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How India Holds Itself Back

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Eight years ago, when India abandoned socialism and stepped into the world economy, hope sprang alive in New Delhi's corridors of power and in the boardrooms of multinational corporations that this Asian giant was about to become a global economic player, despite the desperate poverty that has shaped its international image.

Here was a huge country--nearly 1 billion people--capable of throwing its weight around, if it finally exercised the economic muscle that had wasted away behind protectionist barriers for decades. India had one of the world's largest contingents of skilled technicians, a consumer class about as big as the population of the United States, an industrial base that made everything from carpets to satellites, and an agricultural sector that ranked as a leading producer of basic foodstuffs such as wheat and milk.

That was all true then, and remains so, but few India hands have retained their optimism that the nation's potential for rapid growth is going to be realized any time soon, even if the next century does turn out to be "the Asian century" as was widely predicted here--at least before last summer's Asian economic downturn. (As growth in India's economy and exports has slipped since 1997, politicians have taken comfort that the declines have not been as steep as in Southeast Asia.) Many Western executives whose companies rushed in the early 1990s to establish offices in India have scaled back their operations--and their hopes--in the past few years.

I understand why they are doing so. My experience covering a succession of five governments in New Delhi has convinced me that instead of claiming a significant place in the global economic order, India is holding itself back.

Like Washington, New Delhi is a government town where the powerful and their retainers strut at evening cocktail receptions. At these social affairs in the cool gardens of official bungalows and on the open rooftops of middle-class homes, conversation between Americans and members of the English-speaking Indian elite almost inevitably turns to the globalizing economy. After a Scotch or two, many educated Indians find it hard to contain the combustible mix of envy and resentment they harbor toward the United States, its prosperity and power.

Talk economics long enough, and an American is likely to get a short history lesson about the traders of the **British East India Company,** who arrived in the early 17th century--long before India was united as a nation--and the stealthy conquest that eventually followed. The country's post-colonial paranoia leads otherwise reasonable Indians to react with a paralyzing fear that their country, confronted with commercial representatives from a new era's superpower, is surely threatened again with a similar fate.

Retired law professor M.D. Nanjundaswamy, who represents the interests of peasant farmers, once assured me with all the conviction he could muster that PepsiCo Inc.'s real purpose in bringing Kentucky Fried Chicken to India was to buy and slaughter all the nation's cattle, the sacred cows of the Hindu majority. Baffled, I asked what chicken restaurants would do with so much beef. He was not dissuaded in the least, adopting the all-knowing look and tone of conspiracy theorists.

This fear of cultural invasion, of losing control of national resources--or even sovereignty--has repeatedly stymied moves by successive governments to convert the prevailing consensus on market economics into policy and law. Parliamentary debate over conforming to international patent protections gets reduced to worries that Western pharmaceutical companies will steal traditional Indian remedies, which Indian drug manufacturers have rarely tested or marketed abroad. Legislation to open the government's monopoly on insurance to foreign companies gets sandbagged and tagged as a treasonous plot to export Indian savings, instead of being welcomed as a way to create jobs, make certain kinds of coverage more available and collect a pool of patient capital that could be invested in badly needed infrastructure.

In recent years, successive governments have occasionally overcome opposition and opened some sectors of the domestic economy, such as telecommunications and broadcasting, both of which had been entirely under government control. But policies affecting those industries shift often enough to unnerve foreign investors, some of whom have packed it in and gone home as a result. I recall a French telecommunications manager reciting a litany of policy changes, punctuating each with a diving index finger to indicate a steep downturn in business caused by higher charges for cellular calls and a new luxury tax on mobile phones, for instance. That manager headed back to Paris, leaving behind a skeletal corporate presence.

The satellite television industry may have had it the worst. With hardly any government forethought, foreign operators were permitted in 1991 to break the state-run network's monopoly because, without CNN, India could not watch the Persian Gulf War along with the rest of the world. But since then, sole foreign ownership of satellite channels has come under attack from Indian politicians fretting about a "cultural invasion," by which they usually mean exposure to the supposed sexual licentiousness of the West. Serial drafts of broadcasting legislation have proposed limiting maximum foreign ownership to 49 percent--and even as little as 25 percent.

To keep the cultural invaders out, Hindu nationalists--apparently confused about how the technology works--first proposed a ban on foreign broadcasters transmitting programs from India via satellite. Next, the same politicians reversed themselves: They vowed to require foreign broadcasters to transmit India-oriented programs from the country so the government could collect satellite fees and regulate programming content. In the end, the current government decided to allow only Indian-owned channels to transmit from India. (There is no practical way to control picking up programming from a satellite.) Legislation regulating broadcasting overall still has not passed parliament.

"This is India. What can you do?" Jayanthi Natarajan, an exasperated cabinet minister, replied in 1997 when I asked about similar bobbing and weaving on civil aviation policy. Natarajan's response was common Indian shorthand for "We're a big democracy, with a multiplicity of opinions. It takes some time to reach agreement." The same has often been said of the United States, but India has a far larger and more diverse population, 40 parliamentary parties and only a half-century of experience with

democratic rule. A corollary popular with the elite holds that China, the only country of comparable dimensions, has attracted exponentially more foreign investment, outperformed India in world trade and grown faster because of its authoritarian rule. Wrong, I say. The world has known many more authoritarian regimes that have presided over contracting economies, such as Cuba, or Zaire during the Mobutu regime. A decisive difference is that Beijing has an economic strategy, one geared to promote growth, and New Delhi doesn't seem to have any kind of strategy.

I once asked P. Chidambaram, a Harvard Business School graduate and India's market-oriented finance minister from 1996 to 1998, to outline his coalition government's economic strategy. Instead of outlining goals and priorities, he launched into a laundry list of changes in bureaucratic procedures for reviewing foreign investment proposals, a torrent that left me dazed.

Other Indian leaders, when asked more explicitly why New Delhi has not developed an overall strategy to compete in the globalized economy the way Beijing has, used to offer reasons why democratic India cannot copy Beijing's strategy of freeing market forces in selected, coastal areas or relying on its diaspora to boost foreign investment. Like Chidambaram, they missed the point: India needs a economic strategy of its own making, suited to its national strengths, weaknesses and needs. Such a strategy would provide a framework to guide parliament in writing sector-by-sector legislation. It could get government ministers, who too often describe market-oriented legislation as the byproduct of World Trade Organization rules or Western diplomatic pressures, off the defensive.

With a sound strategy in place to satisfy the educated elite, a shrewd Indian politician could parlay market economics into a strong nationalist appeal to the masses. It could go something like this: "Centuries before our India became a united nation, our people were engaged in trade with much of the known world. We held our own in the spice trade and along the Silk Road until the British came in and exploited us. We chased the British out a long time ago and we will never again allow outsiders to come here and exploit us. But we need to buy essential goods from the rest of the world and sell our goods outside India. And it will help us grow into an even stronger nation if foreigners invest their money in our country. We can compete in world trade. We have done it before. We can do it again."

I kept waiting to hear an Indian politician of any ideological stripe say something like that. I never did.

"They ain't ready," concluded an American diplomat who arrived in New Delhi during the giddy days of economic optimism and left as it was waning. That diplomat predicted a generation, maybe two, would pass before India's leaders get the nation's economic act together.

Even that strained measure of optimism springs from faith in what should be the pride of India, an entrenched democracy that is not only the world's largest but also the oldest in a developing country. My gut tells me that if Indian politicians debate it long enough, as they most surely will, they'll get it right. But as they say in India, "That will take some time."

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