Why we are an uncompetitive nation

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Much has been made of the success of our computer software and pharmaceuticals industries in recent times. Many Indian companies are talking confidently of globalizing. Politicians are emphasizing the need for India's integration with the global economy. Yet, behind all this rhetoric, there is a sinking feeling in most of us that other countries are moving much faster than us.

Take a country like **China**. On paper, China is way behind us. It does not have democracy. Nor it does have a satisfactory legal infrastructure. There is corruption. Knowledge of English is dismal, when compared to India. There is a huge public sector. Yet, how is it that China has attracted foreign direct investment (FDI) of $45 billion during 2000, as against a paltry sum of $4 billion by India.

Ireland, which was one of the poorest nations in the world at the beginning of the 20th century, has emerged as the most competitive economy in Europe and indeed one of the most attractive destinations for foreign investors in the world. The Irish have succeeded in attracting investments in sunrise industries such as Information Technology and Pharmaceuticals. Real GDP has grown impressively by 5.8% in 1994, 9.5% in 1995, 7.7% in 1996, 10.7% in1997 and 8.9% in 1998.

Ireland's equivalent in Asia is a small country, **Taiwan** which has to keep looking over its shoulder to see what big brother, China is doing. The Taiwanese have built up a vibrant cluster of world class Information Technology Companies. Indeed, Taiwan is one of the global leaders in a range of IT products. Taiwan has also developed a solid reputation for its flexible economy, which allows new businesses to be formed and sinking businesses to be closed, effortlessly. The country's vibrant small and medium enterprise (SME) sector has become a case study for other emerging economies.

Yet another country which has been in the limelight in recent times has been **Spain.** For long, one of the poorest countries in the European community, Spain's reforms accelerated in the late 1980s. Today, Spain can boast of several MNCs, the most visible among them being the telecom giant, Telefonica.The country's cheap and attractive labor has also resulted in major FDI inflows.

A country becomes competitive not when its leaders or citizens proclaim so.Rather, others should think so. If MNCs consider China, Ireland and Spain as attractive investment destinations, there must be definite reasons. Similarly, if the world's leading IT companies find it makes sense to out source from Taiwan, they must be guided by cold business logic. What is it the Indian government needs to do press the accelerator so that we do not fall further behind?

The experiences of some of the countries mentioned above certainly offer useful tips. Take the case of Ireland. When the country wanted to develop its IT sector, the shortage of trained manpower became an important bottleneck. The country's Industrial Development Agency (IDA) actually presented a booklet to Intel containing a list of 85 Irish engineers working in the US. The IDA could consequently persuade Intel that talented manpower would be available locally to staff its manufacturing facilities. The Irish government has also been responsive to the needs of business in various ways, especially in tax matters. It has also invested huge sums of money in education to develop its human resources.

Consider Taiwan. The country has created an environment for industries to thrive in various ways. Bankruptcy laws are very efficient. Venture Capital is readily available. In 1996, some 25,272 companies (4.7% of the total) went bankrupt. Firms that accounted for 58% of Taiwan's chemical production in 1981 had left the business by 1991. Between 1960 and 1994, Taiwan's productivity improved faster than that of all other Asian countries, thanks to the fear of bankruptcy and the threat of new entrants.

Take the case of Spain. The country has aggressively privatized and cut government spending significantly. While the labor markets are still rigid and unemployment is in double-digits, attempts have been made to get around the problem through the use of a flexible part time labor force. In 2000, Spain was actually a net exporter of capital. As the Spanish Finance Minister has put it eloquently: "The new paradigm is not magic. You need basic orthodox macroeconomic policies, if you want your country to be able to tap new opportunities. The first one is to have your public accounts in balance. It's very clear that if you want to have the financing for strong investment development in new technologies, you have to have a balanced budget that will give you financial resources to move ahead. The second is to have very strong liberalization and anti trust policies as well as tax reductions and tax modernization to support the globalization of industry." When we look at the experiences of these countries, it is quite obvious that we have a long way to go. For a country of our size we have hardly any representation in the Fortune 500 list. Our IT companies are still pygmies when compared to giants like Microsoft, Computer Associates and Oracle. The annual turnover of our largest pharmaceutical company is less than the investment required to develop a new drug from scratch. And if we look across industries, there is hardly any world class brand to talk about.

Only way to survive in this global marketplace today is to create value for the customers. Earlier, companies could get away without worrying about their customers and their shareholders. Now both of them are demanding their due share, and companies will have to satisfy both. And the competition to provide such value is intensifying because of deregulation and technological changes taking place in the world. To provide such value, we need real innovation. Reliance on government subsidies and incentives and taking advantages of lower labor costs are not sustainable strategies in the long run. The government on its part should wakeup and draw up a concrete plan of action - Cut government expenditure radically. Make it easy for sick industries to close. Get out of the control mindset and become a facilitator. Remember that investors can go to so many places. Unless, we make structural changes, we will continue to lag behind.