THE OVERLY VISIBLE INDIAN

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There is a very perceptive Article in the International Business Journal "Business Week" published at the end of August 2005 which predicts that "the balance of power will shift to the East as China & India evolve". India's visibility in the business press is not an isolated phenomenon. A few months earlier, there was a similar article in "The Economist" which compared India's emerging importance in favourable terms with the significant leap forward already achieved by China. Indeed, throughout the Western Press, India is more frequently mentioned and in relatively more favourable terms than ever before in the past.

While this visibility is a matter of gratification, I wonder whether the responsibilities which emerge from such visibility have been fully appreciated. The Business Week itself sounds a note of warning by stating that India faces a huge obstacle to growth and its momentum is not unstoppable. It also refers to the continuing signs of poverty and the almost total lack of infrastructure. Yet, it predicts that within three decades India should have vaulted over Germany as the world's third biggest economy. It would be irrational and dangerous for us to be deluded into a sense of wonder and amazement without realising the dangers inherent in the visibility which has been thrust upon us.

Less than a couple of decades ago, there were walls surrounding India. What we did matter to no one except ourselves. The world was not interested either in our slender achievements or our frequent manifestations of sheer stupidity. Today, the world is interested and is watching – not because of any suddenly developed love for India but because billions of dollars of the world's money are parked in our country.

In the context of the world as it is today, there are very few matters which we can treat as being purely internal. The world was upset over Tiannamen Square to the extent of reconsidering its investment policies in China. Quite recently, in our country, the Gurgaon Police excesses evoked a strong response from the Japanese Ambassador. The fact that his prediction did not prove to be true does not undermine the danger inherent in facing a world which reacts to our internal occurences. A few years ago we could have reacted sharply to the Japanese Ambassador's comments on what we would have considered to be a purely internal affair. Today, any such reaction would be counter-productive because we desperately need overseas investment including investment from Japan.

In this context, I wonder whether we have learned our lesson adequately or whether we are in the process of inviting sudden disappointments. The developed countries – for all their professed commitment to free trade – are always looking for opportunities of imposing non-tariff barriers on social and extraneous considerations.

The Finance Minister has spoken frequently of the need to ensure a continuing flow of investment, domestic as well as foreign. He has said that "nothing should shake the confidence of investors both domestic and foreign". Because, "we need a much larger dose of investment". The Prime Minister's views are identical and perhaps even stronger.

We speak with justifiable pride of the Rule of Law prevailing in our country. Investors are certainly interested in this aspect of Democracy because it affects the security of their investment. Having said this, however, we do very little to deal with the chronic

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problem of laws delays even though we subscribe to the view that justice delayed is justice denied. Even more pertinently, while we expect investors to be impressed by the Rule of Law prevailing in our country, our political parties routinely act against judicial decisions in the matter – for example, of calling bandhs even though they have been declared to be illegal by our courts. The very stupidity of holding entire cities to ransom in order to vindicate some debatable point of political conviction is no longer a purely internal matter of inconvenience to our citizens. This is a matter which will weigh with foreign investors when they decide on the security of their investment.

This is probably a good opportunity to note the national and international repercussions of the nation-wide bandh on 29th September which was euphemistically described as a "strike" to avoid certain legal implications. The IT related industries which have been showing exceptional growth rates, felt that such strikes will drive away existing investors and prevent new investment coming into Kolkata. Events of this type will further support the recent adverse perception in the International Finance Corporation Report which noted that India scored very poorly as a country in which to do business because of red tape and bureaucratic delays. CII & FICCI both warned that such national strikes and bandhs will make foreign investors apprehensive and may affect India's image as an emerging economic power. Curiously, the immediate effect of the bandh was not a national criticism of the government's economic policy but a worldwide condemnation of the negativism still manifested by Indian's militant political parties.

The same observations also apply to the overtly expressed opposition to the entire process of liberalisation. The opposition is voiced by political parties whose views are taken seriously by all investors, domestic as well as foreign because they are part of a Coalition government. Do we seriously expect the world to respect our commitment to liberalisation when within the country, a part of the governing Coalition itself opposes liberalisation to the extent of organising illegal bandhs to support its opposition.

In his 2005 Budget Speech the Finance Minister made a very perceptive observation when he drew a distinction between out-goes and out-comes. For five decades after Independence, the objective of India's economic policies was the elimination of poverty but the outcome has not achieved this objective. We still have a large number of persons below the poverty line and on the index of social development, we are pretty much at the bottom of the heap. These should be sobering thoughts when we commend ourselves on the splendid achievement of sustained economic growth. Unfortunately, there are sections within our political thinking including some within the government who still indulge in the archaic and sterile debate of choice between economic growth and social development. We have it on the authority of Dr.Bimal Jalan that there is simply no conflict between the objective of raising the growth of the economy and that of reducing poverty. Indeed, the world wide experience as well as our own economic history emphasises that equity and growth co-exist.

It has been well established that businesses which have succeeded are those which have adhered to an undiluted and emergent approach towards growth. This approach is not always found within the political thinking processes in the government. In the ultimate analysis, social development depends on the government's ability to finance social programmes which in turn depends on the flexibility of government's revenues based on the buoyancy of the economy. By reason of some doctrinaire prejudices against privatisation we are delaying the flow of funds which could accelerate our drive towards social equity. These are signals for the entire world to watch and evaluate.

Maintaining the economic growth rate between 7 to 8% is not a luxury for a country like India because it is only with such a growth rate that we can succeed in eliminating the most abject form of poverty within two to three decades. The sudden improvement in our Forex reserves also supports programmes of social development which need Forex expenditure. The point I am making is that the sterile controversy between growth and equity is in danger of delaying our progress towards growth and therefore, impeding the achievement of social equity.

Ultimately these are matters which impinge on our perceptions in the world at large. Perceptions which will ultimately influence the flow of investment and technology. Having opened the doors which were previously shut tight, we have still to learn how to live with the critical gaze of the world at large.

This gaze is likely to be more and more critical in the coming years because highly raised expectations carry the inherent risk of their own destruction through the impact of failure. The severity of a fall is increased in direct proportion to the height which has been achieved. Developed countries do not face this problem because they have succeeded in plateauising their heights. They do not continue to remain perched on precipitous crags.

There are two basic lessons which we must learn from history if we do not fate ourselves to the repetition of history. Firstly, centralised economic planning has failed to deliver either economic growth or social justice. The decades prior to liberalistion were wasted decades and represented the darkest period in the history of India's economy. The lesson is therefore, to avoid even thinking of this kind of error in the future. Secondly, the liberalisation started in 1991 – highly creditable though it is – was due not so much to our own thinking process as to the pressure of the severe economic crisis which gripped us in that year. The lesson to be learned is that we should not wait for a crisis to spur us to sensible lines of action.

Whenever these matters are discussed, there is a somewhat defensive tendency to "blame" our democratic process for the delays and defaults in achieving sensible lines of action. This is not true. What is true however is that the world at large is not concerned with the political compulsions which might impede our economic progress. The world does not respect a loser. It enjoys the humour provided by a clown but does not do business with a clown. After having opened the doors to our economy, we can no longer be oblivious to the perceptions of the world at large. The world has the inherent right of forming and acting on its perceptions because a substantial chunk of its money is parked in our country.

On the positive side, we do have significant advantages. We have one of the world's largest pools of trained man-power. We have had the good sense not to discard the English language. The Business Week – reviewing a Standard and Poor analysis - came to the conclusion that Indian companies out perform their Chinese counterparts on various relevant parameters. According to Business Week, they do so because in comparison with China and in spite of continuing government regulation, India is by and large a well functioning market economy.

Although we have the advantage of a well developed bureaucracy this could turn into a major disadvantage if –

(a) the bureaucracy is given the power to determine policy outcomes ; and

(b) the bureaucracy is corrupted by political influence.

The article on India –vs- China in the Economist of March 2005 to which I referred earlier, stipulates the thesis that the political system does not determine the tempo of economic development. In Amartya Sen's opinion, Democracy is more likely to support economic progress provided, democracy is not equated with indiscipline.

We have allowed ourselves to be convinced without satisfactory argument and debate that the only form of democracy suitable to our purpose is the Westminister model of parliamentary democracy. This was probably true in the days when clear verdicts were returned by the electorate. For a long time to come, however, we shall be obliged to live with a confused system of disjointed coalition politics. One possible answer is to move in the direction of substantial electoral reform towards something like a single transferable vote. The other alternative is to think seriously of the possible advantages of a Presidential form of democracy.

Certain things however, are neither possible nor desirable. It is no longer possible to sustain the world's interest if we continue to believe that slogans and endless discussion are a substitute for decisive action. Our continuing progress will be impeded by a process of adulation of ancient politicians who have become senile but are not allowed to be extinct. It would be futile for us to expect the world's continuing attention and a steady flow of its investment and technology if we do not accept the world's right to indulge in criticism of what we may wrongly consider to be our internal affairs. The world expects a continuous renewal of the achievement process. It considers mere maintenance to be a sign of stagnation. The world is still testing the waters. It is convinced of our economic potential but needs to be assured that political maturity has come to stay.

When we make ready comparisons of India's growth rate with China we overlook two significant factors in China's favour. China does not believe in the political opportunism of organised civil non-activity which is wrongly concealed as political activism. Also, China does not sacrifice work-days for the dubious advantage of furthering some arcane religious observances. If we adjust for these factors we must reach the conclusion that India could easily achieve a growth rate exceeding 10% thereby expediting the alleviation of poverty and the development of social equity.

Since I began this Article with a quotation from the International Business Week, let me end with another quotation from a more recent end of September issue of the same Journal. After noting the meteoric rise of the Sensex, Business Week has waved a warning flag for investors. It has noted "a potentially dangerous disconnect between the market in Mumbai and the corridors of power in New Delhi". A disconnect based on the continuing effort of the coalition partners to block nearly all efforts at economic liberalisation. If we expect international investors to be swayed by faourable articles about India's progress, we should also be careful to avoid unfavourable comments which may affect the flow of investment. Let us not forget that foreign investors today are pouring in US dollar 1 billion a month into the Indian market.

As a deliberate choice we have made ourselves visible to the world. Let us ensure that this visibility is of advantage to us and that we remain attractive as well as visible.