The Indian EXPRESS COLUMNISTS

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Sunday , August 29, 2004

India’s role in the new global playing field

Perceptions from the Topnotch

I am here in Vermont to speak at the Summer Recess of the International Business Council of the World Economic Forum on the general theme of the effect of emerging growth centres (such as India) on the global competitive playing field. Trust the WEF to round up topnotch honchos of the corporate world, including CEOs of Sony, Dupont, Chevron-Texaco Siemens, Alcan, Deustchebank and others, for a two-day brainstorming session at the TopNotch Hotel in Stowe, Vermont.

The world competitive playing field is changing, and India has a new role to play as a source of highly skilled labour and innovative technologies. It is already viewed as an attractive market, and every person here recognises India’s natural strengths. The corporate world’s perceptions of India are on the whole positive. Our thriving democracy, independent courts, free press, and English-speaking population all score points in these observers’ lexicons. The dominant perception is that India has potential. That our country can and will be a key player on the global scene, but its weight will be a function of maintaining policies to address residual inefficiencies and ensuring that all of India participates in economic growth.

Now, to some extent, we perceive what we expect to perceive. The unexpected is usually not noticed at all, and often misunderstood. Nevertheless, perceptions are the basis for actions, and thus in some practical senses, more important than reality. So what are investor perceptions about India and its potential? First, clearly, India is on the foreign investors’ radar screen. The India Shining campaign may have triggered domestic controversies, but it has certainly been effective in projecting India as a credible investment destination in the minds of foreign investors. P Chidambaram would be well-advised to pursue a credible international marketing strategy for India to ensure that India remains at the forefront of the investor psyche, even while we need to continue building on our comparative strengths.

In the end, there is no substitute for action and no campaign can be sustained unless there is symmetric progress in many remaining areas of economic reforms. Second, even while recognising India’s comparative strengths, investor concerns centred around some of the following issues.

Do we have a credible roadmap on peace initiatives with Pakistan? And what is the assurance that Kashmir will not remain a flashpoint of potential conflict in the subcontinent? Nothing can improve investor perceptions than if the international community was persuaded that not only do we have a roadmap but there is consistency and coherence in the political will spanning across the political spectrum to bring lasting peace to the subcontinent and that their risk perceptions need not be mired in fears of any sudden conflict.

India’s comparative institutional strengths were well-recognised. However, investors felt that the interlocutory processes, long pendencies, and delayed judicial decisions undercut this advantage severely. They strongly pleaded that judicial reforms must be on the top of the government's agenda. Unless these steps are taken, opacity may outweigh transparency in this important area of investment environment and what is our relative strength could in fact become our weakness.

The infrastructure development programme and reform initiatives were welcome, but these need to be followed through, particularly in power, civil aviation, and ports. On the whole, infrastructure costs, which remain 50 per cent higher than in China, clearly compromised India's competitiveness.

While in foreign investment, everyone needed to be assured on greater clarity of policy, policies must go beyond mere permissible sector caps and encompass a broader range of issues. India still received an infinitesimal volume of foreign investment compared to other emerging markets. There was need to have a Foreign Investment Promotion Law which, while not according any preferential tax treatment as used in China, could at least give national treatment to foreign investors. Tax rates on investment are currently higher than on domestic companies, which is the opposite of the policies most developing countries are pursuing.

The demographic differential and India's young population had clear advantages in providing a large resource pool and the basis for a virtuous circle in which increased savings and consumption rates could contribute to economic expansion. Human resources development policies, however, were seen as mired in fruitless ideological debate that handicaps development potential. A credible policy on primary education that improved attendance, quality of teachers, examination performance, along with vocational training, will be central to sustaining this resource pool.

The number of institutions for technical education also need to be significantly expanded with greater scope for public-private partnership. Labour reforms must proceed beyond rhetoric to make our advantage of a large resource pool into a competitive strength.

Finally, growth in employment, with sustainable improvements in productivity that permits the fruits of growth to be shared by every segment of society, must be pursued in an atmosphere free from social tensions, communal passions, and needless ideological predilections. This will lend long-term cohesiveness and credibility to the country's long-term growth strategy.

It is nice and cool in Vermont, with the occasional red maple leaf offering an early hint of autumn. Just as the trees shed their leaves in winter to conserve strength and resources to withstand the winter and thrive in the spring, India must focus on preserving and augmenting its natural advantages while shedding its many prevarications of the past. In doing so, it ensures that the future does not remain hostage to the past.

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