OP-ED

Copycats Don't Catch Mice!

SMITA PURUSHOTTAM

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Deng Xiaoping's sound bites are hard to beat. His earthy aphorisms such as "grope one's way, stone by stone, across the river" and the one which forms the inspiration for this title — "it does not matter whether the cat is black or yellow, as long as it catches mice" — have helped guide his country's economic transformation.

The development strategies of different countries vary, albeit with some common features like export orientation. All countries choose their growth paths based on analyses of their national interests, requirements and capabilities; however, each model has its flaws. The Chinese model too has several faultlines. For instance, the deep inequality — Zhu Rongji admitted its Gini coefficient is 0.39 (against India's 0.29) — indicates a serious imbalance between town and country, and movement restrictions between town and city prevent the redistribution of urban wealth through remittances. Hence, should a shock, similar to the serial implosions of 1997, hit China, there could be a chain reaction spinning out of control — a danger explicitly recognised by Chinese leaders.

However, the scenario actually facing us today is China's manufacturing juggernaut. FDI, which post-1978, was harnessed along with the profit motive within a Statist framework, far from destroying Chinese domestic enterprises, has catalysed domestic competitiveness.

India has achieved its undoubted successes in economic growth against opposition by a host of cacophonous anti-growth lobbies. This article atte-mpts to boost the proponents of growth against those who have only a hazy understanding of the issues involved and the changing world context, and who grab half-truths from any source to confuse everyone even further.

The History of C3I-Caco-phonous Copycats of India

First came the uncritical espousal of the Soviet economic model by both India and China. The emphasis on heavy industry was correct, but the unnecessary, ideologically-motivated impediments to growth in other sectors in both countries were clearly suicidal before the trend was reversed in the 1980s.

By the late 1970s, China rea-lised the need to dump the alien model, and is now reaping the fruits of its creative hybridisation of the capitalist and communist economic models. Of course, it's called socialism with Chinese, i.e., national, characteristics.

In India, the foreign debt-led growth of the 1980s led to the inevitable crisis, following which, India was forced to adopt IMF prescriptions in 1991. Because of the ideological and political opposition that deeper structural reforms entailed, the reforms of the 1990s bypassed infrastructure, power reforms, small-scale sector dereservation and labour reforms. However, the resulting greater openness and liberalisation of the industrial and external sectors produced appreciable improvements in efficiency.

Next, China, especially its success in attracting FDI, became the rallying goal for C3Is. In India we have the Believers, who uncritically accept Chinese achievements, and the Sceptics, who, as categorically, reject them as 'illusion'.

But very few people understand that China has cordoned off strategic sectors like defence, telecom and infrastructure from FDI and devised a host of policies to leverage FDI to national advantage. China realised early on the need to be wary of foreign investment in expensive infrastructure projects, which entailed a continuous outflow of funds. We in India got ripped off.

A few years later, the C3Is were struck by another of China's bright ideas — Special Economic Zones (SEZs). But China had spent 10 years investing in their infrastructure and converting the SEZs into enc-laves of development. The SEZs also fit into an integrated strategy — FDI feeds foreign trade and both together feed domestic manufacturing, causing expansion in all three sectors and sustained economic growth.

It's not that we are lacking in creativity. We have found indigenous solutions in the telecom sector and in Privatisation, which, as I predicted in 2001, would be the cutting edge of the next generation reforms. But alas, the mental barricades of the C3Is are being erected again.

Today, Indians watch in dismay as the extreme Left and Right once again take up positions against reform. As the last guardians of the status quo left in town (bad pun unintended), the extreme Left will not budge from its antediluvian, anti-growth stand on labour reforms and Privatisation. The extreme Right, unschooled in Marxist theory (which has its uses), contends that the current policies and indeed the economic reforms are a sell-out to multinationals. They confuse Privati-sation with bartering national security, forgetting that the US has built its supremacy on the strength of its private sector.

These people are decrying the symptoms of a genuine malaise. The declining share of the manufacturing sector is a real cause for concern. Besides the loss of jobs, India is unable to absorb its own scientific talent — that giant sucking sound is made by our brains being vacuumed away by the West. This is disastrous in a knowledge-based world economy, and will dent our national security, as an advanced indigenous defence industry is essential. The kind of capabilities the Chinese have acquired indicates that they have learnt this lesson.

After decades of tepid performance by the public sector, the government is moving out of business to concentrate on its core functions — ensuring national security, good governance and supplying social and physical infrastructure.

But my fear is, are we going to lose our advantage in ideological flexibility that permits us to question and correct past policies? We keep hearing unsubstantiated arguments against Privatisation. We don't realise how difficult it has been to structure a fair and viable privatisation, or how flawed the experiences of many countries have been. Ours, in contrast, can provide a model to other countries. In fact, the one big difference between India and China is the potential to unlock value in our state assets through Privatisation whereas China seems to be stuck with its state Enterprises. Pundits have been fondly pointing out that China's Communist ideology precludes Privatisation and the state-owned enterprises are doomed to drag the banking sector and the economy down with them. Well, the just-concluded 16th Party Congress should belie these hopes — not only has there been substantial backdoor Pri-vatisation in China, the momentum is going to increase as the Communist Party co-opts private entrepreneurs as partners.

There should be a healthy debate to ensure competition and effective regulation, otherwise private firms may be more rapacious than their public sector predecessors. Firms which give terrible service should be penalised and those, which perform well, rewarded. Mono-polies should not be permitted. State enterprises in strategic se-ctors should be sold only to maj-ority Indian partners, unless there are so many that some can only to maj-ority Indian partners, unless there are so many that some can be spared for foreign investors. And instead of pursuing Priva-tisation as a goal in its own right; must be integrated into an overall, indigenous strategy to promote indigenous high-tech led manufacturing sector, attract FDI and promote exports.

India is an amazing country. Let’s find our own, nationalistic solutions that leverages globalisation to our benefit, treats the Indian private sector as a trusted, equal partner and liberates our people from poverty. Let’s not be copycats in espousing one failed ideology or model after another. Copycats, by definition, don’t come up with creative solutions. C3I could even be a strategy to divert attention from the real solutions. While it may play to the gallery, it is ruinous for the nation’s economic health and ultimately, its national security.

The writer is a member of the Indian Foreign Service. The views expressed here are personal