Indian Capitalism in Directed Economy - Challenges in the Path to Prosperity

Shashi Sharma
# INDIAN CAPITALISM in DIRECTED ECONOMY

- *Challenges in the path to prosperity*

Shashi Sharma*

## Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>I. What is <em>Indian Capitalism</em> and how is it different?</td>
<td>4</td>
</tr>
<tr>
<td>II. What is <em>Directed Economy</em>? – Overview on Constitutional Provisions</td>
<td>5</td>
</tr>
<tr>
<td>III. Emergence of <em>Indian Capitalism</em>: Contributing Factors</td>
<td>7</td>
</tr>
<tr>
<td>A. Domestic Policies and practices – Historical Perspectives</td>
<td>7</td>
</tr>
<tr>
<td>1. Pre-colonial period</td>
<td>7</td>
</tr>
<tr>
<td>2. Colonial period</td>
<td>8</td>
</tr>
<tr>
<td>3. Post independence period</td>
<td>8</td>
</tr>
<tr>
<td>B. Impact of Globalization</td>
<td>10</td>
</tr>
<tr>
<td>C. Government Initiatives and Interventions</td>
<td>12</td>
</tr>
<tr>
<td>1. Encouragement of Entrepreneurship</td>
<td>12</td>
</tr>
<tr>
<td>2. Improvement of Global Trade relations</td>
<td>12</td>
</tr>
<tr>
<td>3. FDI policy</td>
<td>13</td>
</tr>
<tr>
<td>D. Other Factors and Determinants</td>
<td>14</td>
</tr>
<tr>
<td>1. Services</td>
<td>14</td>
</tr>
<tr>
<td>2. Demographics</td>
<td>15</td>
</tr>
<tr>
<td>3. Geography and natural resources</td>
<td>15</td>
</tr>
<tr>
<td>4. Physical Infrastructure</td>
<td>15</td>
</tr>
<tr>
<td>5. Agriculture</td>
<td>16</td>
</tr>
<tr>
<td>6. Industry</td>
<td>16</td>
</tr>
<tr>
<td>IV. Challenges ahead - for <em>Indian Capitalism</em> in a Directed economy</td>
<td>16</td>
</tr>
<tr>
<td>A. Cross border and Global terrorism</td>
<td>16</td>
</tr>
<tr>
<td>B. Creation of single unified national market</td>
<td>17</td>
</tr>
<tr>
<td>C. Legal reforms</td>
<td>20</td>
</tr>
<tr>
<td>D. Tackling Corruption</td>
<td>21</td>
</tr>
<tr>
<td>E. Poverty eradication</td>
<td>22</td>
</tr>
<tr>
<td>Conclusion</td>
<td>23</td>
</tr>
</tbody>
</table>

Introduction

*It has been a human tendency to claim and own success, and blame and disown failures, and the universal phenomenon of rationalizing continues to take precedence over rationality.*

The ‘post mortem experts’- the world renowned economists, rejoice in rationalizing their own approaches and philosophies on failed economic models and become Nobel laureates on their writings and projections, of mere academic value, on human poverty, misery and sufferings, a global phenomenon that continues unabated, despite several ‘economy and economic models’. Every approach on economic matters and relevant economic models needs to be understood contextually, as success and failure are inter-related and should not be measured in immediate context, as today’s failed approach may prove to be tomorrows most successful revenue model for any economy. The world is all set to invade space and after 50 years there is a probability of reorienting planning strategy by all countries as the word ‘globalization’ may become old fashioned and there exists abundant opportunity for everybody to enjoy the fruits of technology advancements. New approaches may be developed due to creation of different business opportunities like space exploration, space mining, space tourism etc., and the world shall move from its present restricted global approach to a ‘spatial’ approach and redesign free trade policies and practices. The economic models world wide have moved from local to global and the path to spatial economic matters needs to be understood by not being much concerned on discussing about failed and successful models, as all economic models are relative and relevant having contextual significance.

Sunita Williams… nee Pandya, who hoped to check the temperature of pet animals for a living, is in the limelight of the world, for being the first woman astronaut of Indian origin to successfully land
in orbit on ‘Discovery space shuttle’, under a space program of NASA, with the intention to make the space her home for 6 months and continue to build International Space Station. She was provided an opportunity by NASA, an American national space agency. Kalpana Chawla, the first woman Indian astronaut, was a victim of the disaster of Columbia space shuttle, on an earlier mission of NASA, when it exploded in 2003 during its re-entry. It’s only an example to highlight that technology, developed by humans, is superior to contextual success or failure and that Indians, in individual capacity, have partnered with US, world’s most developed economy, which recognized their abilities as humans and provided them opportunities in various programs.

India and Indians, of late, have once again started making global news, not merely because of any government policy or planning. The intellectual and entrepreneurial abilities of Indians is once again being recognized by the world due to the globalization process, resulting in several entrepreneurs like L.N. Mittal, Mukesh and Anil Ambani, Azim premji, Kaushal pal singh and others making to the Forbes list of richest individuals in a record time. Similarly, several technology experts from India have established in Silicon Valley and their success stories are read the world over. Indian scientists are preferred in all research areas and entrepreneurial abilities of Indians too are recognized the world over with the crowning of Mr. Lakshmi Mittal as the world’s steel king. Indian private telecom operators have already started marketing their services in US and other countries and are in a position to take their competitive edge to unimaginable heights. India, the world’s largest Democracy with a population of 1.1 billion, is on its desired and designed path of economic prosperity. It is currently the world’s third largest economy, in terms of purchasing power, and has achieved the distinction of being the second fastest growing economy\(^1\), owing to rapid progress made in the last decade, and considered to be the leader in global knowledge economy and an emerging superpower, despite existence of systemic

impediments owing their existence and perpetuation to historical, social, cultural, religious, ethnic, linguistic, geographic, demographic, political, and inherited colonial aberrations and legacy.

The emergence of Indian Capitalism, distinct from State-led and other forms of Capitalism, despite socialist character enshrined in the preamble of its constitution, is the desired dichotomy in a Directed Economy. The unplanned emergence of a new economic growth model, arising out of the positive impact of globalization, technology, initiatives by the entrepreneurs, technologists, skilled knowledge personnel and government, has made India and Indians relevant in the global economy characterized by schematic and systematic integration of global markets due to the evolving free trade policies and practices. The technology revolution has a tendency and capability of converting the world as a global village with each country resembling a distinct market place, permitting and permeating free flow of men and material for trading of their goods and services, and India with its emerging Indian Capitalism phenomenon, shall assume an important role in matters relating to sustainable development and lead the world in discovering and inventing peace for prosperity and well being of humanity. Indian Capitalism is distinct and different from other forms of capitalism like market-led, corporate, socio-democratic and state-led capitalism existing in US, Japan, Scandinavia and Germany respectively. Indian Capitalism, needs to be understood in the historical, socio-economic, cultural, political, demographic and legal context of the existing Directed Economy, which has reasonably adopted and adapted to the global market economy by enunciation of structural and administrative reforms of policies and programs, and renunciation or modification of redundant laws, practices and procedures.

I. What is Indian Capitalism and how is it different?

Indian Capitalism, an accidental evolution of complex-mix of various economies, owes its origin and perpetuation to the compulsive globalization process, adopted and adapted by the democratic
Institutions with a colonial legacy and hangover, representing the permanent and temporary pursuits of interests of people, characterized by prioritizing of changes in policies, prescriptions and practices and sidelining of conflicting socio-economic, religious, political and legal systems to achieve the objective of enjoying the concretized path to growth and prosperity. Indian Capitalism comprises of all the essential ingredients of an economic system in which the means of production are mostly privately and state owned and operated for profit, in which capital is invested by the private and public sector and distribution, production, and pricing of goods and services are determined in a largely free market. It also provides for creation of strong social mechanisms to redistribute incomes aimed at minimizing social inequalities by creation of public sector employment linked to health, education, industry, sanitation and public safety. There also exists primacy of private markets; well-defined private property rights, though not enforceable as a fundamental right of a citizen; encouragement to entrepreneurship, indigenous and imported, and innovation, especially in technological fields. The high tech / sunrise and business service jobs are developed and get acclimatized to the sophisticated financial markets. Indian Capitalism also provides room for symbiotic and peaceful co-existence of Crony capitalism features, characterized by favoritism in the distribution of legal permits, government grants, special tax breaks, which plays a supplemental role in generation of unaccounted GDP income i.e black money, which is of a significant magnitude and runs parallel to GDP.

II. What is Directed Economy? – Overview on Constitutional provisions

The source for all economic, investment, industrial and taxation matters is the provisions contained in the constitution, which acts as a guiding principal in framing the policies, statutes, programs, and establishment of regulatory and enforcement machinery. In India, the state assumed the role of owning, promoting, monitoring and controlling the economy, in order to realize the objectives stated in the Preamble and the Directive Principles of State Policy of the constitution of India. Certain
words in the Indian constitution, a patchwork of several constitutions with different philosophies that resulted in designing a Directed Economy are:

**In Preamble:** ..........Socialist; .... JUSTICE; .... social, economic and political; .... EQUALITY of status and of opportunity, .... assuring dignity of individual

**In Directive Principles of State Policy under Part IV,**

**Article 37**- (..fundamental in the governance,.. duty of the State to apply these principles in making laws.

**Article 38(2)**- The State shall, in particular, *strive to minimize the inequalities in income, and endeavor to eliminate inequalities in status, facilities and opportunities, not only amongst individuals but also amongst groups of people residing in different areas or engaged in different vocations.*

**Article 39**- The *State shall, in particular, direct its policy towards securing- (a) … right to an adequate means of livelihood; (b)...that the ownership and control of the material resources.... so distributed (c) ...does not result in the concentration of wealth and means of production*

In 1976, 42nd amendment to Indian constitution incorporated ‘socialist’ in the Preamble and the 44th amendment had withdrawn the right to property to all citizens, as provided under Art 19(1)(f) and several *reasonable restrictions* imposed on the Fundamental Rights have cleared the intention of the State to have only a State-led mixed economy, as all policies should be aimed at achieving socio-economic equality in all spheres of human activity and several enactments were carried out to fulfill the role of the state as *DIRECTOR OF ECONOMY* in furtherance to achieving the objectives under Directive Principles as enshrined under Articles 39 to 51. The state assumed the role of owner as well the controlling mechanism. Nationalization of all segments of economy and licensing, regulation and quasi-judicial powers under various statutes made the Indian economy to suffocate under inexperienced and ineffective *Bureaucratic control regime*. Several cosmetic enactments were carried out for mere
fulfillment of requirements under International treaties and agreements and without proper enforcement mechanism and machinery.

III. Emergence of Indian Capitalism- Contributing Factors

A. Domestic Policies and practices – Historical perspectives

1. Pre-colonial period

The Indus Valley civilization was a permanent and predominantly urban settlement that flourished between 2800 BC and 1800 BC. The people practiced agriculture, domesticated animals, used uniform weights and measures, made tools and weapons, and traded with other cities. Although many kingdoms and rulers issued coins, barter was prevalent. Villages paid a portion of their agricultural produce as revenue to the rulers, while its craftsmen received a part of the crops at harvest time for their services. Religion, especially Hinduism, and the caste and the joint family systems, played an influential role in shaping economic activities. The caste system functioned much like medieval European guilds, ensuring the division of labor, providing for the training of apprentices and, in some cases, allowing manufacturers to achieve narrow specialization. Superstitions about foreign travel among Hindus meant that foreigners and Muslims conducted a large part of India’s foreign trade. Textiles such as muslin, Calicos, shawls, and agricultural products such as pepper, cinnamon, opium and indigo were exported to Europe, the Middle East and South East Asia in return for gold and silver. India's pre-colonial revenue during Akbar's Mughal Empire in 1600 was £17.5 million, in contrast with the total revenue of Great Britain in 1800, which totaled £16 million.

---

5 Bombay Times, Times of India, Economy of Mughal Empire, August 17, 2004,
2. Colonial period

Colonial rule guaranteed property rights, encouraged free trade, and created a single currency with fixed exchange rates, capital markets, a well developed system of railways and telegraphs, a civil service that aimed to be free from political interference, and a common-law adversarial legal system. India's colonization by the British coincided with major changes in the world economy—industrialization, and significant growth in production and trade. India inherited an economy that was one of the poorest in the developing world, with industrial development stalled, agriculture unable to feed a rapidly growing population, characterized by being amongst the world's lowest life expectancies and low rates of literacy. An estimate by Cambridge University historian Angus Maddison reveals that India's share of the world income fell from 22.6% in 1700, comparable to Europe's share of 23.3%, to a low of 3.8% in 1952. In British India, the rate of primitive accumulation of capital and pace of industrialization was rather slow, although rudimentary capitalist institutions such as banks, stock markets and property rights were getting established. The production system was largely feudal and Indian capitalists tried to industrialize India.

3. Post-independence period

Indian economic policy after independence tended towards protectionism, with a strong emphasis on import substitution, industrialization, state intervention in labor and financial markets, a large public sector, business regulation, and central planning. Jawaharlal Nehru, the first prime minister, expected favorable outcomes from this strategy, because it involved both public and private

\[\text{References:}\]
\[\text{Williamson, John and Zagha, Roberto, From the Hindu Rate of Growth to the Hindu Rate of Reform, Working Paper No. 144. (2002) Center for research on economic development and policy reform}\]
sectors and was based on direct and indirect state intervention, rather than the more extreme Soviet-style central command system.\textsuperscript{10} Industrialization strategy got a boost under state led capitalism and the national economy was on independent path of accelerated growth. The state supported domestic capital selectively delinked India from the world economy through high tariffs and import controls. The State became entrepreneur and considerable physical infrastructure, heavy industries, and knowledge institutions were created. There was little emphasis on agriculture and no reasonable steps were enunciated for dismantling feudal agriculture systems resulting in exposure to drought in 1966.

The policy of concentrating simultaneously on capital and technology-intensive heavy industry and subsidizing manual, low-skill cottage industries was criticized by economist Milton Friedman, who thought it would waste capital and labor, and retard the development of small manufacturerers.\textsuperscript{11} India's low average growth rate from 1947–80 was derisively referred to as the Hindu rate of growth, because of the unfavorable comparison with growth rates in other Asian countries, especially the "East Asian Tigers". Green revolution played a key role in spread of capitalist form of agriculture and led to deterioration of state led capitalism. Populist measures, with subsidies mounting to 15% of GDP, and rent seeking economic policies resulted in stagnation of national economy and retardation of national economy during the 1970s, popularly known as ‘intermediate regime’. The economic reforms that caused a surge in economic growth after 1980 can be attributed to the pro-business measures initiated by Indira Gandhi and continued by Rajiv Gandhi, by reducing restrictions on capacity expansion for incumbents, removal of price controls and reduced corporate taxes. The liberalization measures, and the consistent pace of further progress on economic reforms improved the average growth of GDP per worker.

\textsuperscript{10} Cameron, John and Ndhlovu, Cultural Influences on Economic Thought in India: Resistance to diffusion, P Tidings (2001).
The economic liberalization of 1991, initiated by then Indian prime minister P. V. Narasimha Rao and his finance minister Manmohan Singh in response to a balance-of-payments crisis, did away with the Licence Raj, licensing system prevalent in investment, industrial and import matters and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors. Since then, the overall direction of liberalisation has remained the same, irrespective of the ruling party, although no party has yet tried to take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labor laws and reducing agricultural subsidies. During 1990’s, India moved beyond State Capitalism and adopted institutional framework of modern capitalism as India’s economic future by resorting to rapid privatization at Federal and State levels.

B. Impact of Globalization

Globalization - industrial, financial, political, informational and cultural, has led to the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, free international capital flows, more rapid and widespread diffusion of technology. It has, almost, converted the world into a global village with each country representing a distinct market place, facilitating free trading of goods and services, with ease and upward mobility of every market, by optimization of every type of available resources. Since 1990, India has, significantly and substantially, benefited by this global phenomenon resulting in liberalization and privatization of Indian economy.

Globalization enabled India to become the third largest economy in the world, as measured by purchasing power parity (PPP), with a gross domestic product (GDP) of US $3.611 trillion. India, being the world’s largest democracy with a work force of 496.4 millions and steady GDP growth rate of

---


around 9% is on its path of economic prosperity. India’s rapidly expanding services sector continues to contribute and be an important factor for its growth and development, owing to creation of opportunities due to technology advancements and productive utility of its existing and increasing skilled and technical manpower. The advent of the digital age, and the large number of young and educated populace fluent in English, is gradually transforming India as an important 'back office' destination for global companies for the outsourcing of their customer services and technical support.

India has now emerged as a major exporter of highly skilled workers in software and financial services besides software engineering. The unemployment is now reduced to 8.9% and standard of living of its 1.1 billion population has improved considerably. Despite improvement in economic conditions, India, has a low per capita income of $3200 at PPP and $714 at nominal. Besides contributing significantly to Free trade movement, Globalization resulted in greater international cultural exchanges resulting in spreading of multiculturalism, and better individual access to cultural diversity-for example the export of Hollywood and Bollywood movies. The imported global culture smoothly adapted to the local culture and vice versa resulting in cultural diversity through hybridization and assimilation. Globalization led to greater international travel and tourism, legal and illegal immigration, and developed a set of universal values. It invaded the Technical / legal paradigms in various ways:

- Development of a global telecommunications infrastructure and greater trans-border data flow, using such technologies as the Internet, communication satellites, submarine fiber optic cable, and wireless telephones; and
- Creation of International Criminal Court, International Court of Justice and International Commercial Arbitration mechanisms.
C. Government initiatives and interventions

1. Encouragement of entrepreneurship

The public sector enterprises like Oil and Natural Gas Commission, Indian Oil Corporation, State Bank of India, Steel Authority of India and several others besides companies in private sector like Reliance Industries, ICICI Bank, Tata Steel, ITC, Infosys, Wipro, L&T etc have emerged amongst the leading companies under the Forbes list due to their corporate governance features. The State led and Privately held companies have shown tremendous abilities of innovation, adaptation and encouragement. Indian Space Agency, ISRO through its corporate arm Antrix Corp has partnered with NASA for Chandrayaan- I mission, a program on landing on moon to carry sophisticated experiments aimed at devising ways and means to explore and exploit resources, establishes credibility to Indian Governments initiatives and abilities to sustain the emerged Indian Capitalism phenomenon which already resulted in making 5 individual Indian entrepreneurs to be worth $ 100 billions in a short time.

2. Improvement of Global Trade relations:

India is a founding-member of General Agreement on Tariffs and Trade (GATT) since 1947 and its successor, the World Trade Organization. While participating actively in its general council meetings, India has been critical in voicing the concerns of the developing countries. India continues its opposition to the inclusion of matters of discriminatory agricultural subsidies, labor, environment issues and other non-tariff barriers in the WTO policies. The exports during August 2006 were $10.3 billion up by 41.14% and import were $13.87 billion with an increase of 32.16% over the previous year. India has carried out several initiatives for its integration with global market economy. The measures include:

- Promotion of free trade of goods and services through reduction and elimination of tariffs by construction of free trade zones in different parts of India;
- Promotion of capital inflow by reduction and elimination of capital controls;
• Reduction, elimination and harmonization of subsidies for local businesses;

• Entering into strategic economic partnership with other countries and entrepreneurs, ambassadors and state machinery promoting the cause of entrepreneurs and entrepreneurship—An approach document “US-India Economic Partnership” prepared by US India CEO Forum, headed by Mr Ratan Tata, an Industrialist outlines the strategic areas of co-operation to be achieved in the specified time frame and entire government machinery gets oiled up for achieving the results in approach paper;

• Protection of Intellectual property by harmonization of intellectual property laws; and

• Allowing greater international movement of commodities, money, information, and people; and the development of technology, organizations, legal systems, and creating the requisite infrastructures to allow this movement.

3. FDI policy

India has one of the most transparent and liberal Foreign Direct Investment (FDI) regimes amongst the emerging and developing economies. Differential treatment is limited to a few entry rules, predominantly in some services sectors, spelling out the proportion of equity that the foreign investor can hold in an India-registered company or business—termed sector caps. India extends national treatment to foreign investors with absolutely no discrimination against foreign invested companies registered in India or in favor of domestic ones. The FDI policy ensures a single-window approval for the investments and an outline of the policies for groups of sectors is provided below:

Manufacturing: Most Manufacturing sectors are on the 100% automatic route. Foreign equity is limited only in some industries like defense equipment (26%) where Industrial License is mandatory. Most mining sectors are similarly on the 100% automatic route, with foreign equity limits only on atomic
minerals (74%); 100% equity is also allowed in non-crop agro-allied sectors (agro-processing) and crop agriculture under controlled conditions (e.g. hot houses).

**Infrastructure:** 100% FDI under the Automatic route is allowed for most infrastructure sectors - highways and roads, ports, inland waterways and transport, and urban infrastructure. Select Infrastructure sectors have defined caps for example, Telecom Services has a sector cap of 74%; existing Airports (74%); Airlines (49%, investment from airlines companies is not allowed).

**Services:** 100% FDI under the Automatic route is permitted for many service sectors such as real estate construction, townships, resorts, hotels and tourism, films, IT and IT enabled services, ISP/email/voicemail services, business services and consultancy, renting and leasing, Venture Capital Funds/Companies (VCFs / VCCs), medical/health services, education, advertising and wholesale trade and courier services.

**Restricted List of Sectors:** Sectors where FDI is not permitted are restricted to Railways, Atomic Energy and Atomic Minerals, Postal Service, Gambling and Betting, Lottery and basic Agriculture or plantations.

### D. Other Factors and Determinants

#### 1. Services

India ranks 15th in the world in services output and provides employment to 23% of its work force. Services had the largest share in the GDP, accounting for 53.8% in 2005. Business services-information technology, information technology enabled services and business process outsourcing services are amongst the fastest growing sectors. The growth in the IT sector is attributed to increased specialization, availability of a large pool of low cost, but highly skilled, educated and fluent English-speaking workers. Excellent infrastructure in the service sector and the lowest communication cost has helped India to be a dominant player in these sectors.
2. Demographics

India, with a population of 1.1 billion people, is the second most populous country in the world, accounting for one in six human beings of the world population. A positive factor has been the large working-age population, which forms 45.33% of the population and is expected to increase substantially, because of the decreasing dependency ratio. Successive governments have regulated the national labor market ever since the Workmen's Compensation Act, 1923 and several enactments dealing with protection of core worker rights are operational. Labor reforms aimed at improving efficiency and productivity have been introduced.

3. Geography and natural resources

India's geography ranges from mountain ranges to deserts, plains, hills and plateaus. Its climate varies from tropical in the south to a more temperate climate in the north. India's total cultivable area is 56.78% of total land area, which is decreasing due to constant pressure from an ever-growing population and increased urbanization. India receives an average annual rainfall of 1,100 mm and Irrigation accounts for 92% of the water utilization. India's inland water resources comprising rivers, canals, ponds and lakes and marine resources comprising the east and west coasts of the Indian ocean and other gulfs and bays provide employment to nearly 6 million people in the fisheries sector. India is sixth largest producer of fish in the world and second largest in inland fish production. India's major mineral resources include Coal, fourth-largest reserves in the world, Iron ore, Manganese, Mica, Bauxite, Titanium ore, Chromite, Natural gas, Diamonds, Petroleum, Limestone and Thorium. India's oil reserves meet 25% of the domestic consumption.

3. Physical Infrastructure

Since independence, India has allocated nearly half of the total outlay of the five-year plans for infrastructure development. Much of the total outlay was spent on large projects in the areas of
irrigation, energy, transport, communications and social overheads. India holds second position in the world in roadways' construction, more than twice that of China.

4. **Agriculture**

   India ranks second in the world in agriculture output. Agriculture and allied sectors like forestry, logging and fishing accounted for 18.6% of the GDP in 2005 and employed 60% of the total workforce. Despite a steady decline of its share in the GDP, it is still the largest economic sector and plays a significant role in the overall socio-economic development of India. Average yield in India is generally 30% to 50% of the highest average yield in the world.

6. **Industry**

   India ranks 14th in the world in terms of its factory output. Industry constitutes 27.6% of the GDP and employs 17% of the total workforce. Economic reforms brought foreign competition, led to privatization of certain public sector industries, opened up sectors hitherto reserved for the public sector and led to an expansion in the production of fast-moving consumer goods. Post-liberalisation, the Indian private sector, which was usually run by oligopolies of old family firms and required political connections to prosper was faced with foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, focusing on designing new products and relying on low labor costs and technology.

IV. **Challenges ahead - for Indian Capitalism in a Directed economy**

A. **Cross border and Global Terrorism**

   Indian economy has suffered severe causalities due to its forced involvement in war and war related activities. India was the world’s leading economy till 1500 A.D despite several wars. The wars amongst

---

15 The Economist, *Indian manufacturers learn to compete*, 12 February 2004
the local rulers since time immemorial, and wars during Mughal rule, Colonial rule, world wars and
wars due to partition have considerably ruined the Indian economy. Cross border terrorism continues to
impose kargil experiences and the big neighbor China’s attitude and approaches continues to keep the
Indian economic system unpredictable. India has to spend considerable resources towards its defense
preparedness, which is neither a productive expenditure for the economy, nor for mankind- but certainly
a great revenue model for defense supply manufacturers and traders of the developed economies.

    A sincere effort towards reunification of India, Pakistan and Bangladesh, created due to colonial
rule of divide and rule policy on religious lines, should be made immediately to stop wasteful expenses
on cross border terrorism which shall also enable to fight global terrorism whose devastating effects
continue to be visible even after 9/11. When a monolith like U.S.S.R could disintegrate, Germany could
reunite, and integration of entire European Union has been achieved for economic prosperity of the
region in the post UN era, an effort in the direction of undoing the historical and colonial wrongs is the
most desired approach for peace, stability and prosperity of the region. An initiative by UN with US
mediation for reunification is the only solution for curbing global terrorism in the interest of global
peace, humanity and prosperity.

B. Creation of single unified national market

    It is essential to achieve a paradigm shift from “closed-economy macroeconomics” to “open
economy macroeconomics”\textsuperscript{16} by properly understanding currency regime, monetary economics and
permitting full convertibility of capital and removal of capital control measures like licensing of sellers
for Participatory Notes and making Reserve Bank of India (RBI), an autonomous body on the lines of

\textsuperscript{16} Vijay Kelkar, India’s economic future: Moving beyond State Capitalism, October 26, 2006- available at
http://www.medcindia.org/cgi-bin/index_files/middle_files/kelkar%20lecture.pdf
US Federal Reserve. A New and Modern Fiscal strategy, aimed at reduction of political strains and removal of inter-state impediments by synchronization and unified procedural and tax administration, shall result in free movement of goods and services, capital and labor, setting up of factories in low-wage areas resulting in establishment of global production chains that dominate manufacturing and reduce the wide gulf that exists between the rich and poor states.

The objective of the government should be to maximize competition, by minimizing operational intervention, which shall result in achieving the desired results – alignment of interests of state with interests of people. Roads, Airports and Rails could remain a national monopoly, but, multiple transport companies can be allowed to move goods and people. The civil aviation ministry can infuse competition in true sense only when it hands over the control of PSU business entities like Indian Airlines and Air India to the other service providers possessing expertise in such operations. The following measures are essential to achieve the desired objectives:

1. Competition commission, a regulatory body on disinvestments of PSU matters, needs to be setup and made functional immediately;
2. Discretionary policies leading to deterioration and destruction of desired results need to be minimized. Institutional changes in government and financial system to focus on managing open economy and harness its benefits;
3. The equity market, being the dominant source of financing firms, needs to commensurate with new concepts of corporate governance focused on effective and efficient handling;
4. Rapid progress on privatization of public sector enterprises including public sector insurance companies and banks is required to be carried out immediately by the disinvestments process or their sale on ‘as is where is basis’;
• New policy initiatives required, for free movement of goods and services, labor and capital resources aimed at making India as a true ‘common global market’;

• Government needs to shift its focus from ‘outlays to outcomes’ and required to act as an agent of the people and improve its role-playing by focusing on delivering goods in proper quality and quantity. It should be vibrant and dynamic in adopting and adapting to changes, social and technological, and act as a catalyst for economic prosperity;

• Institutional changes in government and financial system need to be carried out on priority basis so as to manage open economy and harness its benefits;

• Economic policies should focus more on infrastructure development- Roads, telecom, airports, ports and electricity which are indispensable for growth and prosperity;

• Education policy needs to be redefined and objectives of improving literacy to be tried to be achieved through principles and practices of corporate governance;

• In this technology driven era, suitable constitutional amendments need to be carried out for translation of de facto common market to de jure system;

• Need to improve and define the ‘long route of accountability’, and making the state and its employees accountable by redefining the legal systems and processes and restructuring the enforcement mechanisms for achieving desired results. The state, as a contractor, should be associated exclusively for genuinely delivering public goods; and

• New approach for governance of cities is required for producing better urban public goods, as the population of metro areas and other cities is much higher than that of most of the countries worldwide. Infrastructure needs to be improved in the 20 megapolis and 500 cities / towns.
C. Legal Reforms

The constitution of India has undergone 93 amendments in its 57 years of existence and operation with more improperly defined approaches, owing its creation from various sources adopting different philosophies in conflict with the prevailing norms, values, belief’s and practices. In India, constitutional amendments have become fashionable for the political system and convenient for the bureaucracy, functioning under the colonial hangover and legacy, to exercise and exert their power machinations without proper reason or rhyme. There are around 1800 statutes governing federal and state authority on subject areas specified in the constitution without proper enforcement mechanism and machinery. The procedural provisions have made the substantive provisions meaningless resulting in loss of faith in the Judiciary and Judicial process. There is necessity of review or revision of constitution and other statutes so that corporate governance features can be incorporated enabling achieving the desired objectives of a welfare state. The objective and guiding principles of legal reforms should be for promoting:

- Greater legal certainty for trade and investment;\(^{17}\)

- Greater coordination and co-operation between different courts, quasi-judicial and competent authorities, which need to substantially improve their operational efficiency for fulfilling their desired and designed roles with accountability; and

- Protection of investments across territories and preservation of employments.

Despite substantial inroads made in economic prosperity, policy reform in India will continue to be a gradualist process.\(^{18}\) A new Indian Institute of Regulation needs to be created\(^{19}\) to achieve the desired legal reforms.

\(^{17}\) Justice Dalveer Bhandari, *Legal Reforms in India- Globalization and New Economic order with Special Reference to Corporate and Insolvency Laws*.

D. Tackling Corruption

Corruption has been one of the most difficult problems affecting India’s socio-economic prosperity. It takes the form of bribes, evasion of tax and exchange controls, embezzlement, etc. The economic reforms of 1991 reduced the red tape, bureaucracy and the Licence Raj that had strangled private enterprise and was blamed for the corruption and inefficiencies.16 A study in 2006 by Transparency International (TI) found that more than half of those surveyed had firsthand experience of paying bribe or peddling influence to get a job done in a public office. The chief economic consequences of corruption are the loss to the exchequer, an unhealthy climate for investment and an increase in the cost of government-subsidized services. The TI India study estimates the monetary value of petty corruption in 11 basic services provided by the government, like education, healthcare, judiciary, police, etc., to be around Rs.21,068 crores. The latest report by Transparency International puts India at 70th place and states that significant improvements was made by India in reducing corruption. Corruption is one of the important reasons for gross inequalities and incongruities in DISTRIBUTION OF FRUITS OF ECONOMIC GROWTH. In order to contain this social menace, it is essential that the various ornamental laws in India, besides several other Laws dealing with social, consumer, business, labor, environment, tax and other matters need proper mechanisms for achieving their objectives: To start with, the government needs to focus on creating effective enforcement mechanisms for achieving the desired objective under the existing ornamental laws like PREVENTION OF CORRUPTION ACT, 1988, RIGHT TO INFORMATION ACT, 2005, PREVENTION OF TERRORISM ACT, 2002, DOWRY PROHIBITION ACT, 1985 etc.

The procedural laws need to be more meaningfully designed and described for desired enforcement of publicly disclosed laws. The procedural laws are to be made simplistic, realistic and objective in order to make the penal laws effective and efficient so that they can provide the deterrent effect to curb and contain the illegal, arbitrary, discriminatory, unjust, unfair, prejudiced and biased practices, planned, programmed and implemented by the Indian Political and Bureaucratic system.

The principles of RULE OF LAW should be prevented from becoming a MYTH and FARCE in India and should not be allowed to be used merely as a costume for providing the required cosmetic effect for self-aggrandizement of such institutions, which creates and monitors the various laws. The Judiciary needs to be made more independent than its present state of political and bureaucratic dependence in matters relating to their recruitment, postings, promotions and transfers. The intermittent judicial activism provides only a temporary hope of eradication of subjectivity to the 22% population living below poverty line and the 45% labor force who continue to hear, read and see the MOST PREVALENT SOCIAL EVIL in India – CORRUPTION, take a monstrous shape, design and effect.

E. Poverty Eradication

The recent economic developments have primarily helped upper- and middle-class Indians. While poverty in India has reduced significantly, 22% of Indians still live below the poverty line. Since the early 1950s, successive governments have implemented various schemes to alleviate poverty and achieved partial success. The strategies of the Food for work program and National Rural Employment Program attempted to use the unemployed to generate productive assets and build rural infrastructure. New approaches for providing livelihood and its security to the poorest. Whilst, high GDP growth rate has proved to be the most effective anti-poverty program, it should be the focus of all programs to target 10% of the population and programs need to be so designed that the existing systemic distortions does
not impede transmission and percolation of desired results. The following focused measures may be implemented with the participation of teachers, NGOs, public representatives at local levels and public servants:

- IT to act as a tool for improving distribution and governance in all poverty programs;
- Employment guarantee to be made the most efficient way to deliver money to the poor;
- 1% of GDP to be allocated for the welfare of 10% of the population; and
- Distribution through ‘Conditional Cash Transfers’ using electronic debit cards to poor women by having weekly limits of withdrawal.

The Rural Employment Guarantee program launched in the year 2005 promised 100 days of minimum wage employment to every rural household in 200 of India's 604 districts. The question of whether economic reforms have reduced poverty or not has fuelled debates without generating any clear cut answers and has also put political pressure on further economic reforms, especially those involving the downsizing of labor and cutting agricultural subsidies.

**Conclusion**

India having designed its own model of Capitalism is marching steadily on the concretized path of advanced market economy by promoting inclusive growth and gaining the benefits of enhanced efficiency and striving to focus on greater equity and better governance under its liberal and adaptive democracy. India’s growth rate has been increasing steadily due to the political and corporate governance measures in economic system, and the new initiatives taken to move towards a market based economic system is yielding unprecedented results. India has learnt from the Global experience and carefully avoided the mistakes of systems and processes in operation in other countries. In a highly
stratified Indian society, the State continues to play an important role in promoting equity through inclusive growth.

The SWEAT of the labor needs to be treated as their EQUITY and proper and effective mechanisms should be provided for its unhindered percolation and conversion to SWEET for the deserving and targeted social groups. Systemic corrections need to be carried out in framing and implementation process of various policies, programs and statutes, planned and promoted by State / other Non Governmental / Voluntary / Human Rights Organizations, aimed at making every human being live with dignity and self respect.

India shines because of the inherent abilities of its people, despite the improper state machinery. It should be the endeavor of the government to focus only on removing barriers in the path to prosperity as the Indian people have started behaving in a responsive and responsible manner and the claims of ‘India shining’ shall no longer be allowed to be taken credit for perpetuation of any and every sort of misgovernance by the state. What is desired by every Indian is to enjoy the fruits of economic growth, development and prosperity, in its true form and meaning, which can be achieved only through the incorporation of principles of corporate governance in all areas of social welfare.