

# WHAT INDIA NEEDS? ...A PERSPECTIVE

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*"Free Enterprise was born with man and shall survive as long as man survives".*

— **A. D. Shroff**

1899-1965

Founder-President

Forum of Free Enterprise

# What India Needs? ...A Perspective

by

**JIBAN K. MUKHOPADHYAY\***

I consider myself a passionate student of economics. Even though some people would call it a dismal science, I understand the subject as an art of making things happen, providing, inter alia, a mechanism so that over a period of time the standard of living of more and more people is improved.

Ideally speaking, what needs to be done is, by and large, known to everybody. But there is always a gap between what is "ideal" and what is "feasible". Ideally, many would like the Indian economy should grow at a high rate of, say, 9 percent. Why? Because at this rate of growth, our per capita income doubles within 10 years. It took Great Britain nearly 57 years to double its per capita income; the United States about 37 years and Japan about 15 years. But it took China less than 10 years to double its per capita income. And China did it twice over in the last two decades, when its

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\* The author was formerly Chief Economic Adviser to the Tata Group. Presently he is a Consultant with the Group. The text is based on a talk delivered on 27<sup>th</sup> September 2003 at a seminar organised by Freedom First in Mumbai. The views expressed in the booklet are strictly personal.

GDP increased by more than 10% per year. In our case, such a high rate of growth has not materialised so far. While India is a socialist, democratic republic, and a mixed economy, Chinese People's Republic is a communist government, which has transformed into a socialist market economy since 1978.

Our country has progressed significantly since Independence. For example, today we can manufacture from a safety pin to a missile, But many of our industrial products are still not globally competitive.

A realistic perception must be based on a feasible rate of growth and at the same time, it has to be more than what it is today. With the given structure of the Indian economy, a double-digit growth is unrealistic at this stage. Therefore, I shall rather try to build a perspective which is feasible and provide a mechanism of achieving it.

Ours is a vast country. We do not have just one single language, and we use the same colonial language "English" to communicate amongst ourselves. There are 18 constitutional languages and 1,652 mother tongues spoken across the country. All major religions are practised in this country. Life styles also vary widely.

Ours is a highly populated - one billion plus - country. Almost every 1.5 seconds a child is born here. The

moment a child is born, it is hungry. It consumes a large number of goods till its death. Unless every child that is born and becomes an adult and produces goods and services which have a value more than what he or she consumes, the person is not an asset, but a liability to the society. This large number of people need opportunities to enter the employment and income stream of the economy. Certainly, it is not easy to create opportunities for a billion plus people. But this precisely is the task to be taken up.

About 44% of Indians cannot spend even one dollar a day (on PPP basis) on their basic necessities. Thus, almost half a billion people are very poor. Besides, about 43% adult Indians are illiterates. The overall distribution of income is highly skewed. About 46% of the income/consumption comes from the top 10% of Indians, while 10% of those who are the poorest contribute only 8%. These numbers are quite alarming and indicative of the magnitude of the gigantic task ahead of us.

We started with a mixed economy model. Initially, it was all right. But soon this mixed economy turned into a public sector dominated economy. It kept India in the grip of the "Commanding Heights" for almost four decades till a market oriented reform was introduced in 1991 when exclusive public sector reservations, licensing, etc. were given up.

Today, after 12 years of economic reforms, the Indian Economy has changed beyond recognition. The country's corporate sector today is totally different from what it was earlier. Today, the forces of competition determine the destiny of Indian industry and the Indian economy. The agenda is to win in this highly competitive environment.

I think today we are living through "the best of times and the worst of times". The best of times is an optimistic approach, that is, the glass is half full and it may get full over a period of time. The worst of times is in the sense that we continue to hang on to our colonial past in terms of obscurantist administrative systems, procedures and a medieval mindset. Recently, I had to go to a government office to obtain a simple Domicile Certificate needed for my son's admission in the medical college. To get this done, I had to take two weeks' leave to chase papers because there was a deadline to catch. Such stories of bureaucratic hassles galore. So much of productive time and energy are lost in our everyday life.

It is unlikely that there would be a qualitative change in our kind of governance in the near future. Undoubtedly, one can talk a lot about improved corporate governance, but there is little to talk about improvements in the political and administrative governance in the country.

So as not to give an impression of being pessimistic, I would say that the “countervailing forces” that Mr. A. D. Modie\*. So passionately advocated in his talk are slowly emerging. The forces of market-oriented reforms, combined with the IT and telecom revolution, have already been making a positive impact on political and corporate governance in the country. Also, internally, from within the society, things are happening which are going to compel the government to bring in qualitative improvement over a period of time. There are a large number of cases of people’s intervention, sometimes through the judicial system as well as the media. These are hopeful signs.

In the 1980s Mrs. Indira Gandhi took some half-hearted steps in the direction of liberalization during her second term as Prime Minister, particularly in the area of import-export policies. And then, under Mr. Rajiv Gandhi certain further steps were undertaken towards liberalization, particularly in telecommunications. In the 1970s to make a trunk call to Calcutta, I had to come all the way from Andheri to the Central Telegraph Office, in the Hutatma Chowk. Today, it is possible for anyone from any corner of India, even the remotest and most secluded corners, to find a public call office, a STD-ISD booth. A telecom revolution has already

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\* Mr. A. D. Modie was an earlier speaker at the seminar where the author delivered the talk based on which this booklet is produced.

faken place in the country. With almost 25 mn. cellphone users today, this revolution will gloriously continue in the future! Modestly increasing penetration of PCs and internet accessibility have added a new globalised dimension to this IT and telecom revolution. It will soon go a long way in helping growth and productivity.

At the same time, there are many small steps through the people's initiatives which would give the impetus to achieving higher growth, and will ultimately compel the government to decentralise governance, both at the Union and the States level - down to the village/panchayat levels. These small entrepreneurial initiatives of the people at large are the organic forces of an economy trying to move ahead. And these are happening in a spontaneous way, despite the dysfunctional governing apparatus.

So things are happening and my perspective is an optimistic one. The overall rate of growth of GDP has increased from a rate of growth of 5.5% in the 1980s, to 6.1% during the post-reform years. The population growth has come down from 2.5% to 1.9% now, so the differential between the overall GDP and the per capita growth has also decreased. Now everybody is talking about a 7% plus rate of growth. What is so special about 7% plus rate of growth? It is special in the sense that anything that grows by 7.2% doubles

in 10 years. This means that the overall GDP needs to grow by about 9% to double our per capita income in 10 years – a feat performed by China twice over since 1980s. Is such a sustained high growth feasible in India?

I think at this stage, such a high and sustained growth rate is beyond even the dream sequence. What is feasible is 7% plus rate of growth of GDP for the next five years, which eventually will double per capita income in 15 years. This is the Indian elephantine rate of growth. If 7.5% rate of growth is achieved on an average during the next five years, the economy will be elevated to a higher level. It will, perhaps, be feasible to have 9% growth thereafter.

We need to restructure industry to make it more productive and globally competitive. Studies done by us reveal that after the reforms were introduced, the overall total factory productivity, labour productivity and capital productivity of Indian industry has increased compared to the pre-reform years. When it comes to the top 50 private sector companies, total factory productivity, labour productivity and capital productivity have improved at a bigger scale compared to overall industry figures. Six Tata Group companies covered in

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\* *Reforms and Productivity Trends in Indian Manufacturing Sector, A Study* by the Department of Economics & Statistics, Tata Services Limited, under the guidance of Jiban K. Mukhopadhyay.

this study as a sub-set performed the best in improving all the productivity parameters.

What happens when there is a growth in productivity, particularly relating to labour, is that fewer people can do a better job and they do it more efficiently, raising the value addition by employees. But what happens to those who either could not get a job or lose their existing job? There is a need here to introduce a policy compact on those industries (e.g., textiles, auto and components etc.) and services (e.g. tourism) having the advantage of both forward and backward linkages and high employment elasticity. A policy compact is also required for agriculture, which we shall discuss subsequently. It is also important that some social security measures are introduced so that a fallback option for the unemployed people can be created.

The unemployment situation is grave. According to our estimates, about 50 million Indian citizens are unemployed. The fact of the matter is that there are no dependable statistics on the number of unemployed apart from NSSO survey data. You will not find it in the Plan documents. There are no reliable time series figures. But the fact of large-scale unemployment is real and needs urgent attention. During the 1980s the overall GDP growth was 5.5% per year and employment growth was over 2%. During the 1990s,

the GDP was 6.1% per year, but employment growth was less than 1%. How to convert the jobless high growth into a growth with jobs? Mercifully, some mechanisms are presently being worked out by the Planning Commission.

Let us turn to agriculture; its growth is the key to achieve sustainable higher rate of growth in the country. Agriculture's contribution to the GDP has come down from about 56% in the 1950s and is about 25% today. According to the 2001 Census, 67% of population and 54% of the workers depend on agriculture, one way or the other, for their livelihood. But the rate of growth in agriculture wildly oscillates. The growth rate of agriculture (as a component of the GDP) moves up to 9.6% in one year; in the next year it comes down to a negative 2.4%; in the third year it moves up to over 6%, then remains flat at less than 1% for 2 years. Last year (2002-03) was a drought leading to a 3.2% decline in agriculture, and as a result the overall rate of growth of GDP came down to 4.3%. In the current year (2003-04), due to the likely high growth of agriculture, which again is caused by a good monsoon, the overall GDP is expected to grow by over 7%. But if monsoons are not good enough the next year, the growth of agriculture may again falter, resulting in decelerated GDP growth. Despite over five decades of planning, we are still prisoners in the hands of the weather God. Our irrigation potential is over 85%, but our net irrigated

area as a percentage of cropped area is only 30%.

How important is agriculture? One incremental percentage growth in agriculture leads to an incremental income generation of Rs.10,000 crores in the hands of the farmers. Let's assume 1/3 of this amount would be used for the repayment of debts, which the farmer might have incurred. The remaining Rs.7,500 crores of rupees are incremental disposable income of the farmers, which will come into the market for purchasing essential needs of the farmer community. Small things like toothpaste, chappals, clothes, food items, small everyday needs will be purchased. And this huge demand gives a big push to the industrial growth. This incremental rate of growth from agriculture to industry will be reflected in raising the overall GDP growth.

The point is that if we can activate agriculture, we find that we have created the desired high pace of growth for the economy. There is a strong correlation between agricultural growth and both industrial and overall economic growth. The Chinese reforms started from agriculture. In 1978 the huge command economy of Chinese agriculture was abandoned bringing prosperity to larger number of people in an on-going way.

We have an over-pluralistic kind of political economy in India. Everybody will give two or three different opinions, depending on where they are speaking from.

When a government is being run by 24 political parties, largely with regional characteristics, it is extremely difficult to take the initiative on any hard issue. The Supreme Court's ruling stalling the disinvestment of the oil companies saw one minister happy, while another depressed! It is an example of lack of cohesive team-spirit in the governance of the country. The fact is that in a competitive environment we have got to work as a team. Privatisation is a done thing all over the world. The Chinese are doing it vigorously. But in India we have been debating the issue inconclusively during the last 15 years. Along with mythological deities, certain bovine animal, the public sector is also worshipped in this country! Even the autonomy of management of the public sector units is also not on the agenda.

Be that as it may, it is pointless to be anguished about this. We have to accept the fact that a few things cannot be done here so easily. We have to reckon with the systemic rigidities. Yet we will have to try hard to smoothen the rough edges of many of these things. Not surprisingly, we are already becoming successful in several areas.

The issue is not the funding, capital or money, but the simple fact of managerial decision making in the area of applied economics. We do not want government to do everything. The government's role should be that of

a facilitator as in the in United States or Western Europe. It is not the government's business to directly run businesses. It is its job to facilitate the entrepreneurial initiatives of the people who make the government. It is the job of the government to provide the rule of law and a rule-based regulatory mechanism so that the people's entrepreneurial initiatives can flourish in a competitive environment.

Finally, a few words about the WTO imperatives. The WTO represents a kind of global reality considerably influencing competition in trade, investment and related issues. The 148 members of the WTO contribute to over 98% of the world exports. Communist China worked for 14 long years to become a member of WTO and was admitted at the Ministerial held in Doha in September 2001. I witnessed the joyous scenes with a large contingent of media people from China, celebrating the fact that eventually China made it to the WTO. And on the same day, our minister made a presentation at the Doha Ministerial of the WTO, almost trying to stop the process of globalisation! In the end, however, a compromise was made and the Doha Development Agenda was agreed upon and signed. In our country even today some people say let us walk out of WTO. It is very easy to get out of the WTO. Our government can write a half page application addressed to the General Council of the WTO that we want to be out and we are out! Thereafter, we Indians

can enjoy the music of adversarial competitive world trade. To transact business with the rest of the world, we will have to have a large number of bilateral agreements. 148 member countries multiplied by 38 major WTO agreements, gives us a number 5,624. Thus, as many as 5,624 bilateral agreements will have to be carried out in doing trade with the rest of the world. We cannot buy simple coffins for our soldiers because there is also a "*sauda*". (A. D. Modie talked a lot about "*sauda*" in his talk).

The objectives of WTO is to provide an opportunity of having a multilateral umbrella which is transparent and fair, based on the agreements negotiated and agreed upon by all signatory member countries, which gives certain facilities to the developing country over a period of time to be integrated with the global system. These objectives are yet to be reached.

At the same time, the rich countries, in WTO parlance, the Quad countries (United States, EU, Japan and Canada), are the big boys of international business, who usually call the shots. But since Doha, and now Cancun, despite its failure, the voice of the developing countries has become a force to reckon with. The voice of the developing countries is being heard today.

Unlike the IMF or the World Bank, where the voting rights are determined by economic muscle power of a member country, in WTO every member whether it is

Bangladesh, or the United States, has only one vote. Even if one member from a tiny nation says 'No, I don't want it', everything has to stop in WTO. So, this multilateral, rule-based trade, investment and related mechanism is available to us, and it is up to us how we use this mechanism to further our own interests.

We need to take a positive stance at negotiations based on the principles of liberal economics and try to take advantage of multilateral trade and investment opportunities as well as face the challenges of competition. We need not take recourse towards taking negative position and delay the global forces of competition. We need to take up the challenge of the given system, be prepared by resolving the internal issues with the spirit of conflict- and contradiction-management attitude and try to exploit the emerging opportunities in the rest of the world by becoming competitive in a large number of areas be it agriculture, manufacturing, or services. We have the feasible potential to be competitive in a gainsome way in many sectors.

It is important to realise that living in the world of today, it is not practical to live outside the global mainstream realities. As such, when 148 countries in the world are already members of WTO, with 24 observer countries awaiting their entry and with all the major international organisations (e.g. IMF, World Bank,

etc.) having observer status in the WTO, it is absurd to be out of the WTO system. The point is that we will have to be in the “ring” and negotiate hard for enhancing our economic rights and interests. For doing this, we may have to adopt intelligent negotiating diplomacy, joining hands with one group of countries or the other on certain specific WTO issues, with the ultimate objective of fulfilling the objectives of WTO. Mercifully, such initiatives have been taken. India’s negotiating strategy is more assertive and positive.

Sustained efforts towards the implementation of the Doha Development Agenda will be a *sine qua non* in this regard. Hopefully, India alongwith certain other leading developing countries (Group of 22, as in Cancun Ministerial Meet, September 2003) will be able to take up these issues with the Quad countries for the promotion of the cause of multi-lateralism and the world beyond Cancun will be reached.

At the same time, there are a large number of internal agenda which will have to be resolved. I have already tried to briefly explain some of these internal reforms related agenda as well as certain structural economic issues. These will have to be handled as the global forces of interdependence, as is channelled through the institutional mechanism of WTO, are likely to impact every business and every aspect of the value chain of every business in a developing country like India.

The hopeful point here, again, is that there is an advantage of time for keeping our house in order and be a part of the positive global force. But we will have to move fast.

To conclude, the perspective that I have attempted to build can be made operational with sincere and dedicated efforts by one and all. It is feasible, it is not one of those absurd and hyper-imaginative scenarios, with wide-ranging assumptions that some people try to push down our throat. It requires rains to create a rainbow. Let us have the first thing first.

*The views expressed in this booklet are not necessarily those of  
the Forum of Free Enterprise.*

*"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".*

— **Eugene Black**  
Former President, World Bank

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