When sky is the limit

The problems that have bedevilled Japanese banks are well known — the quicksand of ‘‘directed lending’’, NPAs, and the rest — as is the way these problems have been at the heart of Japan’s inability to pull itself out of the trough for over a decade. The Long Term Credit Bank of Japan, the giant LTCB, followed the same trajectory as other banks, except that it has suddenly, in just two years, shot out of the pack.

LTCB was established in 1952. It was one of the principal financiers of Japan’s phenomenal industrialisation after World War II. As the 1990s rolled on, its troubles became deeper and deeper. It went bankrupt. To prevent the collapse from bringing down other parts of the banking sector, the Government had no alternative but to nationalise the bank. That was in 1998.

The bank continued to haemorrhage. Soon, in June 2000, it had to be sold to a consortium of international investors. That was a thunderclap for Japan — this was the largest organisation that had to be sold to foreigners. The bank was renamed the Shinsei Bank.

In just two years, it has turned around, even as others are still in the morass of old problems. It turns out that Indian professionals — a thousand of them from Nucleus Software Exports, Mphasis, Polaris, i-Flex Solutions and Wipro — have played a crucial role in transforming the bank: they are the ones who have completely re-engineered the bank’s processes, they are the ones who have reorganised the bank’s operations around a completely new, modern business model.

And they have done it all in record time, and with record economy: the new, transformed retail bank has been launched within one year instead of the anticipated three; implementation costs have been 90 per cent less than estimated; a range of new financial products has been launched that are better than what competitors are giving; hardware too has been drastically downsized. When I was in Tokyo a few weeks ago to open an Indian IT fair, the success of these professionals in rehabilitating the Shinsei Bank was the talk of the banking and IT community in Japan.

What is it that Indians could bring to this task that, say, Chinese software firms could not? The Indians could not just write software for different functions and transactions that the staff of the bank had to perform — the Chinese too could have done this: China also has a very large software industry that today caters to its domestic IT market, a market which is many times that in India.

The Indians could bring to bear on the task expertise in a host of other domains — for instance, knowledge of financial markets, of modern commercial banking, of accountancy — and thereby provide not just software but complete solutions, from software to hardware to completely new business models.

Similarly, high-end Indian garment industry can avail of not just cheaper labour. In addition it can tap into our fashion designers. Is it any surprise then that Wal-Mart sources $1 billion worth of goods — that is, half of its apparel — from India? That GAP sources $500-600 million from India? That Hilfiger sources $100 million?

The point is the successes we have encountered above are not fortuitous. India has a score of strengths that others do not.

Cost is one of them. Nor is it a marginal advantage. Indeed, the difference between the cost at which we can provide services and many commodities of comparable quality and what those cost

in the developed world is so vast that, should those firms and economies shut themselves out from our supplies, they are the ones who will be severely disadvantaged, they are the ones who will be making themselves un-competitive.

• Indian IT firms provide world-class services at one-tenth what the same services would cost in the United States.

• An MBA costs about $5,000 in India. In the US, an MBA costs around $120,000.

• Developing a new automobile model in the US costs about $1 billion. Indica and Scorpio have been designed, developed and produced totally in India. They have been acclaimed abroad, and found to be up to international standards. The cost of designing them? Less than half what the design would cost in the US.

• In an important address — you will find it in FICCI's publication, Unleashing India's True Potential: CEO's Vision of the Future — M.S. Banga, chairman, Hindustan Lever, reports results of inquiries that the company made. In spite of high power costs, high interest rates, it found that the capital costs of setting up plants in India to produce an item like toothpaste for Levers worldwide were just 35 per cent of what its sister companies in the US and Europe would have to spend. And the conversion costs were just 15 per cent. In tea bags they were just a quarter of what they would be in the US.

Sourcing already accounts for about half of Hindustan Lever's exports of Rs 1,500 crore a year. But Banga surmised, by being just the hub from which Levers' units worldwide would source their requirements of such goods, Hindustan Lever could build up a business of $1 billion a year — that is Rs 5,000 thousand crore a year. Moreover, as it would be marketing directly to these companies, it would save on the costs of reaching, winning, retaining the individual customer.

• Surgery: Arvind Netralaya performs a cataract operation, including the cost of the lens, for $12; that very operation costs about $1,500 in the US. A bypass surgery in India costs around Rs 40,000; in the US it can cost anything upwards of Rs 6 lakhs. The cost of open-heart surgery in the UK or the US can be anywhere between Rs 15 lakhs and Rs 35 lakhs as against Rs 1.5 lakh to Rs 5 lakhs in the best of hospitals in India. The cost differentials in more complicated surgeries — liver and kidney transplants, etc — are even higher.

Brains are another strength — far, far more important than material resources in several sunrise activities. Most would have been surprised to read recent accounts in magazines such as Business World of India being looked upon as a research hub by company after choosy company. FICCI's list includes:

• Over 70 MNCs, including Delphi, Eli Lilly, General Electric, Hewlett Packard, Heinz and DaimlerChrysler, have set up R&D facilities in India in the past five years. Together with laboratories set up before 1997, 100 of the Fortune 500 have set up R&D facilities in India. By contrast, only 33 of the Business Week 1000 companies have R&D centres in China.

• The scale of these operations also tells the tale. Just four years ago, Intel had a mere 10 persons working in India; today it has over 1,000. GE's John F Welch Technology Center in Bangalore is the company's largest outside the US. With an investment of $60 million, it employs 1,600 researchers. GE's R&D centre in China by contrast employs only 100.

The Indian centre devotes 20 per cent of its resources to fundamental research having a five to 10 year horizon in areas like nanotechnology, hydrogen energy, photonics and advanced propulsion. With 17 clinical trials (10 of them global), the Eli Lilly research facility at Gurgaon is its largest in Asia and the third largest in the world.

• GE Medical in Bangalore has developed a high resolution-imaging machine for angiography to meet GE's entire global requirement. It has also developed a portable ultrasound scanner that is exported around the world from Bangalore.

• Two-thirds of GE Plastics' 300-member research team in India is doing fundamental research on molecules. GE Plastics has contributed to the development of a family of polycarbonates of engineering plastics that are being used in auto headlamps and CDs. It has also developed heat resistant monomers for applications in aircraft bodies and high-end medical equipment

GE Motors India has developed an almost noiseless motor for GE's most sophisticated washing machine lines in the US; it is the sole sourcing point for a million of these motors every year.

• Monsanto has been in India for over 50 years. After examining China and India, it set up its first non-US research facility in Bangalore in 1998. This facility is responsible for Monsanto's R&D for Asia. The company is researching ''promoters'' — accelerators that improve crop productivity.

• Whirlpool's Pune Research Lab develops refrigerators and air conditioners for Asia (including China) and Australia. Forty per cent of this facility's resources are devoted to its core research on global projects.

• The DaimlerChrysler Research Centre in Bangalore is engaged in fundamental and applied research in avionics, simulation and software development.

• HP Labs India has built a prototype that can scan handwritten mail through a small handheld device instead of a scanner. It has also built the prototype of a computer for unsophisticated users.

You can extend the list many times over by just following our business newspapers and magazines for a week. Moreover, while youthful professionals and entrepreneurs have been adding these sinews, the most far-reaching structural change has taken place:

• The proportion living below the poverty line has fallen from 36 per cent to 27 per cent.

The balance of power between state and society in the economic sphere has been overturned: the dismantling of the licence-quota raj, the transfer of power to regulators in one sector after another.

Indeed, not a week passes and there is yet another advance in economic management. One reason these changes do not get adequate notice is that, many of the structures having been set up, the improvements are now in the details. Those who are acquainted with economic policy and administration know that each of these improvements will have far-reaching consequences as the years go by. But as the improvements are in the details, most of us miss their significance.

As a result of such steps, many of the handicaps that hobbled our entrepreneurs have been eased in the past few years. Initiatives in different, seemingly distant fields have reached fruition. And the effect is not additive, it is multiplicative:

• The turnaround time in our ports used to be eight to 10 days; it is now four-and-a-half days.

• As recently as 1999, our telecom infrastructure could provide a bandwidth of only 155 Mbps; today it is able to provide terabit capacity, that is, 75,000 times what could be provided just four years ago. Within a year or so, as the fibre optic network being laid by various enterprises gets in

place, it will not matter whether your office is in San Jose, California or in any of 300 cities in India.

• Till the other day we used to be in awe of the rate of expansion of mobile phones in China — a million a month. In the past two months these have increased in India by almost 1.5 million a month.

Long distance telephone tariffs have fallen by two-thirds in five years.

• Tariffs for data transmission have fallen by 80 per cent in three years.

• The work done by the far-sighted people who set up what seemed at that time such an esoteric institution, one oriented to the rich elite, the National Institute of Design has borne fruit. Today graduates of that fine institution help design cell phones, CAT-scan and MRI machines ...

Other handicaps too have been eased. Interest rates have come down drastically, foreign exchange restrictions for business purposes are as good as non-existent ...

On the other side is the fact that the developed world will increasingly require services and personnel from a country such as India. We are the ones who have to be swift enough to prepare for and grab the opportunities:

• Various studies conclude (you will find them summarised in the All India Management Association's India's New Opportunity - 2020) that the workforce of developed countries will fall short by 32 to 39 million by 2020. In the US alone the shortfall is expected to be between 8.2 and 14.3 million.

• The proportion of the aged to persons in working age is shooting up precipitously in developed countries from Germany to Japan.

Such developments provide excellent opportunities for India — for services that have to be provided in situ such as nursing and care for the elderly, for services such as surgery that can be provided to residents of those countries upon their coming here. In fact, there are opportunities in a host of new services of an even higher order, and ones that exist not in the future but right now:

• Higher, specially medical and engineering education: educating an MBA to world standards costs $9000 in India; in the US that degree of education costs $30,000.

Editing, composing, formatting text, from books to newspapers: a sub-editor costs an American paper $25,000; in India an excellent substitute can be employed for $5,200. The editor of an Indian paper told the proprietor of a leading British paper the other day he could edit the latter's paper for merely the amount that the latter's publication spent on renting the space occupied by sub-editors in the publication.

• Printing and binding books: Hong Kong and Singapore, which had taken a leap in this regard, have become high-cost centres.

• India has exactly the same order of cost-cum-competence advantage in professions like law, accountancy, design, engineering, tax consultancy, financial services of all kinds.

• In software itself, though there have been the most conspicuous successes, the field is limited only by our imagination — in that IT fair in Tokyo that I mentioned, I saw fine text-to-voice software that has been developed by a small software unit in Lucknow. It was receiving excellent

reception in Japan. It can be used to quickly produce audio versions of books upon books for the visually impaired.

Thus, on the one side the opportunities are unlimited; on the other we have incomparable advantages for grasping them. But as has been said, ‘‘When opportunity knocks, some complain about the noise.’’

Software engineers or cyber coolies? runs the headline of a newspaper feature. In the US a software engineer earns $21 an hour, in India even the leading companies pay him only $2, runs the text. Is this not exploitation? it asks.

Now a salary of Rs 100 an hour is excellent for someone living and working in India. Why throw away the advantage? Look at it the other way. China has accumulated its huge pile of foreign exchange reserves — over $280 billion — not by high-technology exports. It has accumulated them by flooding the world with low-technology items — leather, leather products, garments, toys ... And it has used the advantage of lower cost — and perfectly disciplined labour — to the hilt.

China’s achievement we gape at: ‘‘How have they become the manufacturing hub of the world?’’ we ask. But our advantage — in some senses the very same advantage China has put to such good use — we want to throw away.

Keep these foreign accounting firms out, proclaim our accountants at a high-profile function. They have been involved in frauds abroad. On that reasoning, shouldn’t we bar our own accounting firms also? After all, frauds in our banks, in our stock markets, the way so many of our firms that have run up NPAs are then able to extract bail-out packages from financial institutions, could such things have happened if our accounting firms had been doing their job?

And there is the other point: we want their accountants and lawyers to be kept out, but they must open their doors to our IT professionals! As the title of one of Jairam Ramesh’s monographs ran, Yankee Go Home — But Take Me with You!

Why not look upon the opportunities positively? Why not institute courses in our law colleges on Germany’s legal system, in the accounting systems of the US and thereby capture the markets there? Why not multiply the number of nurses we train, and have them learn Japanese? Why not enable private firms to open world-class universities in India, and thereby become educators to the world?

This is India’s moment but it’s on*ly* a moment, can we grasp it?

On the one hand, we have unbounded opportunities and incomparable advantages to seize them. On the other, there is the fate that will surely befall us if we falter. Unemployment will reach such proportions that social unrest will become unmanageable. Similarly, if the rates of growth of India and China continue to differ by the margins of the past 15 years, within the next 15 years the

Chinese economy will be six times that of India. And the consequences will be worse than we can imagine.

Economic strength is itself power. To take one instance, because China has been able to attract so many more to invest than we have, China today is able to mobilise so many more—American firms, for instance—as lobbyists to advance its interests.

Moreover, economic strength gives China the wherewithal to go in for comprehensive modernisation of its armed forces. Indeed, that there is so much talk of China's economic transformation obscures what China is already doing, what its economic modernisation already enables it to do in the military sphere.

Will a China six times stronger than India not administer another slap at us? Indeed, will it have to administer a slap? Will an India dwarfed to that extent not learn to pay heed to China's interests subliminally?

Now it is nobody's case that China is free of problems. Quite the contrary. The achievements—the incredible infrastructure built in Shanghai, for instance—themselves remind us of problems it may be storing up: this infrastructure has been built by getting the country's banks to lend money to the special purpose vehicles that were created for building the projects. But everything has to be paid for in economics: what is the rate of return of these projects today, and how does it compare with what is needed to repay the investments?

There is moreover a fundamental issue. The 21st century is going to be the century of knowledge—of its continuous unraveling and of its continuous application. One of the central lessons of the 20th century is that where the state is pervasive, creativity does not flourish. The Chinese have indeed transformed their state. But it remains pervasive. How will they ensure creativity—of the kind, say, youngsters in our IT firms have displayed?

So we have many things working for us. In many ways, this is India's moment, even vis a vis China. For the first time, observers have begun to voice questions in public about China—its statistics; the fact, for instance, as a German investor said recently at a conference I was deputed to attend, that, ''If you want your factory to come up quickly, go to China; if you want to make money, go to India.'' On the other side, everyone's noticing Indians make a mark in every sphere: writers, scientists, doctors, IT, cricket, beauty pageants, chess...

So it is the moment for India. It is a moment. But, it is only a moment. What should we do to ensure we grasp it?

First, we should begin to notice what is happening around us. We have become what an American author calls ''Negaholics''—addicted to the negative as an alcoholic is to drink. Ever so many of us are unaware of even the elementary examples that have been listed above.

Nor is that the result merely of inattention. We look for, we latch on to the negative; even if some achievement breaks on to our mental screen it does not percolate into our awareness, we do not see that it is part of a pattern, that it is not an isolated fluke. Indeed, our instinct is not to believe evidence of that accomplishment.

Remember how eager many commentators were to find fault with NSS data that established a steep decline in proportions living below the poverty line? These are symptoms of a habit. Remember the exercise that books on creative thinking recommend? Is there much blue around you? You would not have noticed much. Now make an effort to look only for blue things around you. You will notice so many that, though they were lying around, had not registered.

It is especially important that those who are in public life—who hold public office, who participate in public discourse—break out of this addiction to the negative. Because of my work, I have had occasion to travel abroad several times in the past two-three years. Each time I have been struck by the contrast between the way India is looked upon abroad, and the way we look upon it here.

There is an equally telling symptom here at home—there is much greater confidence in the Indian industrial class than there is in the rhetoric of politicians who ostensibly are shouting on behalf of and to save that industry!

The result is our discourse continues to be mired in fear, so many of us just keep repeating slogans of 30 years ago. We should listen to the new India.

Next we should be alert to what the critics of reform are doing where they are in power. In New Delhi, the CPI(M) shouts against even the slightest attempt to reform—for instance, privatise—a public sector unit, they bring woe upon anyone who may say that repeated revival attempts having failed, such and such firm has to be shut down.

But in West Bengal the state government has already shut down two state-owned units, it is disinvesting 10 more. It's just that the state government does not talk of ''disinvestment'', it says it is just turning the firm over to a joint venture partner!

Remember Ajit Jogi's hysterics over Balco? Remember his threat ''Should anyone from Sterlite enter Chattisgarh, we will break his legs''? Since then his refrain is ''Sterlite is scripting the success-story of Chattisgarh''! More important, he is today the leader in public sector reform! Including privatisation! The Indian Express reports he has already closed thirty seven public sector units.

Remember all that shouting, ''Why are you selling profit-making companies?'' The Housing Board—HUDAC—Jogi has just closed down has been a profitable concern, reports *The Indian Express*. Remember all that shouting ''But the land of Balco is itself worth Rs 1,000 crores''? Reporting about that Housing Board, the *Express* correspondent writes from Raipur, ''The assets ... also include some prime properties and a land bank of approximately 600 acres of land. In Raipur itself, HUDAC owns 300 acres of prime land near Tatibandha—an upcoming commercial area. Bhilai and Durg towns are also key urban towns where HUDAC had purchased land ... Other assets, according to the HUDAC balance sheet, include hundreds of unsold HIG, MIG, LIG and EWS houses, shops in urban complexes and other properties ...''

A simple rule of self-denial among political parties would help: ''Do not block another party from doing what your own party is doing where it is in power.'' As parties are unlikely to deny themselves even this much, journalists and others should bring the rule into being in effect: keep an eye on what the party is doing where it is in power, recall what it was doing when it was in power and, each time the party tries to stop a rival from prosecuting a reform, broadcast those facts, grill its leaders on them.

There is a more intractable problem—a central dissociation between democracy as we know it in India and what is needed for rapid growth.

All change involves dislocation. And this is where the strengths of yesterday become the handicaps of today. BSNL has one of the world's most extensive networks of copper-wire. But people are switching to wireless telephony. Every time there is a proposal for new technology, our first thought is, ''But what will happen to the thousands of crores that have been sunk into that network?''

Nor is the drag confined to governments. As BSNL has been purchasing copper wire worth Rs 2,000 to 4,000 crore every year, 30 or more companies have come up that can survive only if BSNL continues to purchase copper wire! Their owners and the workers employed in them too would rather that the switchover to new technologies is slower.

That is how over the decades the Civil Aviation Policy becomes the policy for Air India rather than for India. That is how our finances get sucked into quicksand—that is how we continue to ‘‘protect’’ existing producers of wheat and rice with ever higher minimum support prices even as government godowns overflow with stocks, and even though we know that these support prices are in fact preventing the crop diversification that other programmes of government are trying to promote; that is how a state like Maharashtra brings its finances to the brink by continuing subsidies to sugar growers; that is how over the years we squander Rs 10,000 or 15,000 crores keeping obsolete mills of the National Textile Corporation (NTC) on artificial respirators rather than using the money to modernise the textile industry; that is how we continue to guarantee procurement of tobacco, of all things, even as we spend crores admonishing people to abjure it; that is how, ostensibly to protect existing tenants, we continue rent control laws, thereby discourage investment in housing and thus ensure both housing shortage and urban decay.

We block voice-over-internet for long, we set the police upon youngsters who have begun using the technology; for years we won’t allow personnel of IT firms to avail of the Closed User Group facility—lest the revenues of BSNL get affected ... It is as if we were to block the introduction of the automobile to protect carpenters who are making tongas. Without doubt, one of the reasons West Germany and Japan forged ahead of the United kingdom after World War II was that the entire industrial stock of those two countries had been bombed out of existence while that of the latter had survived.

In the end, all such efforts fail. One cannot block technology any more than one can block time: in the end Bangladesh has had to close down the largest jute mill in the world, in the end we are having to close down NTC mills ... But over the years we ensure our country’s progress is slowed down, and our governmental finances are brought to the brink.

The problem becomes all the more acute in a democracy, all the more so in what we have made of democracy. The electorate has been so fractured by caste and the rest that it does not respond to national issues. To attain office and retain it, therefore, parties have to aggregate votes, section by section. Each section liable to be dislocated by change—the tobacco farmer no less than the textile mill owner and the powerloom operator—is able to suborn parties and politicians to block that change.

Of course, in due time a constituency will arise of those who have benefited from the change—the IT professionals, the ones who will prosper if only we were to allow our entrepreneurs to set up institutions of higher learning ... But they are in the womb of the future. And the ones who will be dislocated are ones who will defeat the party today. As the horizon of political parties seldom extends beyond the forthcoming election, even a bit of aggressive shouting can ensure that reform is deferred.

There is another factor that confounds everyone into submission. All politicians are nervous—witness our nerves before every reshuffle! Politicians faced with elections are more so. And no one quite knows what issues are on the people’s mind. So the moment a step is mooted, everyone can, and does, proclaim, ‘‘Not just now, elections are round the corner. People will turn against us.’’

Was disinvestment an issue in any of the elections during the past five years? If free power could have won elections, how come the Akalis in Punjab, the DMK in Tamil Nadu were swept away? I well remember a meeting in a state on the eve of elections there, and what was being said ‘‘on the sidelines’, ‘‘Please get (the chief minister) to abolish (a local tax) ... If only it is removed, we will sweep the urban areas.’’ It was abolished. The urban areas swept away the alliance.

There isn't much that can be done about the politicians' nervousness, except to go on pointing out reforms are not the issue they are made out to be: internal bickering has brought defeat to parties not issues like disinvestment or tariffs.

But the problem—the dislocations that change will cause—is real and we have to attend to it. Four things can help.

We should multiply outlays on activities that will engage large numbers, and are things that we should be doing in any case. The Planning Commission has prepared three first-rate reports, for instance—on biofuels, on bamboo cultivation and products, and on medicinal plants. Each of these can engage millions. As can organic farming, diversification into vegetables and fruit and floriculture. As can water harvesting.

When activities like these flourish, incomes will multiply, nutrition will improve, fewer will flock to urban slums. Indeed, through them the country would register gains even in foreign exchange—outlays on biofuels would save on imported crude; organic farming, medicinal plants would bring foreign exchange.

Similarly, projects that entail huge earthworks—the Prime Minister's Quadrilateral and gram sadak projects, the linking of rivers—can absorb millions who may be dislocated and at the same time unleash the country's productive potential. They are the real social security that will cushion our people.

But the main solutions lie, as usual, not in the economic realm. They lie in political arrangements, in discourse. We must reduce the frequency of elections: schedule elections, as the vice-president and the deputy prime minister have proposed, to state assemblies and to the Lok Sabha simultaneously; fixed terms for legislatures even as individual ministers can be voted away for dereliction.

Even before such changes are put into effect, and even after they have been instituted, we have to make everyone see that change cannot be blocked. The more we succeed within India in delaying it, the greater the lead that others will get over us. Schemes to rehabilitate and reposition workers or farmers who may be dislocated must, of course, be devised and executed. But the project or technology must not be blocked.

Soon enough that project will have to be executed in any case; soon that technology will come to be adopted. Time will have been lost. Resources that could have been used for modernisation of that enterprise, that industry, for the prosperity of that very region would have been wasted in keeping that obsolete technology or enterprise ''alive''. And we must with evidence induce everyone to see that more often than not the resources needed to take care of and re-equip those who will be dislocated are embedded in the obsolete enterprises themselves. Look at the land NTC's mills have in Mumbai. If only the government would be allowed to sell it, more than enough would be available to retrain and re-equip every single worker in those mills, as well as to modernise the mills that are to survive.

Not the details of economic policy—that is not where the impediments lie. The way we look at things, our discourse, the drag of interests that are vested in the way things are—these are what we need to change. **(Concluded)**