditional security challenges. Today, India is not in a position to tackle new aspects of traditional security challenges, let alone challenges emerging in the new globally shared frontiers of space and cyberspace. India’s armed forces are in dire need of military modernisation; its police and intelligence services require immediate reform and expansion, without which India cannot hope to tackle domestic or external threats. The Narendra Modi government will have to invest appropriately in equipping the country’s protective forces, open the market for new players and products, undo systemic knots to streamline procedures and

processes by ensuring strong and responsive leadership across critical sectors.

Since 1984, no government has been in such a unique position to get things done. With a clear political mandate, the new government will have the power to do much that is *right and required* for the country.

The road ahead will be tough, it will throw challenges and obstacles along the way, it will be marred with new lows and expected highs—but if the new government and civil society have a strong resolve to work together, the India story has no limits.

Mr. Sunjoy Joshi,
Director,
Observer Research Foundation

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INTRODUCTION

AN

OVERVIEW

OF THE

PROBLEM

MORE than two decades have passed since India first embarked on the path of liberalisation and renewed engagement with the international order. Yet the gains that seemed certain, once India began to emerge out of its previous identity of being a largely poor country with little political weight in the global arena, seem to be more distant today.

This is a source of despondency for the people of the country. The liberalisation process and the high growth that the country experienced between 2002 and 2011 had raised optimism and expectations of the people across the country. The poor and marginalised hoped for a better tomorrow and the lower middle class anticipated upward mobility through the growth of educational and job opportunities. But in the last few years, these expectations have been dashed with the country's leadership having lost control at the steering wheel. As the economy tottered, other policy areas too suffered from lack of direction. Indian

responses to issues, ranging from Chinese assertiveness in the Himalayan borders to the need to step up its role in Central and Southeast Asia, appeared feeble and even non-existent.

Over the last few years, there has been lack of progress in making social accountability systems stronger, a failure to implement effective and efficient public service delivery, and almost non-existent effort in enabling long-term capital formation in crucial sectors of the economy. This poor show has pushed India's growth and development processes along a downward trajectory. The Indian economy grew at a mere 4.5 percent (approx.) in 2012-13 and 2013-14, against the much higher growth rates of 8.4 percent and 6.6 percent in 2010-11 and 2011-12, respectively. The unsatisfactory state of the Indian economy, as a result of severe governance gaps and poor decision-making, calls for urgent interventions.

The immediate challenge is to break this downward spiral: of high inflation, low productivity, low investment and low level of job creation that the economy has faced over the last five years. Simultaneously, the new government needs to increase confidence among external actors about India's capability and commitment to effectively manage its economy.

Besides the problems on the economic front, India is also confronted with a host of challenges in the international and security realms, which the leadership of the country in the recent past failed to deal with adequately. The lack of an appropriate response has derailed and delayed India's rise on the world stage, strained its relations with its partners, and exacerbated bilateral tensions with some of its neighbours.

In light of such challenges, it is not surprising that the new government has chosen to cast its actionable agenda around a single, central theme: good governance. This is aligned with the commitment of the BJP to

“ The immediate challenge is to break this downward spiral: of high inflation, low productivity, low investment and low level of job creation that the economy has faced over the last five years. ”

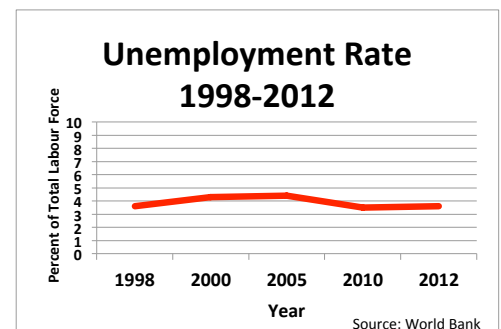
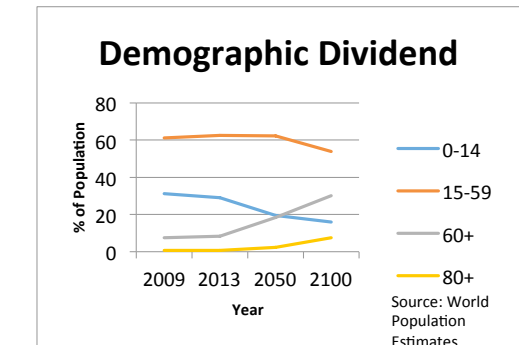
“ The new government should seek to streamline the work done across various ministries in order to sharpen strategic focus on creating a productive workforce.”

unleash the potential of the private sector, with the government focussing on the core sovereign tasks of fiscal management; promoting and facilitating infrastructure development; provision of basic public services; maintenance of internal security; promotion of India's interests overseas and security against armed external aggression.

It is important to note that government structures are difficult to change across the board in the near term. Incremental, targeted reforms, aligned to the windows of opportunity as they become available, embody a more flexible and less disruptive approach to result-oriented change. Towards this end, the Observer Research Foundation offers the following policy prescriptions for the new Indian government to pursue.

EMPLOYMENT GENERATION

An Indian renaissance would largely ride on its economy. We have to come out of the current downturn and our GDP growth must increase to at least 6 percent in the next 12 to 18 months. The ongoing slowdown is leading to a rise in unemployment. In the last 20 years, around 400 million were added



to India's population and in the next decade-and-a-half another 190 million are likely to be added. This by itself presents a huge challenge for provisioning infrastructure, services and governance for 43 percent¹ of the Indian population under the age of twenty with roughly 238.5 million Indian adolescents (between the ages of 10-19)². The ability of the existing economic environment to provide for the job needs of over a quarter billion young people in the near future is questionable. While policy focus must certainly seek to catalyse job creation in the industrial, infrastructure and service sectors, the largest employment demand would still reside in the informal sector³. About 92 percent of the Indian labour force today is in the informal sector. It is in this context that ORF proposes the following:

- The labour force in the informal sector

1 Census of India 2011.

2 Adolescent Statistics, 2012. UNICEF. http://www.unicef.org/infobycountry/india_statistics.html

3 Human Resource and Skill Requirement in the Unorganized Sector. National Skills Development Council. 2012

is vulnerable for two reasons: there is no social safety net nor is there any semblance of job security. The informal sector social insurance scheme has to be properly framed and implemented, which will cover maternity benefits, unemployment, education, health and old age pension and which will, most importantly, help create 'state support' for augmenting skills and upgrading technical knowhow as the Indian economy evolves and its needs transform.

- Poverty eradication programmes must be integrated into the above objectives and implemented in a more focussed manner. MGNREGA has only been partially successful. Many implementation loopholes have surfaced. For example, in 2009-10, as per NSSO data, 20 percent of the rural households that sought MGNREGA work were unable to benefit from this scheme. In the same year, 16 percent of the rural households worked for less than 100 days. While plugging loopholes, it would be necessary to strengthen, make more robust and institu-

“ While plugging loopholes, it would be necessary to strengthen, make more robust and institutionalise the linkages between MGNREGA, skill building and asset creation. State governments must be consulted in this regard. ”

tionalise the linkages between MGNREGA, skill building and asset creation. State governments must be consulted in this regard.

- Due to the multiplicity of actors, guiding frameworks and different nodal ministries, there are variations in the level and standard of educational courses and skilling programmes on offer from the government. The multiplicity of authorities is giving rise to contradictions and contest within programmes and policy priorities. The new government should first seek to streamline the work done across various ministries in order to sharpen strategic focus on creating a productive workforce. Appropriate restructuring and confluence of different functions under a new department or ministry, on the lines of Britain's Department for Business, Innovation & Skills (BIS) or the International Poverty Reduction Centre in China (IRPCC) could also be considered.

- India is an economy of informal apprenticeship. The demographic dividend, which India enjoys, becomes an asset only if our 'Human Capital' endowments are linked to internationally marketable skills and knowledge. Lack of certification of existing skills works to the disadvantage of the worker in the global labour market and constrains labour mobility. The majority of workers in the unorganised sector have lower levels of literacy, as they leave before completing senior school. A system of 'Recognition of Prior Learning' can bring back a large population into the education net and enhance their valuation in the labour market. Additional effort is needed to embed the search for applied knowledge: knowledge, which can ignite contextual innovation in solving the everyday problems of citizens and consumers, provide value-for-money services and feed the entrepreneurial spirit of Indians. Life and livelihood skills, along with language skills, should become a major thrust area for the new government.

- Gainful employment is obstructed by

the lack of proper education. The number of people in India without any education stands at nearly 380 million. If the percentage of total illiterate in the country is added to the number of persons with just a primary level of education, the figure reaches approximately 63 percent of India's population. It is imperative for the government, then, to encourage the enforcement of the Right to Education Act, with emphasis on adult education as well. The government should also seek to create more schools, and particularly focus on shortening the distance and building transport infrastructure between settlements and educational facilities. More important is the need to establish a link between high school education and a formal German-style apprenticeship and vocational training system which can aid in the process of connecting people with jobs.

- Ensure effective implementation of the New Manufacturing Policy by providing skills to rural youth to make them employable, permitting FDIs through limited liability partnerships (LLPs) and creating industrial townships under the National Investment and Manufacturing Zones (NIMZs), leading to overall job growth..
- The small scale manufacturing sector needs credit and access to markets and services. There is a need to upgrade technology for this sector to remain competitive. Help must be provided to small and medium enterprises (SMEs) to raise productivity. If manufacturing growth picks up, more jobs would be created. Therefore, it is important to give a boost to the manufacturing sector which depends on investments and market access.
- For export growth and concomitant manufacturing and service sector growth, the government should undertake trade facilitation measures so that transaction costs are reduced. Jobs could be created if there is freer flow of trade with the neighboring countries in particular. Various Non Tariff Barriers (NTBs) must be removed so that there are lesser impediments to trade.

- It is important to address the present composition of public employment in India, which is very skewed towards the less skilled and non-professional workers. This can be changed incrementally through natural attrition and reallocation of staff aligned to the job requirements. This will provide the fiscal space to employ skilled persons who are in short supply; for instance, qualified teachers, doctors and health professionals, qualified accountants, social and pure scientists and technicians.
- Addressing the declining employment in the public sector is another urgent concern. The “cradle to grave” structure of government employment is hopelessly out of touch with the job aspirations of those with market-oriented skills and the contemporary demands of productivity. New appointments should be “job specific”, contractual and time-bound so that ineffective and inefficient employees can be churned out. Conversely, employees should have the opportunity to test their merit in the market. High performers would automatically get the opportunity for a fast-track career on merit. Other employees would be assured that the ones who have gone ahead deserved to do so, preserving thereby both the principles of equity and efficiency.
- The structure of the labour regulation architecture also needs to change significantly to be effective. Changing the manner in which regulators are assessed can make a significant change. Regulators must also be responsible for labour market growth. Currently, they view their role as “controllers” of private employers to “protect” employees from malpractices. Finally, reforms must focus on greater labour flexibility and simplification of labour laws. A multi-stakeholder committee must be constituted to recommend updating of the Industrial Disputes Act and bring it into consonance with the needs of a growing, modern economy, and to bring a greater part of the workforce under its umbrella.





STEP-1: THE FOUNDATION

**PROVIDE
BASIC
INFRASTRUCTURE
& SERVICES**

THE provision of basic infrastructure and services is the primary task of any democratically elected government. The progress in infrastructure creation and service delivery to meet the growing needs of the Indian population, particularly the urban and rural poor, has been slow.

The Observer Research Foundation proposes the following remedial steps for consideration by the new government:

- The number of malnourished children in India is the highest in the world and all efforts should be made to reduce the numbers. 48 percent or 61 million children in India are stunted due to chronic undernourishment. Effects of undernourishment result in retardation of physical and cognitive growth as well as increased vulnerability to illness and disease. Furthermore, malnourishment has direct implications on productivity and thus economic growth. Major reforms in the Integrated Child Development Services (ICDS) must be carried out, including re-

moving ambiguity in different programmes and schemes. There must be enhanced monitoring and evaluation. The programme must expand from only food-based solutions to education in child-care and feeding methods, disease control and prevention activities and micronutrient supplementation.

- Many food programmes must be re-oriented to focus on nutrients and not just quantity. Under the Indian Council for Agricultural Research (ICAR), India currently has four deemed universities, 49 research institutes, 17 national research centres, six national bureaus and 23 directorates. The government should work to upgrade these research facilities, cluster research institutes and centres, promote specific food and agriculture research especially in high-yielding/multi-nutrient food grains, and foster partnerships with international agencies such as the International Rice Research Institute (IRRI) and International Food Policy Research Institute (IFPRI) to harness international best practices and research.

- Distribution of food grains should be in such a manner that no leakage takes place and remote area shops also access an adequate stock of food grains. The weakened and compromised Public Distribution System (PDS) is therefore in need of a systemic overhaul.

- The minimum support price regime for grains needs to be re-thought with government procurement linked to delivery of grains to remote areas. The current policy, despite good intentions, has created obstructions in the farm side eco-system and lack of attention to distribution infrastructure.

- Similarly, the Agricultural Produce Market Committee Act (APMC) and the 'Mandi Model' do not serve contemporary India and must be dispensed with or drastically overhauled with removal of opportunities for 'price gaming' and farmer exploitation. Markets must be taken to the farm side through technology and digital platforms.

“ The APMC Act and the ‘Mandi Model’ do not serve contemporary India and must be dispensed with or drastically overhauled, along with the removal of possibilities for ‘price gaming’ and farmer exploitation. ”

“ ‘Access to power’ should be the prime objective of power regulators. Gujarat and Madhya Pradesh offer models through which electricity can be provided to citizens on a 24x7 basis. ”

- Better farm productivity and better delivery system of agricultural products will ensure improved remuneration for farmers. The key to this is to improve the quality of inputs to the farmers, expand extension programmes and provide better irrigation facilities.

- Business and industry clusters that provide modern services and facilities to the surrounding villages can bring new dynamism to Indian villages and accelerate their beneficial integration with the rest of the economy. Such clusters, when established, will permit decentralised decision-making, which is in sync with the social and economic needs of the local community. These will also facilitate effective involvement of all relevant stakeholders in the development process and make the community the real driver of change rather than a passive recipient of top-down decision-making.

- There is a huge power deficit in the country: around 60,000 villages are without power and millions of people have only notional access. Cities and villages where there is lack of regular supply of power display low incomes and poor HDI performance.

- Power projects must be facilitated, by making structural changes in the State

Electricity Boards and enhancing the mandate of the regulatory system—one which makes ‘access to power’ the prime objective of regulation and not a convoluted mandate of price regulation alone that makes investments untenable. Gujarat and Madhya Pradesh offer models through which electricity can be provided to all the citizens on a 24x7 basis.

- Against a target of awarding road projects aggregating 50,621 kms during 2008-13, only 10,690 kms have been awarded. Many of the projects awarded by the UPA Government have yet to see commencement of work due to complex policies, gaming on approvals and environmental clearance, and a lack of efficient administrative support and oversight. Focussed administrative support for the roads sector and removal of perverse incentives in the tendering process are the key steps to enhance infrastructure creation.

- The projected investment requirements for infrastructure are placed at US\$ 1 trillion in the 12th plan and the funding gap is estimated to be about US\$ 85 billion. This means share of private sector in infrastructure investment will have to rise substantially from about 37 percent in the 11th Plan to about 48 percent in the 12th Plan. More than 50 percent of projects are stuck at various stages of implementation. These must be fast-tracked without compromise on the audit and monitoring mechanisms to ensure quality delivery.

- There is a big need for affordable housing for low-income families and the deficit has to be bridged. Recent estimates suggest a shortage of up to 72 million houses in India. Each housing unit must have a separate toilet because lack of toilets is a major cause of concern for low-income families and half the people of India do not have access to toilets.

- ‘Affordable housing for all’, is a paradigm that cannot be enabled without sufficient provision of institutional credit. However,

key lenders such as Non-Banking Financial Companies (NBFCs) are discouraged from raising deposits from the public and cannot access refinance from government-sponsored apex institutions—such as, NABARD or SIDBI—even though access to refinance can help NBFCs lower their cost of funds and therefore enhance the provision of low-cost housing loans to millions of customers. Such regulatory hurdles which work against the core requirements of inclusive development must be reviewed.

- Ensuring universal healthcare is a priority because the poor are getting poorer due to high out-of-pocket expenditure on private healthcare. However, just commitment to universal healthcare will not necessarily translate into a paradigm shift in healthcare service delivery as is evidenced from the education sector. Government hospitals are overcrowded and do not have enough beds or hospital infrastructure to take care of the poor and needy. New innovative public-private partnership models must be implemented at scale to match the demand for healthcare.

- Research centres and dedicated

mother and child health wings must be created in order to combat communicable and non-communicable diseases through modern tools of vaccination and immunisation to protect India's children and mothers. Health education, lifestyle planning and promotion of safe practices such as hand-washing and clean water usage need to be enshrined in the daily life of both rural and urban households for the prevention of disease and illness.

- Decreasing the maternal mortality rate is necessary and by encouraging women with monetary incentives, such as in the case of the Janani Suraksha Yojana (JSY), to go for hospital delivery will ensure that complications at childbirth can be dealt with professionally and this will diminish the number of maternal deaths. While JSY only offers Rs 600 to urban mothers and Rs 700 to rural mothers, if this amount were to be increased, a higher attraction towards childbirth in government hospitals can be achieved. Furthermore, additional government support for programmes such as the Vandemaataram scheme, which offers pre and post natal check-ups and counseling for rural women by private healthcare professionals can further decrease maternal and infant mortality.

- Infrastructure development holds the key to encouraging investments by both domestic and foreign investors. India needs more connectivity through roads, bridges and railway links as well as better ports and airports.

- Slum development and urban inclusion is important for sustainable cities. There is a need for more robust oversight of the construction sector, and institution of practical incentives for creation of 'efficient buildings and settlements'.

- Sanitation and garbage disposal is already a vexed issue and will pose huge problems in the future. How these are tackled will be important for the control and

“ Strategic and focussed administrative support for the roads sector and removal of warped incentives in the tendering process are the key steps to enhance infrastructure creation. ”

“ Availability of clean drinking water is a basic requirement, which must be fulfilled through infrastructure creation, adoption of technology, sewage waste management and enforcement of legal and regulatory frameworks for treatment and disposal of residential, industrial and commercial waste.”

prevention of communicable and non-communicable diseases.

- Water stress is already prevalent in all metro cities. Availability of clean drinking water is a basic requirement, which must be fulfilled through infrastructure creation, adoption of technology, sewage waste management and enforcement of legal and regulatory frameworks for treatment and disposal of residential, industrial and commercial waste.

- In order to achieve the fundamental goal of ensuring equity and sustainability in urban development, the government should initiate key steps including development of Master plans/urban development

plans for all urban centres; creation and development of new townships, along with development strategies for existing towns; long-term lending of 18-20 years at reasonable rates for successful implementation of large-scale infrastructure and housing projects; set up realistic benchmarks for slum rehabilitation; provide facilities to pedestrians and cyclists; strengthen the public transport systems; integrate various transport modes; undertake classification of roads and their proper development; improve traffic management; enhance forecasting of pollutant concentration at sensitive locations by using air quality models; and regulate growth of private motor vehicles.

- It is critical to involve the private sector in the provision of the basic public services. This is particularly the case with urban areas and the more developed rural areas, having a critical mass of private entrepreneurs. They can compete for creating and operating public schools, hospitals and transport systems, if the government were to enable a competitive, revenue gap filling arrangement to encourage such PPPs, as has been done in the case of highways.

- The investment demands of scaling up access to public services cannot be met by public investment alone. Improving the standards of supply also has a fiscal implication. Neutralising a part of the fiscal impact through cost reduction via efficiency enhancement; higher user charges; and linking user charges to the differential cost of services of differential quality are “win-win” options for reducing the fiscal impact. Over the medium term, the productivity enhancement from lower health costs, higher human capital endowments, and the incremental revenue from a wider base for direct tax and from indirect taxes as average consumption increases with income, can neutralise the short-term fiscal implications of improving the provisioning of basic services.



STEP-2: THE ECONOMY

BRING
BACK
THE
CONFIDENCE

THE health of the Indian economy will to a large extent be determined by the ability of the government to attract private sector participation. The virtual stagnation in the investment/GDP ratio (of which the private sector is a larger contributor than the public sector), which has grown by a mere 5 percentage points since 2005-06 to 37.6 percent in 2011-12 is indicative of the enormity of the policy challenge.

The biggest problem facing the Indian economy in terms of investment-driven growth is the lack of confidence of investors in doing business in the current unpredictable political and economic environment. It is, simultaneously, also clear that the only way to ensure growth in investments, as well as of the domestic industrial and service sectors, is through concerted efforts at removing various regulatory uncertainties, unpredictable taxation regimes and

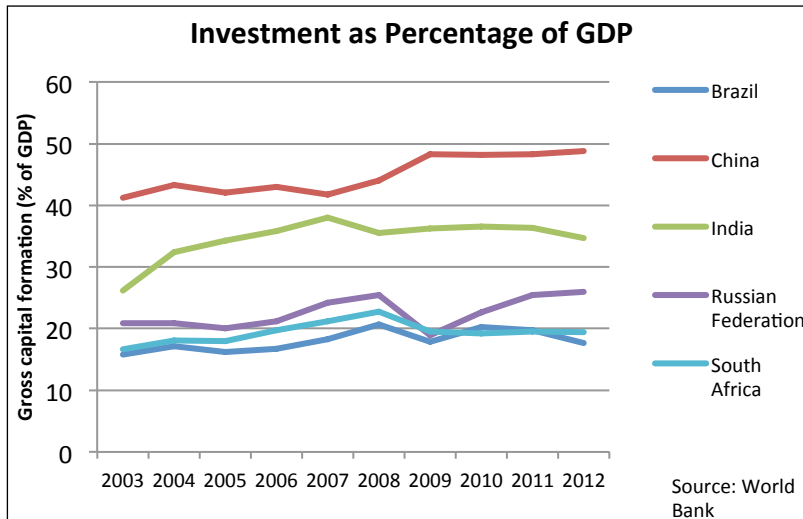
political discontinuities, all of which act as constraints, and become even more debilitating in scenarios of weak global growth. A transparent, equitable and stable operational environment for businesses is a prerequisite. ORF proposes the following ways to promote a favourable economic climate:

- Economic shocks are an inevitability, which can only be managed not prevented. The capacity of government, communities and each family to tide over such shocks should be enhanced. The expansion of a bouquet of insurance and pension policies to suit specific needs is a good way of building resilience against economic shocks due to inflation, currency volatility, commodity price increase, adverse climatic events and other disasters.

- The poor investment appetite for India is a result of the perverse industrial and economic policies that have ignored the highest priorities that must be accorded to promoting investments (over any other) and which are in sharp contrast to many other emerging global economies and business destinations. To improve growth metrics, the government should ensure that multiple clearance and approval-related hurdles that businesses of all sizes face are changed into a more efficient process. This is particularly relevant for the manufacturing sector, where it is estimated that on average, about 70 such clearances and approvals are required before starting a new business. Adding to the woes is another long list of annual clearances that the Industry must seek to continue their business. At present, India ranks 134th in Ease of Doing Business in the world, falling behind Bangladesh (130), Pakistan (110) and all other BRICS nations .

- The government should implement measures that expand the corporate bond market in India. Creation of new debt instruments, allowing greater foreign institutional investment participation, and advancing the fund management industry to encourage domestic retail investors are all possible

“ The only way to ensure growth in investments, as well as of the domestic industrial and service sectors, is through concerted efforts at removing various regulatory uncertainties and unpredictable taxation regimes.”



ways to bring much-needed market depth. As long as the country has a shallow corporate bond market, there will continue to be over-dependence on the banking sector for external financing.

- The functions and mandate of the Securities and Exchange Board of India (SEBI) must be made more holistic for enabling a robust capital market environment, by focussing on three key pillars. The first pillar must be the expansion of capital markets: the foremost priority of SEBI must be to create an environment for rapid scaling up of participation in the capital markets, by putting in place the necessary supporting frameworks. A necessary component of this pillar would be to ensure that institutional decision-making is completely independent from the government. The second pillar must be the safeguarding of both investors and investees participating in the capital markets by ensuring their protection through unbiased enforcement of rules and legislations as well as generating greater awareness through education programmes and outreach. The third pillar must focus on innovation and promotion of financial products that can be targeted at bottom of the pyramid income classes.

- Long-term funding for projects should also be made available through the efficient

deployment of insurance and pension funds by initiating reforms in the existing regimes. The coverage of the National Pension Scheme, for instance, must be expanded through the extensive postal system. The formation of long-term capital can be incentivised by channelling household savings into productive long-term capital assets, and sectors in critical need of long-term funding such as infrastructure should be targeted to ensure availability of credit.

- The government must review the norms for banking licenses as well as priority sector lending to ensure that financial inclusion efforts of banking operations become a reality in the Indian context. Though preliminary steps have been taken by the Reserve Bank of India, these measures must be solidified as accepted norms for the banking sector as soon as possible.

- The government must address the absence of a strong regulatory mechanism in the commodity derivatives market in India. The Forward Contracts (Regulation) Act, 1952 must be amended to provide the Forward Markets Commission the required autonomy to regulate a large and growing market. The commodity futures market needs several reforms, including the introduction of options and allowing foreign institutional investors, mutual funds and banks to participate.

- There is an urgent need to reverse the slide in export growth. The government should aim to incentivise investment and growth by generating greater awareness about SEZ policies in particular. The government should seek to provide a policy framework for exporter centric industrial clusters within SEZs and IT parks, which contributed 23 percent of total exports in 2010 .

- India's contribution to world merchandise exports in 2012 was 1.6 percent, as compared to 11.2 percent for China, 3.0 percent for South Korea and 2.1 percent for Saudi Arabia. India ranked 19th in the share

of total global merchandise exports and 6th as an exporter of commercial services. India needs to have a larger role in the global supply chain. The government thus needs to craft policies that encourage partnerships with global companies as well as actively seek to expand both merchandise and commercial services exports. This will have a result of not only enhancing domestic capacity, particularly in strategic sectors with high value addition such as defence, but will also help India develop into a global hub for some key sectors.

- Broadening the tax collection net is another urgent priority. Total direct tax revenue as a percentage of Gross GDP is now lower than in 2007-08. The government should aim to improve tax administration to better exploit the full potential of the tax base rather than levy additional taxes in the highest bracket.

- Financial savings of the household sector reduced to 7.8 percent of GDP in 2011-12. Most of this diversion can be attributed

to the substitution effect whereby capital is directed towards unproductive assets such as land and gold. The government should incentivise greater participation in the primary markets as well as greater participation of Small and Medium Enterprises (SMEs) in the markets for creation of productive capital and efficient allocation of household savings through exchange-based platforms.

- India's trade concerns in recent years include a slowdown of merchandise exports and increase in imports and the consequent growth in trade deficit.

- The slowdown of capital inflows in recent years has added to the country's current account deficit. In this context, the government should aim to give a clear direction to India's trade outflows. Over the last decade, India has concluded negotiations on a number of Regional Trade Agreements with Asian countries. These agreements have given some respite from the slowdown in demand originating from advanced economies of the West. However, it is important that the country's industrial and export policies are aligned with the imperative of enhanced trade with the global South, in order to leverage regional supply chains and India's inherent competitive advantages.

- The government should facilitate an increased role of the private corporate in the agricultural sector, which is essential for improving the storage capacity for food and the farm-to-home supply chain. In order to ensure this, all the existing and prospective legislations that act as barriers to entry of private participants, such as the Essential Commodities Act, should be revisited. There must be greater Centre-state dialogue on legislations such as the APMC Act. The overall benefits derived from the Act, from the perspective of building the requisite market infrastructure and encouraging market efficiency, must be assessed based on actual performance.

- The Food Safety and Standards Authority of India (FSSAI), under the Food

“ The Food Safety and Standards Authority of India (FSSAI) must be empowered to expand its mandate and incorporate all activities of food and drug policies under one authority, much like the Food and Drug Administration (FDA) of the USA. ”

“ India must play a larger role in the global supply chain. The government needs to craft policies that encourage partnerships with global companies as well as actively seek to expand both merchandise and commercial services exports ”

Safety and Standards Act 2006 (FSS, 2006), must be empowered to expand its current mandate and incorporate all activities of food and drug policies under one authority, much like the Food and Drug Administration (FDA) of the United States. In this regard, the FSSAI should also be made responsible for ensuring a more hospitable operating environment for businesses. The mandate must also include enhancement of private sector partnerships in various aspects of food processing. For this, the government will need to amend the FSS 2006 and make the FSSAI the nodal authority, reducing interference from the various ministries currently involved in policy creation for food and drugs.

- The aim of the government must be to raise manufacturing to 25 percent of GDP from the current stagnated share of 16 percent. At present, the industrial sector in the country lacks a comprehensive strategy to revive industrial growth, because of which the sector has stagnated. A detailed strategy to improve the industrial investment atmosphere, boost the manufacturing sector and give direction to industrial growth needs to be drawn up. The strategy should incorporate the perspective of industry players

as well as encourage state-Centre consultation on both manufacturing and industrial growth. The articulation of such a strategy will provide the necessary assurances for both domestic and external stakeholders.

- The government should increase support to the Micro Small and Medium Enterprises (MSME) by providing more formal channels of access through banking and non-bank entities in the country. The contribution of the MSME sector to India's GDP has been growing consistently at over 10 percent annually, but less than a third of the MSMEs have access to formal credit.

- The government should address the serious shortage of skilled manpower in the services sector. This can be ensured by the creation of skill clusters and aligning policy incentives for skill development across associated sectors. International best practices in skill development and vocational education, such as the German apprenticeship model, must be adapted to the Indian context. Skill development must be intertwined with industry participation and practical training, such that skill seekers are not only trained to meet current industry and market demands, but skill training is given the brand value it requires to attract larger numbers.

- Social protection packages, such as free and easy access to “lifeline” public services like healthcare facilities, clean-water, subsidised energy and food security, are needed to provide the “fall-back” support required by poor families especially in times of financial distress caused by accidents or ill health. Yet, resource allocation in such programmes is neither efficient nor respectful of the national account balance. Social protection programmes need to be self-regenerating, targeting specific recipients and be delivered efficiently and transparently. Programmes which have been initiated simply as populist measures must be scrapped or reformed such that they do not divert needed resources from necessary economic activities.



A black and white photograph of a hand holding a pen, poised to write on a document. The hand is on the left side of the frame, and the pen is held between the thumb and index finger. The document is on the right, with some faint lines visible. The overall tone is professional and focused.

STEP-3: ENERGY SECURITY

**INITIATE
MARKET
BASED
REFORMS**

THE health of the Indian economy and its development trajectory are intrinsically linked to its energy sector. While domestic energy production in India grew from 378 MTOE (million tonnes oil equivalent) in 2001 to 551 mtoe in 2011 at a compound annual growth rate (CAGR) of 3.65 percent, domestic demand grew at a CAGR of 4.5 percent over the same period¹. Domestic supply has not managed to keep up with demand. Indeed, demand itself has been muted due to supply constraints.

The lack of growth in domestic production and concomitant dependence on imports has exacerbated India's imbalance in trade. Towards the end of the previous NDA regime (2003-04), India had a trade surplus. In the last ten years, this trade balance has dramatically worsened. The country faced a trade deficit of around US\$ 190 billion in the financial year 2012- 2013, largely owing to growing energy imports.

The Indian economy is struggling, with a

¹ IEA Energy Statistics, 2011

fiscal crater which is much bigger than the veritable fiscal pothole that the erstwhile NDA regime received in the late 1990s. The new NDA regime has only two choices: (1) continue with populist measures and continue to exacerbate the negative trade and fiscal balances; or (2) revive the economy through better policies and implementation, and thereby reduce the large gaps left in the government's finances owing to structural weaknesses.

It is in this context that concrete measures for energy sector reform are proposed here, circumscribing issues such as energy pricing, resources management, infrastructure requirements, regulatory oversight and market-determined energy transitions.

- The government must contemplate a systemic overhaul of the policies followed in the various energy subsectors. The energy sector's history has shown that top-down allocations undercut market forces and act as indirect price interventions. They end up creating stranded capacities rather than fulfilling any desired efficiency objectives because of the lack of alignment of politics

“ Large investments from global coal majors will not flow if they are expected to act as vendors to captive mining projects. Steps taken to corporatise Coal India Limited are positive and must be encouraged. But, investments and technology will only come into the sector if the incentives for doing business are in tune with business priorities of global majors. ”

“ Given the perennial subsidy burden and resultant chronic cash flow problem to Oil Marketing Companies and distortions in dispensing subsidy to target groups, petroleum product prices should be deregulated and a targeted subsidies regime should be put in place.”

and programme objectives.

- While India prides itself on having some of the largest coal reserves in the world, its imports of coal have gone up over five times over the last decade. Despite the allocation of hundreds of captive coal blocks, less than a handful have started producing coal for industrial use and power generation. Large investments from global coal majors will not flow if they are expected to act as vendors to captive mining projects. Steps taken to corporatise Coal India Limited are positive and must be encouraged. However, investments and technology will only come into the sector if the incentives for doing business are in tune with business priorities of global majors.

- There is ample evidence to show that price controls have not been able to fulfil

their intended purpose and must be done away with. For instance, National Sample Survey Organisation (NSSO) data reveals that in spite of claims of increased penetration, in the case of disadvantaged sections (Scheduled Castes, Scheduled Tribes and OBCs), the number of households using biomass for lack of a modern energy option has actually gone up in certain income categories. The new government must rethink price allocations that distort and undermine market forces. The poorest pay the highest as a proportion of their income for lifeline energy.

- Fuels such as diesel remain a privilege limited to the few—and in urban areas this is evidenced by the proliferation of diesel-fuelled SUVs on the streets, even as farmers struggle to run their pump sets on the relatively expensive (compared to electricity) energy input. Given the perennial subsidy burden and resultant chronic cash flow problem of Oil Marketing Companies and distortions in dispensing subsidy to target groups, petroleum product prices should be deregulated and a targeted subsidies regime should be put in place. Private businesses and rich individuals must not reap the benefits of government subsidies.

- Access to electricity remains directly proportionate to per capita incomes, and despite promises of free or subsidised electricity, around 300 million still have no access. Cash-strapped state utilities resort to power cuts to trim losses. This entire paradigm of electricity shortage is directly attributable to the cross-subsidisation of power, which has lowered industrial competitiveness, and simultaneously not delivered modern energy to households. Such ineffective policies must be rolled back immediately.

- The centrality of an enabling environment is illustrated in the case of the gas sector. While pricing and marketing freedom were introduced with a large amount of optimism, without the reforms of demand-side

sectors such as power and fertilisers, market pricing has been abandoned and there has been a reversion to price controls. In over a decade and nine rounds of auctions under the New Exploration Licensing Policy (NELP), only 108 of 254 blocks went into the hands of private players. Today, the number blocks under exploration stands reduced to 135, a majority of which are controlled by the public sector. Competition between the private sector and the state-run utilities is essential and policies must be applied on a non-discriminatory basis.

- Under the planned economy model, energy resources in India have been closely controlled by the state. However, the state is not designed to fulfill such functions. Ownership per se confers little benefit to the owner until such reserves have been extracted and processed. In turn, the efficient extraction of resources requires investments, technologies and innovations. Without an enabling environment for these input factors, ownership is of little value. government needs to move away from the business of business.

- Infrastructure creation is a key challenge for the new government, and this holds true of energy sector infrastructure as well. In the case of renewable energy for instance, the current infrastructure shortages have held back potential which has been estimated to be very high, owing to the abundance of requisite natural resources and the geographical and climatic conditions necessary to support the promotion of solar, wind, biomass and small-scale hydroelectric energy technologies.

- Since renewable energy is location-specific and not evenly distributed, there are issues of grid parity. That is, renewable energy requires a robust transmission infrastructure from remotely located generating plants to the various load centres. The government has to invest in a much larger, smarter and upgraded transmission network if even a fraction of the country's renewable energy potential is to be realised. In addition, better Centre-state coordination is required to address issues with regard to land acquisition for large solar projects in particular.

- On the regulatory front, there is a lack

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of strong and independent institutions in the energy sector. The plethora of various authorities and officials has often delayed the decision-making processes. Organisations like the Petroleum and Natural Gas Regulatory Board, Central Electricity Authority or the Central Electricity Regulatory Commission must be given requisite autonomy that ensures that they become the standard bearers of energy reform in India with a new mandate to expand the sector and not only act as watchdogs. The Directorate General Hydrocarbons must be an independent regulatory authority and also be responsible for the growth of this subsector.

- In addition, the Petroleum and Natural Gas Regulatory Board (PNGRB), created under the PNGRB Act, currently lacks powers except for issuing authorisation of pipelines and fixing their tariff. The new government must support the PNGRB by notifying coverage of petroleum products and natural gas. This will also encourage market-determined pricing, balance demand and supply and bring efficiency. Furthermore, it will also enable a level playing field for all stakeholders.

- India is at a key moment of its energy transition. While the annual supply of gas is 2 trillion cubic feet (TCF), it is estimated that nearly 91 TCF of supply can be

unlocked by infrastructure and market creation. The new government can facilitate the substitution of crude oil with Liquefied Natural Gas (LNG) by enabling the creation of the requisite infrastructure and energy deals. India imports 2.6 million barrels per day as of March 2014—which is the largest share of the trade burden, the details of which have been mentioned earlier in this section. Meanwhile, the landed price of LNG per MMBTU (one million British Thermal Units) is at a 20 percent discount to oil prices (assuming US\$ 100 per barrel of crude oil). Gas can be a substitute to both oil and coal.

- It is estimated that while India’s ambitious target of setting up 63,000 MW² of nuclear capacity by 2032 is unlikely to be met, even a modest 40 GW capacity by that time, if established, would equal a six-fold increase, which would put India in a good position to transition to low-carbon systems. In this context, ambiguities with regard to equipment supplier liability in the New Liability Act must also be resolved to allow operators of nuclear plants the confidence and competence to negotiate and monitor their supply arrangements.

2 Gupta R. Joshi S. Development, Energy Security and Climate Security: India’s converging goals.



STEP-4: GOVERNANCE

**PROMOTE
SOCIAL
POLITICAL
& ELECTORAL
REFORMS**

THE mood of the country today is in favour of defining long-term political and electoral reforms, especially reforms related to disclosures, accountability, conflicts of interest, transparency and campaign finance. That change is being demanded by the people of the country became visible just a few months ago when there was widespread condemnation of the previous government's attempt to pass an ordinance enabling convicted politicians to continue as Members of Parliament.

Many of India's current problems stem from the State's failure to implement second and third generation governance reforms, resulting in economic and social inequity on an unimaginable scale. There are at least 52 bills pending in Parliament on critical issues/sectors such as higher education, finance, judiciary and taxation. These intended reforms can put in place a new set of transparent, effective and equitable governance institutions and processes. The country needs a sensitised bureaucracy, a transparent process of auctioning natural resources, an effective and efficient judiciary and a responsive, credible police

“ The country today needs a sensitised bureaucracy, a transparent process of auctioning natural resources, an effective judiciary and a responsive police force.”

force. ORF proposes the following reforms for governance.

- The country's citizens find the bureaucracy too slow, extremely rigid and mechanical, and consequently, not flexible and adaptive to cope with change. Therefore, there is the need to implement some of the key recommendations made by the Second Administrative Reforms Committee Report chaired by Mr. M. Veerappa Moily in 2008, such as:

1. DECENTRALISATION

Decentralisation of powers, functions, funds and functionaries has not occurred in a significant manner. It would be necessary for the Centre, state and local governments to work together and analyse the problems experienced in the past. Decentralisation is a prerequisite for good governance without which any major transformation will be difficult to achieve. Further, such efforts must be accompanied if not preceded by capacity-building programmes at all levels. It would also be judicious for the Union government to work in conjunction with the states, rather than attempting to bypass them on transfer of funds to local bodies, even before the latter are ready for such responsibilities.

2. PERFORMANCE APPRAISAL

The Department of Personnel and Training (DoPT) has initiated a Performance Appraisal System (PAR) for bureaucrats. This practice needs to be continued and further improved so that performance, efficiency and a high professional standard can be maintained. The previous appraisal system was based only on numerical ratings, without needing to offer reasons and justifications. While some efforts have been made to correct this, more detailed appraisal guidelines must be created so that no bias,

“Decentralisation is a prerequisite for good governance without which any major transformation will be difficult to achieve. Further, such efforts must be accompanied if not preceded by capacity-building programmes at all levels.”

favouritism or lobby can influence the rating given to each civil servant.

3. OTHER RECOMMENDATIONS

- The time is ripe for exploring a feasible campaign finance regulatory architecture and alternative funding options. Rising costs of elections is the single biggest factor in the subversion of governance. It also engenders rent-seeking, corruption and black money.

- There is need to increase the existing cap on election expenditure to a realistic limit, and to institutionalise its linkage to an inflation index and regular/five-yearly updating. At the same time, auditing of funds and compulsory disclosures of all sources of funding to political parties and candidates are necessary measures to ensure that democratic processes are insulated from the pernicious effects of unaccounted fund flows

and for ensuring greater political equality.

- The pending Right of Citizens for Time-Bound Delivery of Goods and Services and Redressal of their Grievances Bill 2011 would give a major boost to public service delivery, the most critical aspect of interface between the State and the citizen. Several state governments have made a promising beginning on this count with far-reaching positive results. The government should continue to promote such efforts.

- The potential of e-governance and smart governance must be harnessed. India is not yet ready to fully tap the success of Bhoomi, MeeSeva and E-Gram. Technology is being used in each of these programmes to ensure that the needs of the citizens are met efficiently. For example, the Bhoomi project aims to provide transparency in land records management, MeeSeva has been introduced to facilitate delivery of all government services to citizens and business and under the E-Gram project, and an effort is being made to collect information on village level amenities for guaranteeing improved service delivery. Smart governance must be embraced in a big way to revolutionise governance by harnessing emerging new information and communication technologies such as clouds, big data and sensor technology, among others. This would also help in achieving the goal of creating new sustainable cities in India. For example, digital technology can be very effectively used in the preparation of good city plans and in managing all utilities and services such as water, power and public.

- Legal reforms are vital for ensuring higher economic growth. Accountability and the enforcement of contracts require a robust legal system that dispenses justice quickly and is affordable. Despite the plethora of reports and committees, including many Law Commission reports, there has been little progress in synthesising and harmonising various laws related to labour,

industrial disputes and contract enforcement. There are more than 10,000 such laws (national and local) in India that need to be recast if not removed altogether.

- Millions of cases choke the judicial system (31.2 million¹) and vacancies (3422 vacancies lying at lower court alone)² at both session courts and in the higher judiciary have not been filled for years. It is imperative for the new government to fill vacancies in the lower courts to clear the backlog of cases.

- The government should ensure that critical bills on judicial reforms (Judicial Standard and Accountability Bill, Judges Appointments Bill) are passed by Parliament.

1 <http://timesofindia.indiatimes.com/india/Courts-will-take-320-years-to-clear-backlog-cases-Justice-Rao/article-show/5651782.cms>

2 <http://timesofindia.indiatimes.com/home/opinion/edit-page/Courts-also-need-a-Lokpal-Without-judicial-reform-one-of-the-pillars-of-our-democracy-will-continue-to-crumble/articleshow/20073405.cms>

“ Millions of cases choke the judicial system and vacancies at both session courts and in the higher judiciary have not been filled for years. It is imperative for the new government to fill these vacancies to clear the backlog of cases.”

- The judicial and criminal investigation processes have yet to catch up with cutting-edge technologies. Therefore, information and communication technologies must be urgently embraced by prosecuting agencies as well as the judiciary.

- The police, licensing and life event certification authorities, with whom citizens deal with on a daily basis, should be intensively monitored using IT and social media. Only then would they become responsive to the needs of the poor. Misdemeanours should not go unpunished. It would further be helpful if such citizen interface tasks are increasingly managed by female employees, as often the aggrieved parties or complainants are women.

- The recent increase in violence against women has highlighted the urgency for undertaking police reforms. In 2006, the Supreme Court issued a ruling on the implementation of seven directives on police reforms as laid out by retired IPS officer Prakash Singh. These reforms, which include constituting a state security commission, merit-based promotions, minimum two-year tenure positions for police officers, separating investigation and law and order functions, creating a Police Establishment Board, setting up the Police Complaints Authority and creation of a National Security Commission (NSC), have yet to be implemented in many states. This must be expedited and police reforms must be given a priority. Furthermore, the Soli Sorabjee Committee was set up to draft the Model Police Bill in 2005. The government should work towards ensuring its passage. Since law and order is a state subject, there is need for the Union government to take the support of state governments on police reforms

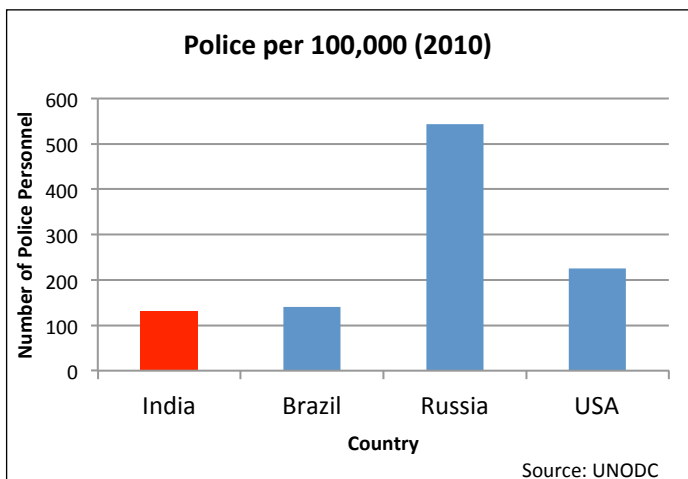
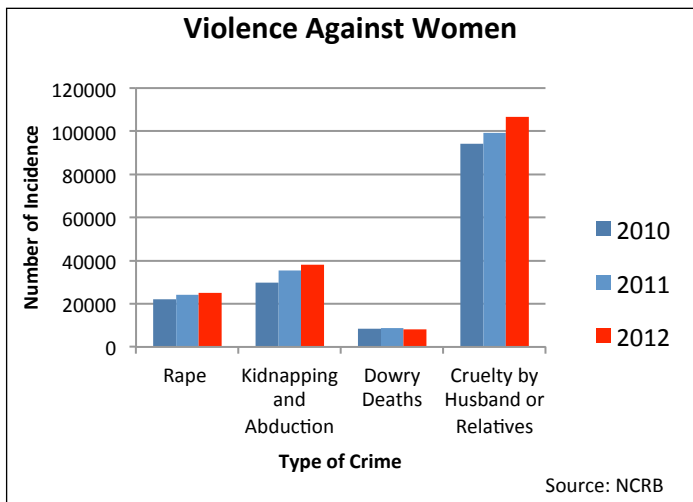
- The country's intelligence agencies need to be brought within the ambit of legislation. There are three reasons for this. First, legal precision would ensure that the kind of turf battles that have bedevilled our intelligence services would

“ Smart governance must be embraced in a big way to revolutionise Governance by harnessing emerging information and communication technologies.”

be minimised. Second, legislation will ensure that the intelligence agencies do not exceed their brief and the ordinary citizen of India is protected against any over-zealous activity of the intelligence agencies. Third, it will provide legal protection to intelligence operatives in the exercise of their legitimate duty. Simultaneously, the government needs to free the intelligence service chiefs from the bureaucratic processes that limit their ability to acquire the best talent for their work, especially people with high-level language skills and quality technical personnel.

- The government should take steps to facilitate the direct intake of personnel from the private sector into the Foreign Service and other bureaucracies serving the government. The Indian Foreign Service should be opened up to highly trained specialists, and special talents in the fields of research, trade, economics, law, and security to encourage new thinking, new ways of doing things, and to give the political leadership the broadest and best researched options. Likewise, the Indian Administrative Service should be open to contract employees with high-level management skills.

- India’s crying need for infrastructure requires a public-private partnership that goes beyond mere capital finance. Leading Indian private sector corporations can be engaged to review, monitor and control aspects of the detailed engineering work and other processes needed to execute infrastructure projects. This could be the key to the success of creating next generation infrastructure. Also, the government must be able to analyse, examine and select bidders for public or public procurement contracts not on the basis of lowest one (L1) concept but on the basis of lifecycle cost of technology and related, transparent and well-laid down criteria that can be given a monetary value.





STEP-5: DEFENCE & INTERNAL SECURITY

CREATE

FULL

SPECTRUM

CAPABILITY

NDIA today is confronted by a host of new security challenges. Some of these challenges lie in new domains, such as space and cyberspace, while at the same time new dynamics have also emerged within the domain of traditional security challenges, such as terror outfits operating in the country or the spreading Left-Wing Extremism. The Indian security apparatus is not adequately equipped to deal with these challenges effectively. The process of modernising and equipping of the armed forces and police has not progressed at the desired level. Ineffective management has led to the Air Force numbers declining significantly, the Navy suffering from a shortage of ships and submarines and obsolete

“ There is a critical and urgent need to provide proper leadership and organisation to the Indian security forces and intelligence agencies, and initiate necessary reforms that address their problems in terms of equipment and organisation, so as to enable them to properly defend India’s interests in the 21st century.”

weaponry for the Army.

There is a critical and urgent need to provide proper leadership and organisation to the Indian security forces and intelligence agencies, and initiate necessary reforms that address their problems in terms of equipment and organisation, so as to enable them to properly defend India’s interests in the 21st century. Apart from the reforms, the government should also aim to make a critical doctrinal shift in the country’s approach to national security issues by adopting a policy of active defence, rather than passive restraint, to counter both external and internal threats.

ORF suggests the following steps to strengthen the country’s internal and external security:

- India is in a unique position to cement its place as a global player in the defence sector. For this, India must have a strong and decisive leadership at the helm of the Ministry of Defence. The quick evolution of the defence sphere requires constant reforming and forward thinking that can enable and empower the ministry to steer India’s defence structure towards not only meeting current threats, but also safeguarding its strategic interests and relationships and strengthening its position among the global powers.
- The government must insist that the Cabinet Committee on Security is given an annual Operational Status Report by the Ministry of Defence which will list the shortcomings and delays relating to acquisition, logistic support, performance, training, and manpower availability of the armed forces.
- The government should strive to bring true synergy by integrating the armed forces’ headquarters with the Ministry of Defence. There is need to ensure that the authority and agendas of the three Service chiefs are reflected in the Allocation of Business Rules and Transaction of Business Rules. In addition there is a need for effec-

“ The government should strive to bring true synergy by integrating the armed forces’ headquarters with the Ministry of Defence. There is need to ensure that the authority and agendas of the three Service chiefs are reflected in the Allocation of Business Rules and Transaction of Business Rules.”

tive cross-posting of civilian and military officers at all levels in the ministry of defence.

- The government needs to carry out periodic strategic defence reviews, the unclassified portions of which must be made available to the public. This will assist the government in prioritising the threats and challenges before the country, framing the necessary policy focus and allocating the resources required.

- The government should take urgent steps to fast track the delayed ongoing projects and acquisition plans of the three Services, such as the LCA Tejas, the Scorpene submarine, the IAC II aircraft carrier, the nuclear powered attack submarines; the modernisation requirements of the army such as battlefield management systems, night-fighting capabilities, enhanced firepower; and the deeper integration of technology in modern warfare.

- The government should ensure that a five-year defence plan receives approval from the Cabinet Committee on Security at least a year before its commencement.

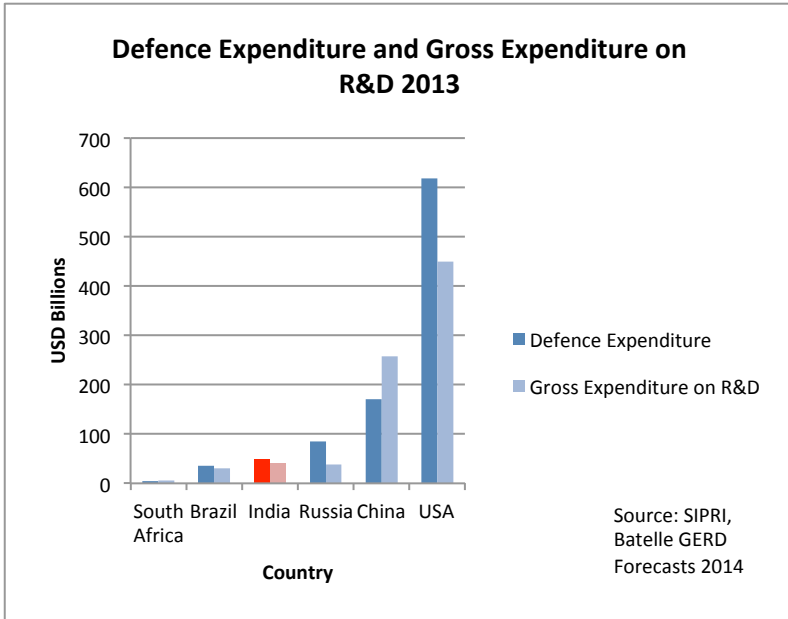
- The government should appoint a Chief of Defence Staff (CDS) to assume charge of the Integrated Defence Staff headquarters.

The CDS would head the tri-service institutions such as the Strategic Forces Command and the Andaman & Nicobar Command.

He would be in charge of coordination and prioritisation involved in writing the armed forces Long Term Integrated Perspective Plan (LTIPP) and the five year plans. He would lead the shift of the country’s armed forces to the concept of theatre commands and take charge of any out-of-area contingencies. The CDS would be the permanent Chairman of the Chiefs of Staff Committee and hence be the principal military adviser to the government.

- The government should consider setting up a civil service specialising in defence and security affairs. The current method of posting officers with no experience in jobs requiring a high degree of specialisation has been detrimental to the country’s security.

- There is need to transform the Indian defence sector by encouraging the large-scale entry of the private sector into the defence research and development and industrial sectors. The Department of Industrial Policy and Promotion in consultation with the Ministry of Defence had identified areas for private sector involvement



in production of defence hardware such as radars, armoured combat vehicles, warships, electronic warfare and aircraft, but private sector involvement has been restricted to small-value defence contracts and supply of low-tech equipment.

- The government should encourage greater FDI in the defence sector and ensure that India's defence production becomes commercially viable, with the country becoming a net

exporter and entering global supply chains for defence weapons and systems.

- The government should establish a Defence Research, Technology and Industry Commission comprising of top defence bureaucrats and private sector leaders to encourage public-private partnership across the spectrum in the area of defence. In particular, public-private partnerships for research on transformative and emergent technologies should be encouraged.

- The government should appoint a high-level defence, science and technology adviser to the Defence Minister to head an Advanced Projects Agency which would encourage and fund research in key areas relating to the country's security in universities, laboratories and research institutions.

This post should be taken away from the Secretary, Defence Research & Development, who should focus his efforts on the internal operations of the Defence Research and Development Organisation.

- In the area of internal security there is an urgency to view the Rule of Law arrangements comprehensively. The provision of physical security and rapid response in aid of state governments; intelligence gather-

“ To counter the Naxal threat, there needs to be better coordination among the affected states, between the Centre and the states, and improved intelligence and policing. Developing a comprehensive surrender package is also the need of hour to neutralise threats from left-wing extremism.”

ing and reporting for prevention of crime and the maintenance of domestic stability; regulating investigation standards, supporting the provision of facilities and skill development; prosecution facilities; regulation of the legal profession; management of the judiciary and remedial facilities (prisons) are the logical links in the delivery chain of justice for all.

- Left-wing extremism (LWE) continues to be the country's biggest internal security challenge. Nearly one-third of the country's territories are affected by LWE, causing huge loss to the economy and compromising its service delivery machinery. Security efforts need further reinforcement in terms of better coordination among states and the Centre and improved intelligence and policing. Developing a comprehensive surrender package is also the need of hour to

neutralise threats from LWE.

- In the past decade, India's security environment has changed and much has been written and said to erode the credibility of India's deterrent posture. Thus, it is important that the nuclear doctrine be revised in line with current reality and that it address the needs of India's security.

- The government should invest greater resources and attention to new avenues of contestation and possible security threats like space and cyberspace. The government should utilise the public and private sector, and research laboratories, to create systems for protection against unconventional security threats. It should tap universities and institutions to recruit expertise and qualified, skilled personnel to conceive and implement counter-measures and safeguards in high-risk sectors



STEP-6: INDIA & THE WORLD

RESTORE A
DYNAMIC
FOREIGN
POLICY

THE principal objectives of India's foreign policy under any government should be to create a favourable external environment to generate prosperity for all at home, secure the nation's frontiers, protect its people against the onslaught of terrorism, and promote India's interests that are now global and dispersed. Governments in Delhi have often affirmed these goals. If political will in Delhi to pursue these goals has often been inconsistent, even a strong government is significantly constrained by inadequate resources and an inability to get different parts of the system to act in concert.

The Modi government, then, should take decisive steps to strengthen the instruments of Indian diplomacy and foreign policy and structure effective coordination among them.

The following priorities present themselves:

- Expand the size of Indian diplomatic corps to meet the growing foreign policy work of the country. The UPA government's

plan to raise the strength of the corps was too slow and cannot meet the growing demand for diplomatic boots on the ground abroad and the pressures on the MEA headquarters in Delhi. Equally important is the need to expand the scale and scope of India's foreign intelligence operations.

- Strengthen the National Security Council system, which was created under the Atal Bihari Vajpayee government, to better coordinate the different agencies of the government that have a bearing on the conduct of India's international relations.

- Develop a mechanism for productive consultations on foreign policy between Delhi and the state governments, especially with those that share boundaries with neighbouring countries. The Modi government must craft a middle path between merely claiming constitutionally mandated monopoly on the conduct of foreign policy and appeasing state governments that often leads to abandoning India's interests in the region. Delhi should consider greater role for state governments in trade promotion and cultural exchanges with other nations.

- Bring greater synergy between the Ministries of External Affairs and Commerce to promote India's expanding economic interests abroad. Given the priority the PM has attached to India's economic revival, the government can't afford to have the two ministries acting in separate silos. The government should also significantly expand the number of officers devoted to commercial work in the headquarters of the MEA and its missions abroad.

- Build a sustainable partnership between the government and business in securing the nation's rapidly growing investments abroad and ensure India's energy and resource security. Of special importance is the need for a mechanism that will allow the Indian public and private sector corporations to undertake strategic projects, like ports, railways and highways in the neighbourhood

“ Develop a mechanism for productive consultations on foreign policy between Delhi and the state governments especially with states that share boundaries with neighbouring countries.”

“ The principal objectives of India’s foreign policy under any government should be to create a favourable external environment to generate prosperity for all at home, secure the nation’s frontiers, protect its people against the onslaught of terrorism, and promote India’s interests that are now global and dispersed.”

and beyond.

- Expand and strengthen the current mechanisms for consular protection for millions of Indian citizens based abroad. As more and more Indians travel beyond borders, many of them are bound to get caught up in crisis situations of one kind or another. Instead of responding to these situations in an ad hoc manner, the government needs to have a dedicated structure at home and standard operating procedures to cope with a variety of contingencies.

- Embark on vigorous defence diplomacy. The increase in India’s international stature

over the last few years has generated the perception of India as a ‘net security provider’ to other countries. Prime Minister Modi has talked about expanding India’s domestic defence industrial base and exporting arms to the nation’s friends and partners around the world. Action on this front will transform India’s regional security role. To promote India’s defence diplomacy, Delhi needs to institutionalise better cooperation between the Ministries of External Affairs and Defence as well as the armed forces. The government should establish ‘pol-mil’ offices in the Ministries of Defence, External Affairs and the Prime Minister’s Office to strengthen India’s military engagement at the bilateral and multilateral levels.

- Strengthen India’s soft power by establishing a global television network, in a public-private partnership, to promote Indian views and culture around the world. India should also build on its unique religious and civilisational heritage—Hindu, Buddhist, Islamic, Sikh, Jain and Christian—to promote greater engagement with the world and build a sustainable inter-faith dialogue. The cultural missions run by the Indian Council for Cultural Relations in various cities of the world should be revamped and sufficiently resourced to project Indian soft power and become force-multipliers to formal diplomacy.

The emergence of a government with strong political mandate in Delhi has raised expectations around the world that India will be a more purposeful interlocutor. This in turn provides a rare opportunity to deepen ties with all the major powers, regional and international organisations and countries in the Subcontinent and the extended neighbourhood. The following tasks deserve attention:

- As the period of relative harmony among the great powers comes to an end, navigating the new great power tensions has become a major challenge for Indian foreign policy. The government should seek

“ Build a sustainable partnership between the government and business in securing the nation’s rapidly growing investments abroad and ensure India’s energy and resource security.”

to revitalise India’s relations with the United States and China, the world’s two most important powers, on the basis of equality and mutual benefit. Without allowing a veto to either power on the relations with the other or seeking symmetry in the relations with both, India must pursue pragmatic engagement with both Washington and Beijing. At the same time, as part of its effort to secure a multipolar world, India should deepen its ties to France, Germany, Russia, Britain and Japan. India’s objective must be to emerge as an indispensable element in shaping the global balance of power and the various global institutions.

- Many in East and South East Asia want India to play a larger role in securing the region which is witnessing historic shifts in balance of power. Although the region has welcomed India into the fold of its institutions, including the East Asia Summit, there has been some disappointment at India’s seeming inability to contribute its bit. The Modi government must impart renewed vigour to India’s Look East policy. On top of the agenda should be the following: deepening India’s economic integration with the region, strengthening physical connectivity and promoting regional security.

- India should end the recent neglect of West Asia and build strong ties with all the key nations there including Iran, Saudi

Arabia, Egypt, Israel and Turkey and reclaim India’s once critical role in the region. The unfolding turbulence in West Asia demands a more focussed effort to secure India’s many vital interests in the region which is the main source of India’s energy imports and home to millions of Indian migrant workers. The government should strive to increase the country’s engagement with other important regions in the world—including Central Asia, Eastern Europe, Africa, Latin America and the Oceania—that will matter increasingly for India’s interests.

- The Indian Ocean Region and its natural extension, the Indo-Pacific system, are part of India’s extended neighbourhood and crucial to its economic future, its security and prosperity. India should seek to enhance its role in this area, becoming the major guarantor of the safety and security of the sea lines of communication.

- The government should improve India’s ability to project power in the Indo-Pacific for humanitarian assistance and disaster relief operations and create the necessary mechanisms for deepening security cooperation at the bilateral and multilateral levels.

- The government should not hesitate in taking greater responsibility for the management of global affairs where necessary. The government should actively seek to influence and shape the global negotiations

“ Without allowing a veto to either power on the relations with the other or seeking symmetry in the relations with both, India must pursue pragmatic engagement with both Washington and Beijing.”

on trade, climate change, and the reform of global financial and security architectures by strengthening India’s voice and building flexible issue-based coalitions.

FOCUSSING ON THE NEIGHBOURHOOD

The Modi Government has generated extraordinary optimism about India’s prospects in the Subcontinent by affirming a “neighbourhood-first” foreign policy. The leaders of the seven fellow members of the South Asian Association of Regional Co-

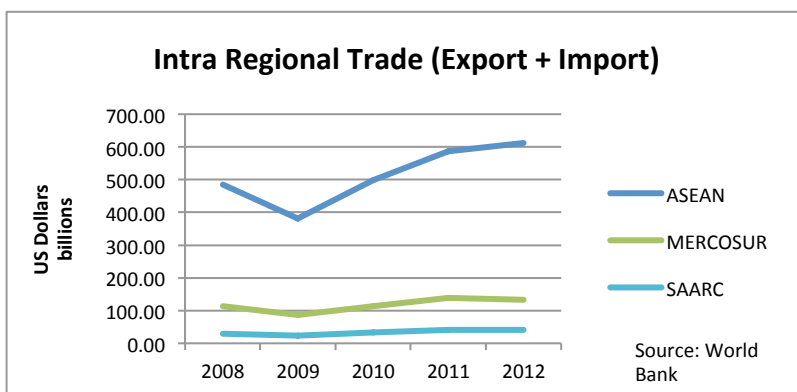
operation responded positively to the new government’s gesture to invite them to participate in the PM’s swearing-in ceremony. The PM chose Bhutan as his first destination for foreign travel and the External Affairs Minister, Sushma Swaraj went to Dhaka for her first stand-alone visit abroad. The government has emphasised its commitment to strengthen SAARC and promote strong ties with all the neighbours. The challenge now is to translate these words into deeds.

On its part, the new government has signalled its desire to normalise relations with Pakistan while stressing its concerns about cross-border terrorism. Sustaining an engagement with Pakistan has never been easy, but Delhi must persist against well-known odds, including the weakness of the civilian government and its inability to rein in the sources of extremism and terrorism. The new government, then, must consolidate progress wherever possible while strengthening its capacity to counter cross-border terrorism. Although Delhi cannot influence the internal dynamics of Pakistan, it must take whatever steps it can to strengthen those forces next door seeking a normal relationship with India.

If Pakistan is a veritable challenge that must be managed with great care, Bangladesh offers a huge opportunity to transform the post-Partition geopolitics dynamic in the eastern Subcontinent. By implementing the agreements already concluded—on the sharing of the Teesta waters and the Protocol for the Land Boundary Agreement—Delhi can begin to build a solid and enduring strategic partnership with Dhaka.

At the heart of the Modi government’s neighbourhood policy is the recognition that India will not be able to win its rightful place on the world stage without building a peaceful, cooperative and prosperous Subcontinent. A number of policy imperatives flow out of this recognition:

- Deepen economic integration in the



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Subcontinent through unilateral, bilateral and regional measures. India has already acted unilaterally in reducing tariff barriers to imports from the least developed countries. It must now act purposefully in removing multiple non-tariff barriers and improve trade facilitation by modernising the infrastructure on the borders. At the multilateral level, India must strengthen the various mechanisms for regional, sub-regional and trans-regional cooperation.

- Promote greater physical connectivity across the Subcontinent through trans-border transport corridors, connecting electricity grids, and building cross-frontier energy pipelines.
- Improve land and maritime border management by working with the enlightened interests of the people who live in the frontiers and the unbeatable logic of supply and demand. India must make it easier for local communities to trade and manage the natural resources in the frontier regions.
- Build on recent progress in security cooperation with key neighbouring countries by

strengthening ties between law enforcement agencies and local officials across the borders. The last few years have seen a tentative initiation of contact between India's defence and military establishments and those of the neighbours. The potential for expanding security cooperation remains huge.

- Promote tourism, especially religious pilgrimage, across the frontiers of the Subcontinent. Delhi's decision to liberalise visas to Bangladeshi visitors is the first step towards a more comprehensive framework for easing the current travel restrictions in the region.
- Streamline and strengthen its development assistance in the Subcontinent, which amounted to Rs 6397.6 crores in 2013-14 out of the total bilateral aid of Rs 7038.15 crores¹.
- Avoid intervention in the internal affairs of the neighbouring countries but offer India's good offices to resolve their internal conflicts, promote democracy and strengthen respect for rule of law and the rights of minorities in the Subcontinent.
- Work with all forces across the region and beyond to defeat the forces of violent extremism and terrorism that are undermining the existing state structures in the Subcontinent.
- Restore the geopolitical unity of the Subcontinent through purposeful promotion of regional integration, shared prosperity and cooperative security arrangements.

1 <http://indiabudget.nic.in/ub2014-15/eb/sbe32.pdf>

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Published by:



2014