

A revived India



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Reforms started in two decades ago

- The directed economy was ended
- Imports were freed but highly taxed
- Investment decisions were freed
- Income tax rates were reduced
- Capital markets were improved

What problems have been tackled this decade

- Tariffs have been reduced markedly
- Indirect taxation has been reformed
- Public finances have been improved
- Entry barriers have been reduced
- A start to reforming basic services

Deficit reduction was planned

- Fiscal and Budget Management Act
- First for central government
- Finance Commission pushes states
- States act quickest
- Tax reform

Entry barriers have been reduced

- Private operators allowed into telecoms
- New airline operators
- Small scale industry reservation lowered

What are the problems seen by businesses

- Infrastructure
- Labour market regulation
- Subsidies
- Corruption
- Poor administration

What did OECD look at

- Barriers to competition
- Labour market regulation
- Infrastructure
- Education
- Financial markets

How did we assess barriers and regulation

- Standardised questionnaires for the nation
- Tailor made questionnaires for states
- Visits to 20 states
- Talks with government, business, unions
- Use of local consultants

What are the barriers to competition

- High level of government control
- Administrative burdens for start-ups
- Tariff barriers
- Barriers to foreign direct investment
- Explicit competition barriers

What are labour market problems

- Large informal labour market
- Very productive formal labour sector
- Formal employment falling
- Low quality jobs poorly paid

What are the infrastructure problems

- Poor road network
- Electricity capacity inadequate
- Urban infrastructure poor

What are the solutions infrastructure

- Increase investment
- Improve framework for investment
- Raise government saving further

What are the solutions: competition

- Restart the privatisation process
- Improve administrative procedures
- Lower barriers to inter-state trade
- Give teeth to the Competition Council
- Introduce a Bankruptcy law

What are the solutions Labour market

- Redesign and modify labour laws
 - Greater ease in firing
 - Higher compensation loss of job
- Consolidate and simplify labour laws
- Transfer competency to states

How come IBM invests in India?

- IBM does not manufacture in India
- Its operations are in software and services
- Nearly all located in “software parks”
- There, labour laws generally much weaker

Are Special Economic Zones the answer

- Complete private sector control
 - Provision of infrastructure
 - Land development
- Flexible employment contracts
- Generous tax concessions
 - Extra - territoriality

Rapid start to SEZs

- Four states have 80% of the zones
- Andhra Pradesh, Gujarat
 - (1st and 3rd on OECD labour reform index)
- Maharashtra, Tamil Nadu
 - (3rd and 5th in OECD Competition index)
- Two million jobs from agreed SEZs
- 15% of exports from SEZs in 2008

Conclusions

- Reform has worked in India
- Scope for further action is wide
- Political consensus not to regress
- But is further radical progress possible?
- The rewards would be great