



Twelfth
T.A. Pai
Memorial
Lecture

The Necessity for Making Indian Industry
Globally Competitive

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*Twelfth
T. A. Pai Memorial Lecture
by
Sri Nani A. Palkhivala*



Mrs. Vasanthi Pai, wife of late Sri T. A. Pai presenting a memento to Sri Nani A. Palkhivala during the Twelfth T.A. Pai Memorial Lecture held in Bombay on January 17, 1995.

The Necessity for Making Indian Industry Globally Competitive

I feel happy and honoured to have been invited to deliver the T.A. Pai Memorial Lecture today which happens to be the birth anniversary of that fine man whom I met a few times.

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 banks 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.

I remember meeting him several times, sometimes with his wife. Those were the days when he was connected with the Life Insurance Corporation of India or was a Minister in the Central Government. He served the country in a number of capacities, and it would be true to say that he did not touch anything 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 the same 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

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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 some 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 millennia. 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 Ryrie who was the Executive Vice President of the International Finance Corporation has said that India has some of “the most creative entrepreneurs... the most dynamic business leaders... the sharpest financial brains in the world.” Incidentally, IFC has invested nearly \$ 650 million in India's private sector in fiscal 1994, raising this country to the status of number one position in its worldwide portfolio.

I should like to give you some figures which illustrate the sea change—the revolutionary transformation which has been effected in the last three years. An annual average of just about 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 companies on an average are floated every year.

The Centre for Monitoring the Indian Economy (CMIE) places the value of total investments in on-going projects at the end of 1994 at Rs. 7,66,000 crores, comprising 3,093 enterprises. 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 about 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 about 40 million today. 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 of Making Indian Economy, 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 the other half of the Indian population is 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. 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, 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 nationalisation was to the 1940s and privatisation 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. The skill and calibre of corporate manpower would never appear in any balance sheet. 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 criminalisation 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 responsibilities 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 remain a civilised society.

Secondly, we must privatise the public sector undertakings. Privatisation means that the majority of the shares should be allowed to go into public hands, while the government may only retain a minority interest. British Airways has been privatised, 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 is 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 percent on the capital employed.

The British Government is toying with the idea of privatising even Air Traffic Control. In India, there is no political will to privatise 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 the public sector 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, like 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 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 1,00,000 mw of power capacity in the next ten years. It has to upgrade, both quantitatively and qualitatively, the telecommunications network.

Take our telephone system which still continues to be the monopoly of the Union Government. The Indian telephone service is undoubtedly the most inefficient among important countries of the world. But it has now reached a stage 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 then he makes cross country calls for which the bill goes to the registered owner of the telephone. A businessman once told me that he could not afford to make calls to Amritsar at his own expense. He has, therefore, to get the telephone line of somebody else diverted to himself. I will give him full marks for his truthfulness but I am afraid, it is a very sad commentary on the type of services we are running. On the top of it all, a 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 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 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. Lord Curzon, perhaps the most powerful viceroy to rule over India has mentioned this in his diary. 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 license 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 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 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. Our 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 nationalised industries.

Sixthly, if there is any single 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 and the 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. I wrote about it in a letter to the 'Times of London' and I got some letters to say how much the people in England appreciated this. Of course, in India it is one of the thousand things which happens everyday. We do not bother at all, we could not care less. But I strongly feel that 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. The reservations in Maharashtra in comparison with other States seems well regulated. The Times of India reported the other day that the total reservations in the educational institutions and in Government services come to 73%. 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 new Constitution which I think can be accurately called "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 the 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 percent from the present level to a level where it hurts the lower classes less. For instance, the price of food articles has risen as much as 55 percent since the economic reforms began in July 1991.

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

I do believe that India has a great future and can hold its own in competition with other countries. All that we need 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. It is because the people are basically disciplined, they are characterized by exemplary dedication, and they have almost hundred percent literacy as against our fifty percent illiteracy. If you ask me, I think the figure of illiteracy must be higher than 50% but I am giving you the official figure. By contrast, we Indians lack discipline and dedication and have at least half of our population literally illiterate. There are in every country educated illiterate. But India has a very glorious phenomena of literally illiterate people being almost half of the nation. 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: there are intelligent democracies, guided democracies and misguided democracies. The four plagues 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 upon a litigation. Today, the opposite would be the advice to those about to invest in India – “**Do!**”. Lord Keynes said that investment is not merely 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 but tough competitors. *Forbes* further adds that unlike China, India has 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 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. I think this is very high tribute by the Japanese. Instead of the Japanese engineers who are available, they chose the Indian engineers for software work.

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. In Galbraith's own words, it is "a richness in the poverty of Indians". 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. We still have a long way to go. India waits for the type of revolutionary turnaround effected by the Labour Party of Britain under John Smith, the 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 labour party with state ownership, high taxation and trade union power, which distinguished Labour Party would be, in the words of John Smith "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. The present Labour Party leader, Tony Blair has 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 are the building blocks for individuals and for 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. ●

NANI A. PALKHIVALA

Sri Nani A. Palkhivala was born in January 1920. He was a Professor of Law at the Government Law College, Bombay and was appointed the Tagore Professor of Law at the Calcutta University. In 1975 he was elected an Honorary Member of The Academy of Political Science, New York, and in 1977 he was appointed Ambassador of India to the United States of America.

In 1978 the Princeton University, New Jersey (USA) conferred on him the Honorary Degree of Doctor of Laws, describing him as "defender of constitutional liberties, champion of human rights, teacher, author and economic developer." In 1979 the Lawrence University, Wisconsin (USA) conferred on him the Honorary Degree of Doctor of Laws.

Sri Palkhivala has argued a number of historical cases in the courts of India and abroad. He is also associated with several industrial and business houses as Chairman, Vice-Chairman and Director.