

# Report on Program to Promote Competitiveness of North Indian States

By Daniel J. Mitchell

At the invitation of the Consumer Unity Trust Society (CUTS International), I was invited to take part in a January 2018 program on the competitiveness of North Indian states. Funded by a grant from the U.S. Embassy, the program sought to assess the degree to which states were becoming friendlier to entrepreneurship based in part on factors in the World Bank's annual rankings for Ease of Doing Business. I was the third and final participant in the program, having been preceded by Albert Foer in November 2016 and Shanthi Nataraj in July 2017. My first meetings took place in Delhi on January 17 and my tour concluded with a major conference in Chandigarh on January 24.

## Primary observations

Here are four big-picture conclusions based on meetings and research about competitiveness in North Indian states.

### ***1. More progress is needed***

My research before the trip focused on the overall competitiveness of India. The country ranks #100 in the World Bank's report on Ease of Doing Business (EoDB), which is a measure of regulatory barriers to entrepreneurial activity. India also gets a mediocre #95 ranking from the Fraser Institute's *Economic Freedom of the World*, which is a more comprehensive look at government policy (including regulation, but also assessing fiscal policy, monetary policy, trade policy, and rule of law). The country also gets relatively low scores from other sources, such as the *Index of Economic Freedom* and the *Global Competitiveness Report*. Nothing in my trip led me to question these assessments. The government has an excessive footprint in the Indian economy.

## ***2. The need to strengthen federalism***

India is famous for its diversity, with various states featuring different languages, cultures, economies, climates, and cuisines. But I was surprised to learn that there is not much genuine federalism in the country. States generally are administrators of programs and policies determined by the central government and don't have much independent authority. In other words, India's federal structure is akin to the weak systems in nations such as Germany and Australia rather than the strong systems in countries such as Switzerland and Canada (and, to a lesser degree, in the United States). This has very important implications since Indian states therefore don't have much leeway for improving policy. Indeed, the only two policy levers that stakeholders consistently mentioned were 1) state "single windows" to speed approval of permits largely determined and designed by the central government, and 2) the use of tax incentives to lure businesses. And the second option has become more difficult because of the recent adoption of a nationwide goods and services tax (a value-added tax).

## ***3. Bolder goals would be helpful***

The most surprising part of the trip was the lack of interest in large-scale reforms. In my many meetings with stakeholders in other nations, there is usually discussion of big ideas. The business community oftentimes is aggressive about pushing significant market-friendly reforms. There are often “policy entrepreneurs” in the public sector who push bold initiatives. All this activity may not lead to actual reforms, or the reforms ultimately may be incremental, but the intellectual ferment presumably makes change more likely. Stakeholders in India, by contrast, were much more focused on minor changes (such as speeding the approval of permits rather than questioning why so many permits are necessary in the first place).

#### ***4. What does the business community really want?***

A sobering part of the trip was learning the attitude of the business community, particularly among small and medium-sized enterprises. In other nations, as mentioned above, there generally is considerable agitation for reforms. Entrepreneurs in those other countries almost always want government to “get out of the way” by lowering fiscal and regulatory burden. Moreover, they usually realize that they probably can’t get favors from the government since they lack the lobbying clout of large companies, so that makes them even more interested in having a good overall economic climate. Representatives of the business community in India rarely expressed such sentiments (I was unable to determine whether this was because they didn’t care, or because they didn’t want to alienate bureaucrats who have so much power to make their lives miserable). Instead, it was quite common for them to talk about how they wanted the government to help them with subsidies (for financing, procurement, and other functions).

## Meeting reports

I arrived in India the evening of January 16. I flew to Lucknow on January 17, but first had various meetings in Delhi with officials from the U.S. Embassy and was given background information on both the purpose of the program and the major economic issues in the country.

I spent two days, January 18 and 19, meeting with various stakeholders in Lucknow, and then two more days, January 22 and 23, meeting with similar stakeholders in Chandigarh.

The meetings were invariably interesting with lots of interaction. I described (either with a formal presentation or general discussion) how federalism worked in the United States and how jurisdictional competition oftentimes helped to encourage better economic policy in American states. The Indians also described their system and there were some common themes.

- Government officials generally gave upbeat assessments about how they were making their states more attractive for job creation and business investment.
  - They invariably mentioned how they were streamlining the permitting process for businesses.
  - They highlighted various “incentives” they offered but seemed somewhat displeased that the good and service tax (GST) has restricted that ability.
  - They also complained, however, that businesses would leave their states once incentives expired.
- Representatives from the business community were more nuanced. But there were certain issues that repeatedly arose:
  - The streamlining policy for permits was viewed as a step in the right direction, but sometimes was criticized for being form over substance. Several participants remarked

that one window didn't matter if there were still 15 people on the other side who could delay or reject business activity.

- There were generic concerns about the GST, some of which sounded transitory (i.e., would disappear as businesses fully learned the new regime) and others which sounded systematic (lengthy delays in getting rebates on exports).
- Demonetization was mentioned several times, usually in an unfavorable way, though it was seen as a one-time burden on the economy.
- They all wanted more incentives and did not distinguish between policies that enabled them to keep more of the money they earned (i.e., tax holidays) and policies that enabled them to take money from the government (i.e. subsidies, grants, etc).
- China was mentioned a handful of times as being a threat because of a perception/fear that Chinese companies could always produce at lower cost than Indian companies.
- Indeed, there was very little sentiment for a more open system of international trade.
- There were mixed views on corruption. Everyone agreed it existed, but - at the risk of generalizing – smaller enterprises appeared to think it was a bigger problem.
- There were also very noteworthy omissions – topics that either didn't resonate or were looked at in rather parochial ways.
  - Unlike business audiences in other nations, there was remarkably little interest in systemic policy reform.
  - They certainly were aware that EoDB is an important benchmark, but they seemed more interested in how the government was treating (or mistreating) their individual companies.
  - They did not see Swiss-style decentralization (or even U.S.-style decentralization) as a potential option for India.

- When asked for a role model (i.e., a country they wanted India to emulate), the most common answer was Singapore, but they did not seem to connect that nation's strong economy with its laissez-faire economic model.
- I had a couple of one-on-one meetings with journalists.
  - Like most journalists, regardless of country, they had a cynical outlook.
  - They speculated that many government decisions in India are driven by political factors rather than by the merits of particular policies.

Interestingly, notwithstanding the overall negativity expressed by various stakeholders, most participants nonetheless seemed somewhat optimistic about India's long-run outlook. They basically had the view that everything was a mess but nonetheless the economy had enough breathing room and adaptability for continued growth.

One final observation is that two of the meetings seemed more "high level," at least based on the depth of the discussion. In Chandigarh, the meeting at the Indian Business School was very insightful. And the meeting with academics at the Renaissance Hotel in Lucknow also had a very productive conversation.

## International Symposium

My trip concluded on January 23/24 with an international symposium on "Competitiveness of North Indian States to Achieve Inclusive Growth." I spoke on two panels, presenting first on insights gleaned from my trip (basically the four "big-picture conclusions" outlined above) and then concluding with a discussion about the U.S. model of competitive federalism.

Other speakers concentrated on topics such as state reforms and the business climate.

Conference attendees were very engaged, with many questions both during the formal program and during various break times.

## Conclusion

I very much appreciate having had the opportunity to participate in this program. It was my first visit to India and I was fascinated to learn more about the country. I also appreciated the professionalism of the team from CUTS International. Everything went smoothly, with all the logistics operating like clockwork.

Ironically, I left India feeling like my new knowledge only scratches the surface. And the question that still needs to be answered is why Indians who emigrate to other nations are so economically successful while Indians in India still face serious economic challenges.