

MAKING INDIAN INDUSTRY GLOBALLY COMPETITIVE

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By

Nani A. Palkhivala

I feel happy and honoured to have been invited to deliver the Memorial Lecture this year to commemorate the birth anniversary of the late T. A. Pai which falls today.

Entrepreneurship comes naturally to Indians. In the field of entrepreneurship it may be doubted whether any single family has done more than the Pai family of Manipal. And in the Pai family no one distinguished himself more than the late T. A. Pai. His was a rare blend of vision and pragmatism. He had the Midas touch. He used his enormous talent to turn a small rural bank into one of the top ten in the country. He was a master of the art of business management before that art was recognized as the most priceless asset of any corporation or business group.

**The text is based on the Twelfth T. A. Pai Memorial Lecture delivered by the author in Bombay on 17th January 1995 under the auspices of T. A. Pai Institute of Management, Manipal, and is being reproduced here with thanks to the Institute. Mr. Palkhivala is President of the Forum of Free Enterprise.

I remember meeting him on several occasions when he was connected with the Life Insurance Corporation of India or was a minister in the Central Cabinet. He served the country in a number of capacities, and it would be true to say of him that, in the hackneyed phrase, he did not touch anything which he did not adorn.

It is true that T. A. Pai was a member of the government which imposed strangulating controls on India, even as Mr. P. V. Narasimha Rao our present Prime Minister, and Dr. Manmohan Singh, our present Finance Minister, were also members of the same government. But T. A. Pai's natural inclination was towards liberalization; just as Mr. Narasimha Rao's and Dr. Manmohan Singh's instincts incline them in that direction. Nations go through periods of concerted folly when individuals with the right instincts are not able to assert themselves. Having known T. A. Pai as I did, I have no doubt that he would have been much happier if he had to function in the present climate.

Let me cast a glance at the lost decades which have been, providentially, gathered to the past. For the first forty years of our history as a republic the pace of our economic growth had been sedate, if not glacial.

Then came the economic transformation with a big bang. The period of collective insanity was over. The

biggest metamorphosis in the economic climate came with the enunciation of the New Industrial Policy in July 1991. The world's fifth largest democracy reached a turning point in its history: for the first time it looked less like a tortoise and more like a tiger. The arthritic economy started performing like an athletic economy. Liberalization and globalization are dictated by the Zeitgeist — the spirit of the times.

To be globally competitive, a country must be blessed with two favourable factors — an unlimited reservoir of talented and skilled labour and an abundance of capital available for new projects. A World Bank report, published a few years ago, indicated that India had both these factors in abundance. We have 5000 years of civilization behind us — a civilization which reached "the summit of human thought" in the words of Ralph Waldo Emerson. We inherited great skills and many-splendoured intelligence, since the genes had evolved over five luminous millenia. The trader's instinct is innate in our ethos. I am never tired of repeating that an Indian can buy from a Jew and sell to a Scot, and yet make a profit!

Giant multinational corporations are engaged in worldwide competition for the most scarce resource of all — talent. India has never been charged with an inadequate supply of this resource. Sir William Rylie said, as the Executive Vice President of the

International Finance Corporation, that India has some of "the most creative entrepreneurs . . . the most dynamic business leaders . . . and the sharpest financial brains in the world." Incidentally, IFC has invested nearly \$ 650 million in India's private sector in fiscal 1994, raising the country to the status of Number One in its worldwide portfolio.

I should like to give you some figures which illustrate the sea change — revolutionary transformation which has been effected in the last three years. An annual average amount of just Rs. 90 crore was raised in the 1970's in the primary market by promoters of new companies; while Rs. 30,900 crore was raised in 1993-94 — an astonishing 344 times upsurge.

Coming to the secondary market, the number of listed companies has risen from less than 2,300 in 1980, to about 8,000 today, catapulting India to the first position in the world overtaking the United States which had about 7,250 listed domestic companies at the end of 1993. No less than 500 new public companies were floated during the last twelve months.

The Centre for Monitoring the Indian Economy (CMIE) places the value of total investments on on-going projects at the end of 1994 at Rs. 776 thousand crore, comprising 3,093 projects.

For those who are still unconvinced that India has arrived, let me quote a few more facts. There are 23

stock exchanges in India and 30 mutual funds (public and private). Truly, India has now become a shareholding democracy. Among those who buy or subscribe for shares there are many who have no idea whether Wall Street is a thoroughfare or a new mouthwash. But they take the view that the stock exchange is the one place where you can get money without earning it. The number of shareholders and investors in mutual funds has risen sharply from about two million in 1980 to over 40 million. Thus India has today the second largest investor population, next only to the United States which has about 51 million investors.

I now come to the main theme of my talk — the necessity for making Indian industry globally competitive.

The first necessity is to spread education more widely among our people. Today, India is competing, with only half its manpower, with the rest of the world, — since half of the Indian population is literally illiterate. We must make education the priority of priorities. The real resource of any country today is knowledge. Instead of capitalists and the working class, we are today having knowledge workers and service workers. Even in America, the Morgans, the Rockefellers and the Carnegies have been replaced by professional managers. Today, the well established pension funds

increasingly control the supply and allocation of money in developed countries. These funds own in the USA half of the capital of the country's largest businesses. The pension funds are run by a new breed of "capitalists"—the faceless and anonymous employees who run the pension funds, and investment analysts and portfolio managers. As Peter Drucker observed, we are living in a new era which is both non-socialist and post-capitalist.

Investing in education is to the 1990s what nationalization was to the 1940s and privatization was to the 1980s — the universal panacea of the day. All thinkers are agreed that in our times human capital is the most precious form of capital there is. The skill and calibre of corporate manpower can never appear in any balance sheet; but it is widely acknowledged throughout the world that the greatest resource of a company is trained manpower. In a book published recently by the famous economist, Julian Simon, the human resource is rightly defined in the title of the book as "The Ultimate Resource".

Among the nations of the world, India ranks very high in innate intelligence, but abysmally low in wisdom — what the ancient *rishis* called *buddhi*. This is both the cause and the effect of our total indifference towards education. The criminalization of politics and the deplorably low moral tone of our public life are the

direct consequences of the failure to impart value-based education. When Indians are better educated, they will know how to behave better as workers and to discharge with greater responsibility their duties as citizens.

Liberty without accountability is the freedom of the fool. Our concept of freedom will remain an impoverished one, until it is rounded and deepened by liberal education.

Education is the rock on which India must build her political salvation. Our country will be built not with bricks but with brains; not with cement but with enlightenment. If we cannot afford education, we cannot afford to remain a civilized society.

Secondly, we must privatize the public sector undertakings. Privatization means that the majority of shares should be allowed to go into public hands, while the government may only retain a minority interest. British Airways was privatized, and the standard of service improved beyond recognition.

The Government of India has never understood that half-hearted reforms yield only half-baked results.

There are hundreds of public sector enterprises run by the Union government, and more than three times that number are run by the State governments. These public sector enterprises are the black holes, the money guzzlers, and they have been extracting an exorbitant

price for our past doctrinaire socialism. India's public sector earns a return of barely two per cent on the capital employed.

The British government is toying with the idea of privatizing even Air Traffic Control. In India, there is no political will to privatize any of the industries which are today in the public sector. The utmost the government is willing to do is to offer a minority shareholding in public sector enterprises to private parties, which means that control and management would continue to be in the hands of the government. The products and services offered by the public sector undertakings, — e.g. the coal mined by the Coal Corporation of India — are excessively expensive, with the result that many of the inputs in Indian industry are proportionately costlier than they should be. The inevitable result is that some of our end products are uncompetitive in the world markets.

Thirdly, the quality of service rendered by the public sector undertakings is pathetic, if not hopeless. India has vast infrastructural gaps. It has to add 100,000 mw of power capacity in the next ten years. It has to upgrade, both quantitatively and qualitatively, telecommunications network.

Take our telephone service which still continues to be the monopoly of the Union government. The Indian telephone service is undoubtedly the most inefficient

in any important country of the world. But it has now reached a degree of inefficiency and corruption which is almost unbelievable.

Quite often, you have to dial the required number half a dozen times before you get a connection, and dead telephones and wrong connections are the rule rather than the exception. The most serious fraud is committed in those cases where an outsider bribes telephone employees to illegally divert to himself a telephone line and makes calls for which the bill goes to the registered owner of the telephone.

On the top of it all, service tax has been imposed upon every telephone call since last July. If there were a World Cup to be awarded to any government which has levied the most impudent and shameless tax, the Indian government would, without question, defeat all its rivals.

The tax on telephones is called a service tax. As a matter of fidelity to the English language, I suggest that the service tax on our telephones should be called "disservice tax". It is a long time since the Indian telephones last rendered any service to the long suffering public. What a dramatic change there would be in the field of telephones if the government monopoly were ended. Competition is the only answer as in other areas of the public sector.

Fourthly, strangulating controls have, to a considerable extent, been relaxed. But the top-heavy

bureaucracy still continues to function. The Indian governmental machinery has been likened to some prehistoric monster incapable of intelligently controlling itself. The general impression has been that the Indian bureaucracy is the most obdurate and most inflexible the free world has ever known. As I have said before, there is a persistent tendency in India to have too much government and too little administration; too many laws and too little justice; too many public servants and too little public service; too many controls and too little welfare. The licence raj has been dismantled, but the inspector raj still lives on. I am aware that all this is changing but the rest of the world is changing much, much faster.

We must stop frittering away our people's time and energy in inane, unproductive, useless activities. The tax system has reached the point where its tangled mass helps nobody. India's tax system is a nightmare. To call the Indian Income-tax Act a national disgrace would be to err on the side of under-statement. Even the last four Budgets which changed the fiscal and economic laws beyond recognition, were cluttered with about 600 amendments which serve no purpose other than create work for the legal and accountancy professions.

Fifthly, we must drastically change our labour policy. Lee Kuan Yew, the wisest statesman of our times, had

a point when he said that the main reason why India has not progressed as fast as the other countries of the East, is that all emphasis is on liberty while there is no regard for dedication and discipline. The Finance Minister had promised an exit policy but no action whatever has been taken in that direction. India will find it impossible to compete with the rest of the world so long as the law forbids even a humane exit policy and prohibits closure of a unit without the government's permission. Our labour unions live in a thought-free zone. For reasons which are painfully apparent, they are stoutly opposed to the government offering even a minority shareholding to the public in nationalized industries.

Sixthly, if there is any one political factor which is bound to impede the forward economic march of India, it is the resurgence of the age-old curse of casteism. History will record that the greatest Himalayan blunder of India in this decade has been to encourage casteism by making rigid reservations for employment under the state in its infinite variety and for admission to educational institutions, on the basis of caste. Ever since Mr. V. P. Singh began to use casteism as a political weapon, India has been paying the highest price any country has ever paid for democracy. Reservations in different States have already resulted in the substandard replacing the standard and the reins of power passing from meritocracy to mediocrity.

Unfortunately, the calibre of politicians in India has reached an all-time low and intellectual pygmyism is the order of the day. There is already a scramble among State politicians to vie with one another in prescribing larger reservations. Reservations of the type sought to be made in different States can be allowed to prevail only by scrapping what Chief Justice Mahajan called "our sublime Constitution" and by promulgating a backward Constitution for a backward nation. It would not be too much to say that one of the policy imperatives for creating a globally competitive Indian industry is to change our policy of shortsighted political expediency, adhere to the clear mandate of the Constitution, and prevent the States from pursuing the suicidal policy of casteism. Verily, India has an unusual talent for self-destruction.

Lastly, the government must make sure that the fruits of liberalization reach the masses. This is the most important lesson which India has to learn from Mexico. Our inflation must be brought down from 9.9 per cent to a level where it hurts the lower classes less. For instance, the price of food articles has risen as much as 55 per cent since the economic reforms began in July 1991.

Let me say a word about the future prospects of India in the world which has become globally competitive.

I do believe that India has a great future and can hold its own in competition with other countries. All that it needs is great moral leadership. No democracy in the world today has great moral leadership. But in countries like Japan this desideratum does not have discernible ill-effects because the people are totally disciplined, characterized by exemplary dedication, and there is hundred per cent literacy. By contrast, we Indians lack discipline and dedication and have at least half of our population literally illiterate. Therefore, we find ourselves rudderless in the absence of moral leadership. We suffer acutely from four plagues — regionalism, communalism, casteism and corruption. There are various categories of democracies — intelligent democracies, guided democracies and misguided democracies. The four plagues have made it possible for self-seeking politicians to convert our democracy into a misguided democracy. India produced Mahatma Gandhi, the greatest moral force of this century. But today it is pathetically lacking even in mediocre moral leadership.

Some decades ago, the weekly Punch, now defunct, came out with one word of advice to those about to get married — Don't. Sir Thomas Bingham, the Master of the Rolls, gave the same advice the other day to those about to embark on a litigation. Today, the opposite would be the advice to those about to invest in India — Do. Lord Keynes said that investment is not

just a matter of cold calculation, but an act of faith on the part of risk-taking entrepreneurs. A recent issue of Forbes, the American business magazine, says in its lead story, "India may be the best emerging market of all". Forbes marshals facts in support of its view. There is twice as much American direct investment now going into India as into China. Unlike China, India operates within the rule of law. India also has a much larger and far more capable infrastructure of local companies which serve as good partners and tough competitors. Forbes further added that unlike China, India had much more than cheap labour to offer. That is why Motorola is planning to make India what it calls a 'brain centre' for engineering and design work; and why the Japanese subsidiary of Digital Equipment Corporation chose Indian software engineers, over its own Japanese employees, to write the tricky computer programmes that translate English code into Japanese characters.

The celebrated investment bank, Merrill Lynch, has opined that liberalization in India had reached a point where it would be impossible to turn the clock back. In a recent report, Baring Securities mentions India among the best emerging markets.

The vitality of India is remarkable. The country does not have a powerful economy, but has all the raw materials to build one. The Indian economy is like a

sleeping giant who, if awakened, could make a powerful impact on the global economy. It would not be mere chauvinism to say that India is a giant with a bad cold, not a pygmy with cancer.

The heart of the nation is sound and the human raw material is excellent. To a western mind, India's inner strength and capacity for patient endurance are almost beyond belief. Hundreds of millions who have no standard of living, still have a standard of life. Ambassador J. K. Galbraith remarked that while he had seen poverty in many countries of the world, he found an uncommon attribute among the poor of India — a richness in their poverty. They do not count their wealth in money alone. A nation's worth is not measured merely by its gross national product, any more than an individual's worth is measured by his bank account.

Credit should go to Dr. Manmohan Singh for his endeavour to introduce fruitful egalitarianism in place of sterile socialism. But in that direction we still have a long way to go. India still waits for the type of revolutionary turnaround effected by the Labour Party of Britain under John Smith, its great leader and one of the finest gentlemen of our times, who passed away recently. Last year, John Smith said that he was relaunching the Labour Party as the party of the citizens and that he intended to chart a future in which the

traditional associations of the Party with state ownership, high taxation and trade union power would be buried for ever. In a reference to the Labour Party's old attachment to public ownership of the commanding heights of the economy, John Smith said that the new commanding heights were education and training. He categorically said that there would be no commitment to renationalization in the next manifesto of the Labour Party and that the most important priority would be to invest in people, to provide opportunities and skills that were the building blocks for individuals and national prosperity.

India purported to become a Socialist Republic by a constitutional amendment in 1976. The nation anxiously waits for the dawn of a new era when our politicians will, like John Smith and the present British Labour leader, Tony Blair, openly dissociate themselves from ideological socialism and espouse social justice which is ethical socialism.

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