

“Formal sector rules must be simplified”

In this exclusive interaction with VIRAT BAHRI of B&E, Dr. Isher Judge Ahluwalia discusses her views on the potential & challenges of the Indian economy

Dr. Isher Judge Ahluwalia plays a phenomenal number of roles apart from her position as Chairperson, ICRIER, which highlight her remarkable contribution to resolving critical issues of Indian economy & policy. Besides being Member, National Manufacturing Competitiveness Council, Government of India and Chairperson of the High Powered Expert Committee on Urban Infrastructure by the Ministry of Urban Development, she is on the boards of a number of research institutes in India & abroad; and a recipient of the Padma Bhushan in 2009 for her achievements in education & literature. In this two-part interview series, she expresses an inspiring, yet pragmatic view of India's future:

B&E: You have elaborated that India cannot follow China's autocratic model. Is there an ideal democratic model for India to follow?

IA: For us as a democracy, politics is essential; we are a pluralistic, multi-religious society. I don't think an autocracy can deliver development to us. The truth is whenever you bring about any policy change, there are implicit redistribution implications with somebody gaining and someone else losing. So you have to really persuade those who are losing, that they may be losing vis-à-vis the gainers, but it's not a zero sum game. If the size of



Dr. Isher Judge Ahluwalia
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the cake is larger, then even the losers may be better off than having a static situation. Politics is the only way you can make those negotiations. But politicians can also hijack the whole process by creating agendas that are not necessarily productive. That's where civil society plays a role. I feel even the federal polity is really helpful. We have to make it work the right way and that requires a bit more effort. But I think it's more sustainable than the Chinese model.

B&E: How can we make Indian manufacturing world class?

IA: I think that a lot of the handicaps that we had for manufacturing by having a closed economy, not having competition from imports, not having technology that could come easily and give us better cost structure; are now gone; but we still need world class infrastructure to really have the manufacturing sector function. Even though it seems that the governments are very conscious of the need, vested interests are coming in the way; either from existing public sector monopolies who don't want to give way, or bureaucrats who don't want to give up power or entrenched industrial interests which would not like to see competition. We need public sector reform, more competition and an investment climate that encourages more investment in infrastructure. In pharmaceuticals, our companies are doing well in both generics and high end research. Similarly, in auto components, we have established our competitiveness despite the slowdown. We need to do more in textiles policy to regain our competitiveness of old times. Now that Indian industry has acquired the confidence to compete globally, more and more entrepreneurs are coming up and putting pressure on the government to deliver world class infrastructure. It may not be possible for the government to do this on its own, but there is the model of Public-Private-Partnership. We have to ensure that this process is not hijacked for private interests and there has to be a proper regulatory mechanism in place. In the sixties, if a firm was

not doing well, the natural reflex reaction was to nationalize it; in the 90s, the reaction was to privatise it; today the importance of regulatory framework is much better understood. Another factor that I have not mentioned is labour. People get very worked up about rigid labour laws holding back our industry. Given that we have this baggage of so many years of a protected trade policy regime, and we have trade unions that have grown up in that atmosphere, there is resistance to change. But as the economy gets used to 8-9% growth and employment opportunities increase, trade unions also see the writing on the wall. They can no longer talk about protecting the interests of the very few in the organized sector, and they have to create room for employment for many more.

B&E: Are you excessively worried about the large unorganised sector?

IA: They are there because our formal sector rules are so cumbersome. Why would I want to go into the informal sector when I know that there is a set of rules that will allow me to set up my shop in x number of days rather than 300x number of days? I have friends who set up Indian restaurants in London. There are rules there as well, but things happen smoothly. They say that in India, it cannot be done, because clearances will take forever. It is not just about taxes; it is about inspections, all sorts of harassment. Once the discretionary power goes, and you have the freedom to operate with penalties for people disobeying rules, people would not want to stay in the informal sector.

B&E: Are you in favour of FDI in the retail sector?

IA: I think we should have modern retail and private investment in retail. I have prepared a review of the Punjab economy for the state government. It's very clear to me that if Punjab has to take off in growth, modern retail could

do wonders. Of course, the government has to do things like amending the APMC Act; allowing the private sector to operate in buying and selling of agricultural products. If you liberalise investment in logistics, cold chains, refrigeration, ultimately farmers are bound to benefit. Right now, a very large percentage of our food crops are rotting since middlemen would lose if the Act was amended. These are determined by longer term factors. There is political resistance. But undoubtedly, this is a win-win situation for everybody. As someone who travels in countries like Malaysia, Indonesia and Singapore, I have seen that every country has modern retail. We still have to go through dirty muddy areas to buy vegetables and fruit because we wouldn't modernize retail. And it's not just FDI; we also need domestic investment to modernize retail.

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B&E: What is your opinion on the Union Budget for 2010, and the balance of growth & efficiency?

IA: It's a very delicate balance that the Finance Minister has to maintain, but I would really like to see him delivering on his promise of implementing GST by next April. If that happens, it would be historic. As an economist, that, to me, is worth a great deal. The efficiency gains would be terrific. I am glad the Finance Minister didn't decide it in a hurry, as he knew there would be resistance from some quarters. I am basically happy with the thrust of this budget. I wish they had followed the Kirit Parikh Committee report rather than going through the tax route on petrol prices. The report was submitted three weeks before the budget and we had given clear arguments for our recommendations. There is absolutely no justification for subsidizing petrol & diesel. I don't get excited when duty is raised on petrol. If you can't raise duty on a product like petrol to cover costs, what would you ever raise the duty on? Where would you ever raise the resources from?

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