INDIA IN AN ASIAN RENAISSANCE

I thank the Prime Minister Manmohan Singh and the Jawaharlal Nehru Memorial Fund, Mrs Sonia Gandhi (its Chair Person) for inviting me to give the Nehru Lecture.

I belong to that generation of Asian nationalists who looked up to India’s freedom struggle and its leaders Mahatma Gandhi and Pandit Jawaharlal Nehru.

I had read Nehru’s books like “The Discovery of India”, culled from his letters from prison to his daughter Indira and many of his speeches. On 14 August 1947, when I was a young student in Cambridge, I remember vividly the moving and unforgettable opening of Nehru’s broadcast on the eve of independence, “Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge, not wholly or in full measure, but very substantially. At the stroke of the midnight hour, when the world sleeps, India will awake to life and freedom. A moment comes, which comes but rarely in history, when we step out from the old to the new, when an age ends, and when the soul of a nation, long suppressed, finds utterance.”

The destiny Nehru envisaged was of a modern, industrialised, democratic and secular India that would take its place in the larger historic flows of the second half of the 20th Century.

Nehru never doubted India’s place in the world. When imprisoned in Ahmadnager Fort during the Second World War, he wrote:

“Though not directly a Pacific state, India will inevitably exercise an important influence there, . . . Her position gives an economic and strategic importance in a part of the world which is going to develop rapidly in the future.”

Nehru’s speeches resonated with me. I shared intellectual and emotional roots with Nehru because I had also experienced discrimination and subjugation under the British Raj and admired Nehru for his vision of a secular multiracial India, a country that does not discriminate between citizens because of their race, language, religion or culture. I first visited New Delhi in 1959 for a conference of the International Commission of Jurists (ICJ). Nehru opened the conference at the Vigyan Bhavan. He arrived in a modest Hindustan (Morris Oxford, Made in India). Later in April 1962, when I was Prime Minister of Singapore, Nehru gave me time for several discussions about Singapore’s merger with Malaya to form the Federation of Malaysia. He encouraged and supported my ideas. Nehru received me again in February 1964 on my return from a visit to 17 countries in Africa.

Like Nehru, I had been influenced by the ideas of the British Fabian society. But I soon realised that before distributing the pie I had first to bake it. So I departed from welfarism because it sapped a people’s self-reliance and their desire to excel and succeed. I also abandoned the model of industrialisation through import substitution. When most of the Third World was deeply suspicious of exploitation by western MNCs (multinational corporations), Singapore invited them in. They helped us grow, brought in technology and know-how, and raised productivity levels faster than any alternative strategy could.

Nehru had a great vision for India and for Asia and his elegant style of writing and speech captivated many young minds in the British empire. He had insights into the causes of India’s problems, but, burdened by too many issues, he left the implementation of his ideas and policies to his ministers and secretaries. Sadly they did not achieve the results India deserved.

Nehru’s ideal of democratic socialism was bureaucratised by Indian officials who were influenced by the Soviet model of central planning. That eventually led to the “Licence Raj”, corruption and slow growth.

The end of the Cold War and the collapse of the Soviet Union undercut the strategic premises of India’s external and economic policies. By 1991, with the country on the verge of bankruptcy, India had no choice but to change. Some Indians believe that, had Rajiv Gandhi lived to serve a second term as India’s Prime Minister, he would have pushed for major reform. But he was cut down before he was able to.

It was left to PM Narasimha Rao to make the big move in 1991. Later that year, then Finance Minister Manmohan Singh and Commerce Minister Chidambaram gave a seminar in Singapore on India’s new policy of reform and opening up. In 1992, Prime Minister Narasimha Rao met Singapore’s then Prime Minister Goh Chok Tong at the Non-Aligned Conference in Jakarta and persuaded him to visit India with a delegation of Singapore businessmen. PM Goh visited India from 23-30 January 1994 and returned enthused.

In January 1996, I visited New Delhi and spoke to civil servants and businessmen on the changes that Prime Minister Rao and his team were putting into place. I said that India’s ‘tryst with destiny’ had been repeatedly postponed.

When I published the second volume of my Memoirs in 2000, I wrote “India is a nation of unfulfilled greatness. Its potential has lain fallow, under-used.”

Time to Keep the Tryst

I am happy to now revise my view. Nehru’s view of India’s place in the world and of India as a global player is within India’s grasp.
Since 1991, India has changed governments from Congress to BJP to Janata Dal to BJP, and back again to Congress. There have been six Prime Ministers. The pace of reforms has varied, but there has been no change in basic direction. The middle class has expanded. There is now no stigma in acquiring wealth. Indians have seen what market orientated policies have done for China and they do not want to be left behind.

The rise of India and China is changing the global balance. Together they account for about 40 percent of the world’s working age population and 19 percent of the global economy in PPP (purchasing power parity) terms. On present trends, in 20 years, their collective share of the global economy will match their percentage of the global population, which is roughly where they were in the 18th Century, before European colonialism engulfed them. China’s and India’s trade, investments and other economic relations with the countries of East Asia and the Pacific are reshaping Asia’s economic geography. India is an important ASEAN Dialogue Partner, a member of the ASEAN Regional Forum, and an inaugural member of the East Asia Summit this December. And there is no reason why it should not join APEC (Asia-Pacific Economic Cooperation) after it has developed a thick web of economic ties across the Pacific.

East Asia is coalescing, brought together by market forces. India, China and Japan are readjusting their relationships with each other and with the US. This will not be an easy process because all countries want to preserve their independence and space to grow. If there are no mishaps by 2050 the US, China, India and Japan will be economic heavyweights, as will Russia if it converts its revenue from oil and gas into long term value in infrastructure and non-oil industries.

India is an intrinsic part of this unfolding new world order. India can no longer be dismissed as a 'wounded civilisation', in the hurtful phrase of a westernised non-resident Indian author (V.S. Naipal). Instead, the western media, market analysts, and the International Financial Institutions now showcase India as a success story and the next big opportunity.

This is a comforting development for the US and the West, that a multi-party India is able to take off and keep pace with single-party China.

Forbes Asia recently reported that US venture firms will raise US$1 billion for India by the end of this year. India has emerged as a power in IT sector. It is the largest call-centre in the world. Almost half of the largest global corporates now do at least some of their back office work in India. Indian R&D centers of American technology firms are reported to file more patents than Bell Labs. This year, India announced more than 1,300 applications for drug patents, second only to the US and 25 percent more than Germany, way ahead of the UK and Japan.

The US is now courting a nuclear India as a strategic partner. The EU has also launched a strategic partnership with India, and Japan wants a global partnership with India. These are indices of India's growing weight in the world. Many countries, including Singapore, supported India's bid to be a Permanent Member of the UN Security Council. Nehru’s vision is within grasp and India’s leaders must realise it in the next few decades.

China and India

I have always taken a keen interest in both China and India. Like all democratic socialists of the 1950s, I tried to forecast which giant would make the higher grade. I had rather hoped it would be a democratic India. By the 1980s, however, I accepted that each had its strengths and weaknesses and that the final outcome would depend on their economic policies, the execution of those policies, the responsiveness of the government is to the needs of the people, and most of all the nature of the culture of the two civilisations.

Whether Asia will take its place in the world as Nehru wanted depends on how both India and China work together as they rise and actively set out to avoid ending up in opposing camps. It is vital that they understand where they stand vis-à-vis one another. They must not be paranoid and suspicious of each other in a game of one-upmanship. Instead they can cooperate and compete economically, and each improve its performance by using the other's progress as benchmarks for what they should do better. India's bilateral relations with China have improved significantly in recent years after both sides decided to resolve long outstanding issues.

Compare and contrast: India & China

The world is fascinated by the renaissance of Asia’s two largest and most ancient civilisations and political and business leaders compare and contrast their progress and prospects.

At independence in 1947, two years before the Chinese Communist Party liberated China, India was ahead in many sectors. Both lost steam by adopting the planned economy. But because of its “great leap forward” and “Cultural Revolution”, China suffered more. However Deng Xiaoping was able to acknowledge China’s mistakes and China’s course dramatically change when he returned to power in 1978.

India has a superior private sector companies. China has the more efficient and decisive administrative system. China has invested heavily in infrastructure. India underinvested infrastructure is woefully inadequate. India has a stronger banking system and capital markets than China. India has stronger institutions, in particular, a well developed legal system which should provide a better environment for the creation and protection of Intellectual Property. But a judicial backlog of an estimated 26 million cases drags down the system. One former Indian Chief Justice of India's Supreme Court has given a legal opinion in a foreign court that India’s judicial system was practically non-functional in settling commercial disputes.
Both India and China have excellent universities, at the peak of their systems. India’s institutes of technology and management are world class. China is determined to upgrade its top universities to world class status. Overall China’s education system is more comprehensive. China’s illiteracy rate is below 10%, India’s about 40%. India’s narrower band of educated people will be a weakness in the longer term. And although top quality Indian manpower is in high demand, large numbers of engineers and graduates lack the skills required in a changing economy and remain unemployed. However India has a larger English speaking elite than China. But only over half of each Indian cohort completes primary school, a big loss.

After liberalisation, China and India have followed different models of development, maximising their respective strengths. China adopted the standard East Asian model, emphasising export-oriented manufacturing. China has been immensely more successful in attracting FDI. China has focused on IT and knowledge-based services. Job creation is much slower in India and will continue to remain so until India’s infrastructure is brought up to date to attract the many manufacturers who will come to use India’s low cost workers and efficient services.

China’s GDP for manufacturing is 52%, India’s 27%; in agriculture China’s is 15%, India’s 22%; for services China’s 33%, India’s 51%. Over the last decade, in the service sector India has averaged 7.6% annual growth, China 8.8%, in manufacturing India’s growth is 5.7%, China’s 12.8%.

India and China should co-operate and compete with each other, spurring one another to greater heights. ASEAN will be a major beneficiary. As Senior Minister Goh Chok Tong once said, India and China can be the two wings of the jumbo jet for Southeast Asia.

India should benchmark itself not just against its own past, but against the best in Asia. And India can take heart from the achievements and performance of Non-Resident Indians (NRI) in free market economies such as the US, UK and even Singapore, where large numbers of NRIs have assumed high corporate positions in multi-national corporations.

Both India and China have both done much better than most of the world. In the decade from 1994 to 2004, India’s GDP grew two-fold from US$310 billion to US$661 billion. But during the same period, China’s GDP grew three-fold from US$542 billion to US$1,649 billion. In 1984, India’s GDP was about 30% smaller than China’s. A decade later, it was more than 40% smaller and by 2004 it was about 60% smaller. Such a wide disparity is unnecessary. India can and should narrow the gap by embarking on a new round of reforms.

Walking on Two Legs

Can India keep pace with China’s growth? Yes, if India does more in those sectors where China has done better.

The Chinese are learning English with great enthusiasm, and are keen to develop a services sector like India’s. All the leading Indian IT players are expanding in China, and training thousands of Chinese software programmers. One Indian company, Zensar Technologies Ltd, has been contracted to train 1,000 Chinese software project managers from Shenzhen in etiquette, communication and negotiation skills. Huawei, a leading Chinese technology company, has invested in Bangalore to tap its software skills. The Chinese want to reach international standards for the software outsourcing industry. They are not too proud to learn from India. In Dalian, Singapore is helping to develop an IT park which will be specifically marketed to Indian software companies interested in the Northeast Asian market.

But India cannot grow into a major economy on services alone. Since the industrial revolution, no country has become a major economy without becoming an industrial power.

Just as China is learning from India to improve its performance in the IT sector, so India must emulate China’s success in attracting FDIs and the jobs they create in manufacturing. It can do this by building infrastructure and educating and raising the skill levels of its workers.

Arvind Panagariya, a professor of Indian political economy at Columbia University, USA, puts the issue clearly. He noted that some have argued that India can focus on IT, grow rapidly in services, skip industrialization, and yet transform itself from a primarily rural and agricultural country into a modern economy. He dismissed such ideas as “hopelessly flawed” and “far-fetched”.

IT is less than 2% of India’s GDP. While services have grown rapidly, the bulk of the growth is from service sectors where wages and productivity are low. Business services, which include software and IT-enabled services, account for only 0.3% of GDP. Only manufacturing can mop up India’s vast pool of unemployed, narrow the urban-rural divide and reduce poverty. Professor Panagariya concluded:

"The right strategy for India is to walk on two legs: traditional labour intensive industry and modern IT. Both legs need strengthening through further reforms ...."

India’s relatively young population can be an asset if they are universally well educated. UN forecasts that India’s population will outstrip China’s by 2030. Job creation through faster GDP growth is therefore an urgent necessity. Growth in IT and other services will not create enough jobs. IT-related jobs make up only one quarter of one percent of India’s labour force.

To create jobs the main thrust of reforms must be in manufacturing. That requires a change in labour laws to allow employers to retrench workers when business demand is down, streamlining the judicial processes, reducing the fiscal deficit,
Industrialisation cannot take off without adequate infrastructure: better roads, and a reliable supply of power and clean water, better ports and airports. By one estimate, economic losses from congestion and poor roads alone are as high as US$4 to 6 billion a year. Another estimate is that the cost of most infrastructure services in India is about 50% to 100% higher than in China. The average cost of electricity for manufacturing in India is about double that in China; railway transport costs in India are three times those in China. China has spent over eight times as much as India on its infrastructure. Three years ago, China’s total capital spending on electricity, construction, transportation, telecommunications and real estate was US$260 billion or more than 20 percent of its GDP as compared to US$31 billion or 8 percent of India’s GDP.

If there are budgetary constraints, the answer is to privatise these infrastructure projects. There are well-established construction companies, Japanese, Korean and others, that have done many such infrastructure projects on franchise terms.

One area where India has done well is its telecommunications infrastructure. This has been a critical factor for India’s IT success. India needs to aggressively privatise infrastructure development and open it to foreign investment. Then FDI flows will increase. And the bureaucracy must not impose onerous conditions that will hamper this privatisation.

The Political and Economic Risk Consultancy (PERC) based in Hong Kong, recently surveyed expatriate businessmen on bureaucracy and red tape in Asia. India was rated worst out of the 12 countries covered. PERC’s conclusion was that: “The Government would like to liberalise many sectors, and there are plenty of announcements of new initiatives to do so. But when push comes to shove, bureaucratic inertia has been extremely difficult to overcome.”

The World Bank has also done its own study. It found that in India it can take a decade to close a business through insolvency proceedings. It also found, among other things, that official fees amount to almost 13 percent of a property transaction in India as against just over 3 percent in China.

My secretaries asked Singapore businessmen with investments in India what, apart from infrastructure, they found as major constraints. To a man, they replied it was the bureaucracy.

They believe it is a mindset problem. The average Indian civil servant still sees himself primarily as a regulator and not as a facilitator. The average Indian bureaucrat has not yet accepted that it is not a sin to make profits and become rich. The average Indian bureaucrat has little trust in India’s business community. They view Indian businessmen as money grabbing opportunists who do not have the welfare of the country at heart; and all the more so if they are foreign businessmen. Deng Xiaoping said at the start of China’s open door policy, it was glorious to be rich. The sequel is reported in Forbes Asia, November 14 2005, where it listed over 300 China’s richest, 40 of them with thumbnail CVs in a centre-fold. All are new entrepreneurs creating jobs and spreading wealth. Now, after private enterprise and the free market have generated wealth in the coastal provinces, China’s leaders have concentrated on spreading growth to the inland provinces by building infrastructure and offering generous economic incentives for investments.

One Singapore businessman told me this story. He entertained a former senior Indian civil servant to lunch in Singapore. Some months later when he was in India, the former civil servant reciprocated by hosting a dinner at which several other guests were present. His host made this surprising comment that he was amazed to see that in Singapore, a business could be successful without being dishonest.

India must find some way to reward bureaucrats who facilitate, not hinder investments and enterprise whether Indian or foreign.

A factor worth noting: India gets a much better economic return for the investment it makes in its economy because India’s private sector capital efficiency is high. If India opens up fully to FDIs, the results will be profitable for the investor and add considerable employment and added GDP growth for India. With jobs there will be a trickle down of wealth to millions of Indian workers, as there has been in East Asia.

Politics is the Issue

What India has achieved since 1991 should not be underrated. There have been many successes. The Delhi Metro is one. Bharat Forge, the largest Indian exporter of auto components and the leading global chassis component manufacturer, is another example in the manufacturing sector. There are others. The question is why there are not many more of them?

There is no dearth of excellent analyses by Indians about this problem. An entire library could be assembled on the subject. I consulted two books: The Future of India by Bimal Jalan, who was Governor of the Reserve Bank of India from 1997 to 2003, Chairman of the Economic Advisory Council to the Prime Minister and has represented India at the IMF and World Bank; one other book, Governance by Arun Shourie who has held several government portfolios and is a well-known writer. To sum up their arguments for the failings of the system in a single word: politics.

Earlier this year, Prime Minister Manmohan Singh gave a wide-ranging interview to the McKinsey Quarterly. He rated his own government’s achievement as 6 out of 10, a performance he said was unsatisfactory. He acknowledged the need for
better infrastructure, for more FDI, and also the need to move ahead in manufacturing. When asked whether the pace of implementation was fast enough, he replied:

"... economic policy and decision making do not function in a political vacuum. It takes a lot of time for us to take basic decisions. And furthermore, because we are a federal set-up, there are a lot of things that the central government does, but there are many things, like getting land, getting water, getting electricity - in all these matters the state government comes in, the local authority comes in ....... I do recognise that at times it gives our system the label that it is slow moving. In a world in which technology is changing at such a fast pace, where demand conditions change very fast, we need to look at a more innovative mechanism to cut down on this rigmarole of many tiers of decision-making processes."

Prime Minister Singh added, "We are a coalition government and that limits our options in some ways."

Politics is a fact of life in any country. And coalition politics is a fact of Indian political life.

It has been suggested that India's slow growth is the consequence of its democratic system of government. Almost 40 years ago, Professor Jagdish Bhagwati wrote that India may face a "truel choice between rapid expansion and democratic processes".

But democracy should not be made an alibi for inertia. There are many examples of authoritarian governments whose economies have failed. There are as many examples of democratic governments who have achieved superior economic performance. The real issue is whether any country's political system, irrespective of whether it is democratic or authoritarian, can forge a consensus on the policies needed for the economy to grow and create jobs for all, and can ensure that these basic policies are implemented consistently without large leakage. India's elite in politics, the media, the academia and think tanks can re-define the issues and recast the political debate. They should, for instance, insist on the provision of a much higher standard of municipal services.

By way of example, Chinese politics have always been plagued by factionalism. China also has great regional diversity. Like India, China also has powerful vested bureaucratic interests. But Deng Xiaoping forged a basic consensus among all political factions and the bureaucracy on the economic development and the necessary opening up to the outside world to succeed. A similar consensus can be achieved in India.

The passage of the Special Economic Zone (SEZ) Bill by the Lok Sabha (Lower House of the Indian Parliament) in May this year was an important move. SEZs can finesse some difficult internal issues blocking liberalisation. Singapore has some experience with SEZs in China. If India thinks it useful, we are willing to share our experiences with you, building upon what we have done in the Bangalore International Technology Park. I must conclude with a word of caution. SEZs, once embarked upon, must be made to succeed, which means total and sustained commitment from politicians and bureaucrats at national, state and local levels. When they succeed, they will have a powerful effect on the whole economy, give a boost of confidence and spark off a healthy competitive dynamic between different states and regions. Successful SEZs also will erode opposition to reforms because their benefits become self-evident, as has happened in China.

A few months ago, in August, the communist Chief Minister of West Bengal was in Singapore to drum up investments for his state offering market incentives to attract investors. He said: "The lesson from the collapse of the Soviet Union and from China is that [India] must reform, perform or perish. That very same month, members of his own party in Lok Sabha in New Delhi forced a retreat on India's privatisation programme. This is India's party politics.

Imponderables

There are some imponderables. American commentators believe that China's political system is too rigid, that it does not have the flexibility of pluralistic politics and democracy with freedom of speech, the media, assembly and respect for human rights. So China will encounter severe problems and setbacks. Professor Pranab Bardhan of University of California, Berkeley, has explained the problem this way:

"China's authoritarian system of government will likely be a major economic liability in the long run, regardless of its immediate implications for short-run policy decisions.

"But inequalities (particularly rural-urban) have been increasing in China, and those left behind are getting restive. With massive layoffs in the rust-belt provinces, arbitrary local levies on farmers, pervasive official corruption, and toxic industrial dumping, many in the countryside are highly agitated.

"China is far behind India in the ability to politically manage conflicts, and this may prove to be China's Achilles' Heel. Over the last fifty years, India's extremely heterogeneous society has been riddled with various kinds of conflicts, but the system has by and large managed these conflicts and kept them within moderate bounds. For many centuries, the homogenizing tradition of Chinese high culture, language, and bureaucracy has not given much scope to pluralism and diversity, and a centralizing, authoritarian Communist Party has carried on with this tradition".

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1 Pranab Bardhan is Professor of Economics at the University of California, Berkeley and cochair of the MacArthur Foundation-funded Network on the Effects of Inequality on Economic Performance and Chief Editor of the Journal of Development Economics.
If they are right, India will draw ahead in the longer term.

Such analyses assume that the Chinese political system will remain static. If China’s political structures do not adjust to accommodate the changes in its society resulting from high rates of growth, India will have an advantage because of its more flexible political system in the longer term.

But Bardhan also cautions: “India’s reform has been halting and hesitant. India’s heterogeneous society has been riddled with conflicts, but the system has by and large managed these. There are many severe pitfalls and roadblocks which India and China have to overcome.”

Both India and China are huge countries with vast populations and long histories. They have to evolve standards of governance that is consonant with their cultures and the spirit of their civilisations.

Conclusion

At stake is the future of one billion Indians. India must make up for much time lost. There is in fact already a strong political consensus between India’s two major parties that India needs to liberalise its economy and engage with the dynamic economies of the world. The BJP led coalition government of former PM Atal Behari Vajpayee continued and indeed extended the economic liberalisation policies of Manmohan Singh when he was Finance Minister in PM Narashima Rao’s government. India now has a strong, able and experienced team with Manmohan Singh as PM. The time has come for India’s next tryst with destiny.