



HUGH SANDEMAN

The author is managing director, Langham Capital. He can be reached at hugh.sandeman@langhamcap.com

An exasperated correspondent

Indian industrial policy in the early 1980s was short-sighted and repressive

A Hard Day's Night', *Business India's* recent retrospective issue on the sclerotic, dying days of the Licence Raj, brought back happy memories of reading despatches about Indian business in the early 1980s, at my desk in London as international business editor of *The Economist*. We were lucky enough to have the great Swami Aiyar as our correspondent in Delhi, who was already lampooning Indian economic policy on the grounds that appealing to common sense or economic theory alone was not enough.

Regular calls to Swami were announced all round the editorial floor by the urgent bellowing needed to be heard above the crackles on Indian (and British) telephone lines before the connection was cut off. Readers were rewarded with reports that told of India's enormous potential, of the persistence and cunning of Indian entrepreneurs, and of the dumbfounding behaviour of politicians and officials, all put together in a way that often left us rocking with laughter.

Misplaced ingenuity was one of his favourite themes. Rats, we were told in one report, were eating several percentage points of the Indian grain harvest, leaving farmers poorer and scrabbling for additional sources of income. One lucrative side-line for hard-pressed farmers was the illegal export trade in snake skins, worth perhaps \$60 million a year at the time. Snakes, however, are master rat-catchers, meaning that the snakes were worth a lot more to the Indian economy alive than dead. So, a leather research institute had set out to see if the cycle could be reversed by turning rats' skins into luxury goods.

The rats-for-snakes idea made a lot more sense than Indian industrial policy at the time, described in one article as a "flawed marriage of convenience between the theory of socialism and the reality of India's feudal political culture". Politicians "line their pockets, provide jobs for the boys and set up industries in the manner of Moghuls showering gifts". The country's precious comparative advantage was wasted by policies encouraging home-made products, and the obsession with self-sufficiency had made the country "a jack of many trades and master of few". As for the Gandhian spinning wheel that symbolised this ideology, it required more capital per unit of output than a modern textile mill.

India's potential was then measured alongside economies in East Asia where, by the early 1980s, South Korea, Hong Kong and Taiwan had made a decisive breakthrough in following Japan's example of long-term rapid growth. "Can Indian industry rival that of South Korea or Taiwan? The probable answer, sadly, is no," Swami said. "The meddling habits of Indian politicians continue to put off the day when a drive for productivity brings radical change in Indian industry." Not the fault of industrialists, where the verdict was that "their ingenuity is great, but their productivity poor and quality unreliable", due to restrictions on import of machinery and know-how, and every imaginable form of disincentive.

China's escape from the economic madness of Mao was too recent at that time to provide a comparison with India, but already a quarter of a century ago, the promise of change in these two giant countries was "mankind's best chance of lifting 40 per cent of its number out of poverty... Suppose India and China get hooked on freer markets, what kind of economies will they be?" We now know the answer, but it is hard not to be saddened by the scale of the opportunity that was missed in India to create the tens of millions of manufacturing jobs that China achieved during those crucial first decades of globalisation. In 1982, when Japanese car manufacturer Suzuki was negotiating a JV with Maruti, Swami noted that, "India could have got into car exporting 30 years ago, when world demand was starting to explode and most markets were open."

The underlying story, of huge potential suppressed by awful policies, emerges often from reports on industries like motorcycles, which were booming well before the car industry broke free of controls. The ambitions and achievements of the old industrial dynasties, the Tatas and Birlas, and of their new challengers like the Ambanis and Modis, also have a familiar ring. So does the observation that "India could do better in industries where brains count as much as cheap brawn", alongside a report in 1983 that software companies were getting up to 1,000 graduate applications for each vacancy.

It just took a long time to bear fruit. No wonder that one of these reports from India was titled, 'From our Exasperated Correspondent'.