Strategies for Enhancing Competitiveness of Firms, Industry Sectors and Country
"The Indian tortoise's giant leap forward"

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The economy of India is the fourth largest in the world and has the third largest GDP in the entire continent of Asia. It is also the second largest among emerging nations. (All these indicators are based on purchasing power parity.) India is also one of the few markets in the world which offers high prospects for growth and earning potential in practically all areas of business; the economy being diverse and encompassing agriculture, handicrafts, textile, manufacturing and a multitude of services.

Let's look a little back into the past.

India's low average growth rate from 1947–80 was derisively referred to as the Hindu rates of growth, because of the unfavorable comparison with growth rates in other Asian countries, especially "the East Asian Tigers". The economic reforms that caused a surge in economic growth after 1980 can be attributed to two stages of reform. The pro-business measures of 1980, initiated by Rajiv Gandhi, eased restrictions on capacity expansion for incumbents, removed price controls and reduced corporate taxes. The economic liberalization of 1991, initiated by then Indian prime minister P. V. Narasimha Rao and his finance minister Manmohan Singh in response to a balance-of-payments crisis, did away with the License Raj (investment, industrial and import licensing) and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors.

In 1999, Goldman Sachs has predicted that India's GDP in current prices will overtake France and Italy by 2020, Germany, UK and Russia by 2025 and Japan by 2035. By 2035 it is expected to reach as 3rd largest economy of the world behind US and China. Goldman Sachs has made these predictions based on India's expected growth rate of 5.3 to 6.1% in various periods, whereas India is registering more than 8% growth rate for the last 3 years.

According to some experts, the share of the US in world GDP is expected to fall (from 21 per cent to 18 per cent) and that of India to rise (from 6 per cent to 11 per cent in 2025), and hence the latter will emerge as the third pole in the global economy after the US and China. The basic idea is that income per capita was roughly similar prior to the industrial revolution with the regions that make up the boundaries of modern day China and India each having much larger economies than the west.

What had kept India dormant till now were its policies. India followed a socialist-inspired approach for most of its independent history, with strict government control over private sector participation, foreign trade, and foreign direct investment.

However, since the early 1990s, India has gradually opened up its markets through economic reforms by reducing government controls on foreign trade and investment. The privatization of publicly owned industries and the opening up of certain sectors to private and foreign interests has proceeded slowly.

The changes began with the ending of "license raj", and continued through the disinvestment policies and now is seen though the SEZ scheme.

All this has catapulted India into the limelight. According to some experts, the share of the US in world GDP is expected to fall (from 21 per cent to 18 per cent) and that of India to rise (from 6 per cent to 11 per cent in 2025), and hence the latter will emerge as the third pole in the global economy after the US and China.

But all this is mere speculation. To sustain the present levels of growth many factors need to be controlled. For that we need to first ascertain that the roadblocks from our end are removed.

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First we will need to identify the roadblocks and then discuss the strategies to enhance competitiveness at global level while eliminating the primary roadblocks.
Listed below are 4 major hindrances/roadblocks directly or indirectly affecting growth and competitiveness of Indian companies:

- Infrastructure development
- Untapped rural population
- Derogatory state of state owned PSU's

First let us discuss why we have selected these as our primary concern.

Infrastructure Development:

India, as we all know, is still a developing country. By harping upon the term developing, we stress upon the fact that we are still to reach the basic requirements of infrastructure development, GDP etc .But the question remains, why does Infrastructure requirements have top priority?
In an International conference, Lee Kuan Yew, architect of Modern day Singapore, when asked about his views on India, replied that there was much that needed to be done. He said that production should have been the primary concern for any developing country. If you don't produce, even after equitable distribution, you would still be dirt poor. Thus manufacturing has to be the base upon which India's growth must be based. For that we need Infrastructure in place. You cannot produce much with your bare hands. So you need factories, you need power to run those factories. You have to have roads and ports and airports to bring inputs to the factory and take the output out.
Despite labor costs that are often 1/25th that of the West, India's transportation costs are among the highest in the world. India's export-driven progress is hampered by some of the world's highest port and rail costs. The cost of transporting one TEU one kilometer in India is 53% higher than in the United States and if India continues to ignore the competitive world market, things will only get worse. The above referenced article refers to the fact that by late 2008 some 25% of world container ship capacity will be comprised of vessels of at least 6,000 TEU (twenty-foot equivalent units) but that India does not yet have a port that can handle this class of ship. Given the rise of the Indian manufacturing sector -- and its strengths in such areas as metals and textiles -- it would be an absolute shame if the country's roads and ports continue to hold back economic progress.
India is a largely agricultural economy. If we look at the statistics, the years in which the growth has suffered has been ones when agriculture has suffered due to either untimely or inexistent rains .If India has to prosper, it has to forgo its dependence on the rains and needs to establish a well connected irrigation system and have proper Dams in place .This again brings up the Infrastructure requirement.
Thus the importance of Infrastructure in the long term plans.

Untapped rural population

India with all its growth still remains a largely untapped powerhouse. Most of the growth is concentrated in the urban pockets, which is still insignificant considering that India is the second most populated country with more than 1 billion inhabitants. If India can work on bringing even 50% of the rural population in the mainstream, we suddenly have an even larger pool of workforce to eliminate the workforce windfall/crunch that the Indian Industry expects to be hit with sometime in the next decade.

Derogatory state of state owned PSU's

At the time of Independence, India had one of the most developed private sectors in manufacturing in the Third World .However it is also true that at that point of time, it lacked the ability to mobilize resources for the heavy industries that Prime Minister Nehru regarded as a priority.

The pre-eminence of the public sector was secured through the Industrial Policy Resolution of 1956, which excluded the private sector from basic industries such as power, oil, heavy engineering, steel and several others. This was carried on by the Indira Gandhi led government , who nationalized 14 leading banks followed by the nationalization of coal, general insurance, copper , wholesale wheat trading and even part of the textile industry .This caused a major stagnation in the Industry in the first half of the 1970's and a widespread economic discontent . Here were sown the first seeds of economic liberalization, generally associated with the Rajiv Gandhi government .This was the time when it was realized that the State owned Enterprises (SOE) had to show a better financial performance.
When Rajiv Gandhi came to power, a quick analysis informed that the public sector far from generating surpluses and fostering accumulation in the economy, was getting in the way of it .The focus had changed from attempting additional investments to getting more out of the existing ones.
By the 1990's, SOE's had helped create a diversified Industrial economy, also having laid the foundation of research and development .They were also model employers , paying wages and benefits to workers that were superior to what much of the private sector had to offer. But with the deteriorating fiscal conditions, it was acknowledged that the SOE's had to deliver better returns, also a thought process had started where the better performing SOE's needed to contribute more than just the dividends. That is how the concept of disinvestment came.
The state meanwhile had picked up an idea that it ought to concentrate on its central role of providing physical and social infrastructure. Running businesses, irrespective of whether some SOE's were performing well or not, was best left to the private sector.
In the budget for 1999-2000 for the first time the word privatization was used. Privatization was selling off a controlling stake of a SOE's to a private buyer, a form of disinvestment now better known as "strategic sale".
Many well performing SOE's have since been sold by the strategic sale method. In short we are selling off the better performing SOE's and keep the loss making ones for ourselves and still blaming the SOE'S for not giving dividends .

With the fast increasing energy and development needs of the country, its time for the SOE's to finally deliver on their promise. With an efficient management at helm , and a little autonomy , the SOE's have shown equal efficiency to that of the private sector .While the private sector is profit mongering machine , the SOE's or PSU's have to also fulfill their social obligations. Hence it is unable to maximize its profits. It is relevant to note here that one of the biggest tax payers in the country are the state owned PSU's.

Government policies on FDI

It is now acknowledged worldwide the foreign investment brings extra investment, new technology and access to global markets, and so is wooed.
Capital account liberalization has allowed India to attract large portfolio flows, but reforms are needed to raise FDI, which remains a disappointment. FDI can bring with it—in addition to increased capital—cutting-edge technology and managerial know-how. But India is not fully reaping these benefits. In 2003, the stock of FDI to India totaled just 5 percent of GDP compared, for example, to 31 percent for Thailand and 35 percent for China. But the most striking fact is that, at the same time that FDI lags, surveys consistently point to India as one of the top two or three destinations for FDI in the coming years. So, the opportunity is there for the taking. The analysis suggests that while sectoral restrictions on FDI have played some role, India's FDI regime is not overly restrictive by international standards. Rather, what is mainly holding back FDI is broader difficulties of doing business? A few statistics serve to define the problem: to start a business in Korea takes 22 days and in China 41. But in India, it takes 89 days. And enforcing a

contract takes 425 days in India, more than five times longer than Korea and nearly double that in China.

At one time, all foreign investment was considered a loot of the country, and so discouraged. Some economists complained out that foreign-controlled companies generally imported more than they exported. However, we find that the ratio of imports to exports is lowest for foreign investors, higher among Indian private sector companies, and highest of all for public sector companies. It is appropriate for Third World industries to be net importers, using aid and foreign capital to plug the trade gap.

Foreign Direct Investment (FDI) is permitted as under the following forms of investments.

- Through financial collaborations.
- Through joint ventures and technical collaborations.
- Through capital markets via Euro issues.
- Through private placements or preferential allotments.

India has high tariff barriers, and even after the Chelliah Committee reforms import duties will range up to 30 per cent. These barriers keep imports out, and this protection gives a windfall gain to all producers in India, including foreign investors. Domestic companies keep their windfall in India, but foreign investors can remit theirs abroad. By insisting on some Indian shareholding, we ensure that enough profits stay in India, mitigating or even completely offsetting the windfall repatriated abroad. There is no such windfall for foreign investors producing in India for export. So there is little reason to ask them to dilute their equity.

Finally, India remains—despite its ongoing reforms—a relatively closed economy. Even though India has received much attention for its role as an outsourcing destination, trade linkages remain comparatively weak. Trade is low when compared to that of other Asian countries that pursued more export-driven growth strategies. India still only accounted for about 1.5 percent of the global trade in goods and services in 2005. Although trade with other emerging countries in Asia has expanded rapidly, India's participation in global production chains, while growing, is in its infancy. While the share of intra-industry trade in East Asia trade rose to 75 percent in 1996–2000 from 42.5 percent in 1986–90, it only rose to 18 percent from 12 percent between 1992 and 2001 in India.

Strategies to overcome the above mentioned hindrances would include the following among others:

- Increase government spending on infrastructure development.
- More stress on manufacturing than on service and distribution.
- Encourage participation of private sector in management of major airports and ports.
- Product Market Liberalization
- Restructuring of state owned PSU's to enable them to compete with private sector
- Restructuring of finance institutions in the country to build a better financial sector.
- Allowing faster processing of business startups and tax legislation.
- Allow a bigger cap on FDI's with a clause to reduce stake within a certain period of time.
- Quality Higher Education Institutes to provide for the highly skilled labour requirements.

Let us discuss some of the strategies mentioned above:

According to IMF statistics the central government spending on infrastructure development in India has to increase by at least 3% of the GDP if it is to maintain its current growth rate. Infrastructure developments include better connectivity by land (roads), by sea (ports) and by air (airports). Though the above mentioned are just some of the developments needed, they constitute the most important of all of the other developments needed.

The private sector at home and abroad is more than eager to build them, provided the asinine policies blocking this investment are discarded. So the earlier the bureaucratic cloud lifts from the government spending on Infrastructure, the faster India will be on track to fight on a global level.

Given that the "national highways form only 2 percent of the entire road network in India but handle over 40 percent of the national road freight traffic" road build-out will critical. Increased speed limits will also help as well, considering that "on average a commercial vehicle in India runs at a speed of 20 miles per hour compared to over 60 mph in Western Europe and the United States.

A few important measures include lowering indirect taxes which will lower price points, boost domestic demand and, therefore, provide scale for export competitiveness; creating enabling infrastructure e.g. the recently announced sector specific manufacturing investment regions, accelerating power and port reforms etc; and supporting skill development e.g. public private partnerships to boost skilled manpower availabilities

A step towards better infrastructure would be to privatize the airports and ports. At present at least two private ports are operating in the country excluding the smaller offloading docks run by private corporations in states like Gujarat .privatizing ports and airports would improve their efficiency and thus result in better productivity .

India has developed much into a servicing centre of the world. It started of with outsourcing in the IT Industry, but now has gradually diversified to all kinds of services. The boost that the Industry brings, has propelled the Economy to unprecedented figures, but the question remains, for how long? The service Industry can bring about temporary, short term benefits to a country, but a service Industry can never stand to gain until it has a manufacturing base to supply it the work. India has lot of catching up to do with the other countries , specifically in terms of manufacturing .India has the advantage of already having a distribution network and a well oiled service industry , this combined with the brainpower which it exports every year can provide a ready made platform for the manufacturing Industry to set up their base . Already major car manufacturers, among others are looking to India not only as a cheap service destination but a potential manufacturing powerhouse. But increasing competition from our south Asian neighbors can prove ominous. A little boost from the government can help tilt the scales on our side.

“Product Market Liberalization” If you take it word by word , it means liberalization of the product market …In India it means removing the restriction that some goods can only be produced by small scale units. It is very Important to understand here that the SME clusters are very important to the Indian economy; but the issue here is that some of the products listed under the category, (there are around 700 of them) can more effectively produced by their bigger counterparts. If those products can be brought out of the restricted category and made open, the bigger Industrial houses could make a better use of the opportunity.

Some of the PSU’s have done very well in the global context while most others have failed to deliver their promise. The PSUs that the government has been disinvesting in are the profit making ones. Thus, while the government earns a lump-sum amount in one year, it loses the profits that the PSU would have contributed to the exchequer in the future. Therefore, it is not a good idea even if the objective is to reduce the fiscal deficit. Instead of disinvesting the profit making PSU’s , Another option could have been to help the ailing units by modernizing the infrastructure, updating their machinery and hiring new workforce whose returns would have helped fill the coffers of the government .This would have had a double impact . Firstly it would have converted a liability into an asset. Secondly it would help create competition for local private companies and allow them a global viewpoint.

Fiscal deficit has been a cause of worry for the government since a long time. Many policies have been brought in to curb it .The main impact of the policy of reduced fiscal deficits has therefore been on the government's expenditure. This has had a number of effects. First, government investment in sectors such as agriculture has been cut. Secondly, expenditure on social sectors like education, health and poverty alleviation has been reduced leading to greater hardship for the poor already bearing the brunt of liberalization. Perhaps most importantly, in an economy going through a recession the government is not allowed to play any role in boosting demand.

The financial sector could be made better by modernizing the state owned banking system and provide the facilities provided by the private banks. An example in view is that of ICICI, presently India's biggest private bank. It was started as a development finance institution by the World Bank and Indian government and then grew to its present size. More initiatives like this will bode well for the Indian financial sector.
A business startup in India takes around 89 days as against 41 days in china and for processing of tax legislation it takes around 245 days which though less than that of the UK is still considerably higher than that of Singapore . A faster processing system would ensure lesser delays and more output.
The policy regarding FDI's should be tweaked a little to allow a bigger sectoral cap for the Insurance and Trading sectors, presently at 26% and 51% respectively. This will bring in more investment in the insurance and retail segments, both highly lucrative to the foreign investors given the yet untapped potential of both these sectors. Also as with the Indonesian policy, the foreign institutions with a holding of above a particular threshold would have to reduce their holding to that threshold within a stipulated period of time.
Given the quality of Indian education system, a large chunk of the graduates are deemed unemployable by multinational companies. This could convert India's ace, manpower, into its liability. Right now it needs to generate low skilled jobs to complement the highly skilled segment so that unemployment does not become a deterrent for growth. Better educational Institutes, according to a recent survey at least 15-20 more engineering colleges with same level as that of IIT's are required to feed the requirements. Same with the Management institutes with India being fast recognized as the managerial capital of the world.
These above mentioned strategies are just a tiny bit of what could be achieved , but even if the above mentioned are implemented within a time period of say 5-10 years ,Indian firms could well be on their way to establish India as the next economy powerhouse of the world.
Noting that a new venture typically takes four or five years to build its factory, stabilize production and earn enough profits to declare a dividend., a question comes to the mind .Why should we restrict the equity stake of foreign investors in their initial years? We should say foreigners are welcome to have 100 per cent equity to start with, but should dilute their stake within ten years. That will make India look attractive to foreigners, yet limit the outgo of dividends when the flow really becomes large.
We need graded norms for foreign equity dilution to get the best results. For instance, if a multinational exports one-third or more of its output, it is a global player whose export earnings will far exceed dividends, and should be allowed to foreign equity. A company, whose net export earnings (exports minus imports) are twice as high as its dividends, should be allowed to keep 80 per cent equity even after 10 years. Any other company that is a net foreign exchange earner after dividend payments should be able to keep 66 per cent equity. And companies which are not foreign exchange earners should be obliged to dilute their stake to 51 per cent after 10 years. We should not ask for dilution below 51 per cent, since investors' prize majority control.

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