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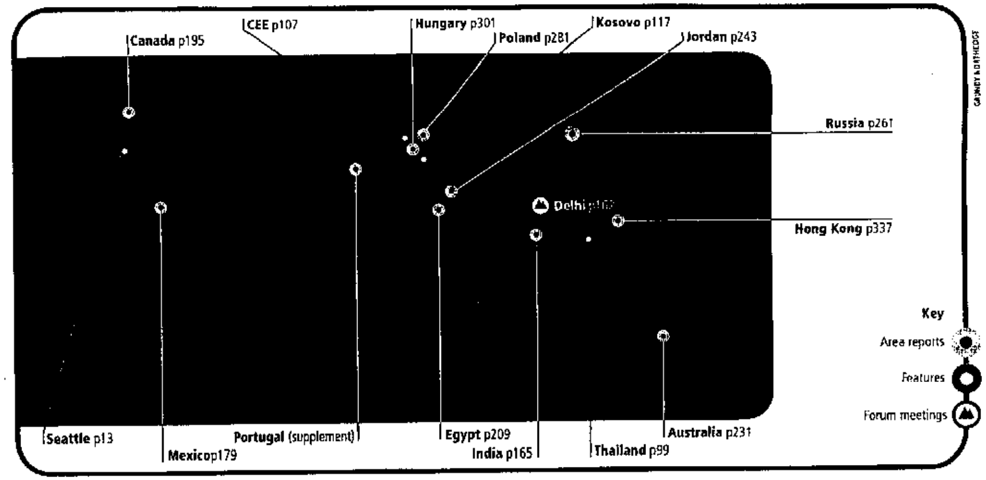

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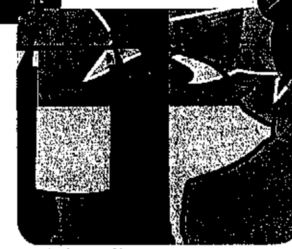

> An economically resurgent India will be a source of stability and long-term growth for the world economy
> Atal Behari Vajpayee, prime minister of India

> Few businessmen will adhere to governance standards unless government takes the lead
> Ronnie Chan, chairman, Hang Lung Development Corp

> Five years ago, China was the insurance market to get into. Now India is the big hope
> Heinz Dollberg, exec. vice-president, All

> As we enter the new millennium, decentralisation is essential if we are to survive in a competitive world

> Shouldn't businesses also be accountable to the community – and not only to the shareholders?

> Just because the talks in Seattle failed does not mean that globalisation is slowing

INDIA ECONOMIC SUMMIT

PERFECT TIMING

Some last-minute good news put a happy gloss on December's India Summit. But it cannot take away from the work still to be done, reports Rob Jenkins

While good theatre and good politics often go together, good theatre and good economics don't. Jaswant Singh, India's minister of external relations, turned this axiom on its head at the concluding plenary of December's India Economic Summit, held by the World Economic Forum with the Confederation of Indian Industry (CII). Arriving late, straight from the parliament, he delivered the news with a dramatic flourish: the Indian parliament had just passed the long-awaited Insurance Regulatory and Development Authority Act. The audience erupted in spontaneous applause. Successfully combining politics and drama, Singh managed to make even insurance seem sexy.

This upbeat finale drowned out the cautionary words with which the summit had begun. Claude Smadja, managing director of the World Economic Forum, mixed praise for the newly elected government of prime minister Atal Behari Vajpayee with a warning on the precarious state of India's public finances in which half of all government revenue is spent on debt-servicing while the public-sector deficit is approaching 9% of GDP. This means high interest rates place Indian firms at a competitive disadvantage and make international investors jittery about macroeconomic stability. Business, Smadja said, was unconvinced by the government's penchant for introducing "reform by announcement" – grand statements which went unheeded by India's bureaucracy.


Prime minister Atal Behari Vajpayee: big tasks ahead

The gap between rhetoric and reality was also of concern to delegates interested in the implications of insurance-sector reform. As many pointed out, even with the duopoly of India's government-run insurance giants broken, the new regulator would still have to work out many tricky details. The criteria for assessing applications from private-sector companies to enter the insurance business and the nature of their commitments to what the act calls "economically backward classes" remain ill-defined. Foreign firms are worried about the government's power to "issue directions" to the regulator and to "supersede" its authority. Indian companies are irked by rules which require them to reduce their stakes in joint ventures to 26% within 10 years. Insurance businesses take eight years to break even, meaning Indian partners may be forced out just as ventures go into profit.

The difficulties of managing joint ventures was a recurrent theme throughout the summit. A number of tie-ups between Indian companies and multinationals have gone sour in recent years – for instance, the public row between Honda and India's Hero Group, a 15-year-old motorcycle manufacturing partnership. Like many multinationals, Honda wants to set up a wholly owned subsidiary which would compete with the joint venture. Hero and other Indian firms see this as betrayal. A December 1998 regulation came to their rescue. It requires multinationals to obtain a "no-objection certificate" from their joint-venture partners before setting up competing subsidiaries.

The Honda-Hero controversy moved from subtext into the open when Hero's managing director, Pawan Munjal, was asked about this issue in a session on joint ventures. His diplomatic answer stressed that the best solution is a voluntary five-year "cooling off" period, during which a new subsidiary would not compete with an existing joint venture in the same product segments. This response did not satisfy everyone. One delegate asked whether problems arose because the ventures were "shotgun marriages", forced on multinationals by government policies requiring tie-ups with local partners. Now that these are being eased, wasn't it natural that multinationals would want to go it alone?

The panelists' carefully worded responses could not mask the strong feelings of many foreign businessmen. One representative of a major American consumer-products company told me that his firm could not wait to be rid of its local partner, who contributed "virtually nothing" to the joint venture. But Baba Kalyani of Bharat Forge, who has run automotive-sector joint ventures for 18 years, argued that failure was usually due to a lack of mutual trust and transparency.

Indeed, transparency was one of the summit's watchwords. Secretive business practices had to be reformed and driving this change, argued summit co-chairman Rahul Bajaj, was the need to satisfy institutional investors. Many Indian companies have brought their accounting systems into closer alignment with international norms, boosting confidence among foreign institutional investors. Indian as well as foreign investors have begun to demand greater openness. CII has responded by producing a voluntary code of good corporate governance. But Hong Kong-based Ronnie Chan, another conference co-chairman, argued that neither voluntarism nor market discipline would be sufficient. Governments must set rules, a fact recognised by the Securities and Exchange Board of India, currently devising a set of compulsory corporate-governance standards.

The issue goes beyond accounting practices to the heart of how companies are managed, a touchy subject among family-run business groups in India. "Family managed" does not necessarily mean badly managed. But it does complicate issues such as how "independent" non-executive directors are and whether a group's corporate accounts should be consolidated. There was consensus that how these questions were resolved would determine whether Indian firms would become world class.

There was no doubt that the best Indian companies could rank themselves among the global players. India's booming information-technology sector was constantly held up as a standard to which all Indian businesses could aspire. The sector had "benefited", many joked, from government neglect. One IT executive viewed the recent creation of a Ministry of Information Technology as "just the sort of attention we could do without". Others saw this more positively. The current IT minister could become the industry's "champion" – for instance, pressing the finance ministry for exemptions from rules which prohibit firms from acquiring overseas companies.

Optimists pointed to the positive role played by Andhra Pradesh's chief minister, Chandrababu Naidu, in promoting an IT cluster in the city of Hyderabad. The fact that the pro-reform Naidu was re-elected in the recent elections underscores the growing consensus: that good economics could indeed co-exist with good politics.■

THE SEATTLE FALLOUT: THE MORNING AFTER

If you thought demonstrators on the streets of Seattle at the end of last year made strange bedfellows – burly factory workers marching alongside tied-dyed eco-warriors – trade politics in India has produced even more bizarre marriages of convenience. Eminent economist Jagdish Bhagwati, a die-hard free trader based at New York's Columbia University, has authored a petition to which some of India's more radical left-leaning activists have also affixed their signatures.

Bhagwati opposes anything that will stand in the way of the WTO's "real" mission – trade unfettered by either tariffs or misplaced moralism. The activists oppose anything – even environmental protection – that puts more power in the hands of the western-dominated WTO.

Similarly unnatural couplings could be seen in India's parliament. In the aftermath of Seattle, the opposition benches were, grudgingly, singing from the same hymn-sheet as ruling-party backbenchers – all praise for the BJP-led government's defiant stand against western proposals to link labour and environmental standards to trade agreements. India's communist parties were also of one mind with the capitalist bosses of the Confederation of Indian Industry. And after the prime minister's speech at the summit's opening ceremonies in which he denounced the introduction of "extraneous" issues into trade negotiations, the buzz at the reception was dominated by admiration for the PM's determination. This could be heard among both Indian and foreign businessmen.

What links these disparate forces even more, however, is a distinct unease about the implications of Seattle. The left force fears having fallen into a trap set by its class enemies and party-political rivals. As for India's business elite, while clearly pleased at the scuppering of plans which might have undermined some of their labour-cost advantages, many sense what was lost in Seattle.

In private discussions, business people voiced disappointment that they are less likely to benefit from some of the potential gains which might have emerged from a more wide-ranging round of trade negotiations. For instance, under the agreement on Trade-Related Investment Measures, part of the final settlement of the Uruguay Round, India is obliged to phase out regulations stipulating that certain manufactured products contain a percentage of "local content". The deadline is January 1, 2000. The draft agreement discussed at Seattle, ultimately ditched in the absence of consensus, included the possibility of extending this and other compliance deadlines. As the producers of local content, Indian businesses were naturally hoping for a stay of execution.

Many were also hoping for new deals to make the old agreements work in their favour. Before collapsing amidst discord, the negotiations had addressed the concerns of many member-states, not least India, that developed countries were "abusing" anti-dumping provisions to discriminate against imports from developing countries.

For instance, the draft declaration had accepted the need for instituting a rule to prohibit the launching of an anti-dumping investigation within one year of the conclusion of a previous investigation, if the latter were found to be without merit. There were also moves towards greater flexibility by developed country governments on a range of other issues affecting Indian industry. For instance, new rules stipulating in greater detail how trade barriers to developed country textile markets were to be lifted. These would reduce the ability of western governments to protect their most valuable sectors thus violating the spirit of multilateral trade liberalisation while still adhering to the letter of the Agreement on Textiles and Clothing.

Then there is the issue of industrial tariff reform, something on which the Indian negotiating team had reportedly planned to be more flexible, realising that Indian firms had much to gain from greater market access, not only in Europe but in other emerging economies as well. "Peak tariffs in rich countries work as much to the disadvantage of our exports, if not more, as our peak tariffs do to theirs," argued one Indian industrialist.

That the implications of the post-Seattle "morning after" had finally dawned on Indian industry was apparent when KP Singh, president of the Associated Chambers of Commerce and Industry, concluded his tirade against the protectionist tendencies of the developed countries by admitting that the resistance of India's negotiators aside, the collapse of efforts to launch a new trade round was a "huge disappointment".■