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Buttressing Competitiveness to Create Jobs

India is quite low on the Global Competitiveness Index published by the Institute for Management Development, Lausanne. It rose to the 28th position in 2022 from a low of 37 in 2021. This improvement is due to the direction of the Prime Minister of India, Narendra Modi since he came into power in 2014 with his talismanic approach to make doing business easier and respecting wealth creators.

However, for the competitiveness of firms to improve, various other things need to be done. In a quasi-federal country like India, ground-level action takes place in states requiring much coordination, which is often quite a task. However, some areas can only be improved upon in states, such as human capital, i.e., skills, education and health.

In this Briefing Paper, we have also examined measures taken by three developing countries to improve their competitiveness. These are Vietnam, Chile and Thailand.

There are various issues and this paper lays out some of them. It also advocates for a Competitiveness Law which can bind all branches of the government at the Centre, states and local levels to work purposively and coherently, with the aim of improving our competitiveness.

Background

In a joint article in a leading newspaper, just after the conclusion of the India-Australia Economic Cooperation and Trade Agreement in April 2022, Piyush Goyal, India's Trade Minister and Dan Tehan, the then Australian Trade Minister, wrote that the new trade deal between our two countries would result in new jobs. This is our greatest priority.

This deal follows on the heels of a similar agreement with the United Arab Emirates, with more in the pipeline. One hopes that such deals will push the envelope of our competitiveness and use our demographic dividend. It is a no-brainer that exports lead to higher growth.

However, there are some clouds in the sky which can make our task difficult. Here one is referring to the pandemic and the

Ukraine crisis which has led to economic downturn across the world.

In a White Paper on Building Competitiveness for Inclusive Growth (https://bit.ly/3PtohLQ), CUTS International, Institute for Competitiveness and Institute for Studies in Industrial Development, we have outlined an action agenda for improving our competitiveness.

In the exercise, we did over seven stakeholder consultations as there were many points to be worked upon. However, let me recall six major points which can make a huge difference. This does not mean that this is an exclusive list. Various other measures would need to be worked upon.

1. **Building Human Capital**

   We need better and higher investment in intangible assets, such as health and education, accompanied by 'future friendly' skills building. These issues are to be worked upon by states in partnership with the Union Government regarding policies and funding. However, one size doesn't fit all. Hence states must be left alone to devise their own best strategies.

   States must leverage the potential of promoting peoples-first public-private partnerships to raise funding to cover health, jobs and skills and oversee efficient implementation in consultation with stakeholders. Samaj, Sarkar, and Bazar need to come together to this end.

2. **States to Have their Own Body to Exchange Information**

   NITI Aayog is doing comparative studies of several topics across our states, such as health, SDGs, innovation, and export preparedness. Hopefully, that would generate better outcomes through competition among the states. It would also be good if the states could come together and establish their association to exchange information on good practices and lessons learnt, giving them a better sense of ownership.

Similar bodies exist in other federal countries like USA, Nigeria and Australia. Focus on the third tier of governance by empowering district administration to realise the potential of the districts will also be critical.

3. **Free Trade Agreements**

   Secondly, FTAs will help our industry to participate in supply chains. Hence, there is also a need for intra- and inter-sectoral firm-level cooperation and participation without violating the Competition Act. Our FTAs should complement PLI schemes so that products whose manufacturing is incentivised domestically can compete globally.

We also need to rethink our decision to join the Regional Comprehensive Economic Partnership because supply chains in that part of the world would not be attracted by India, except in specific cases. We are losing out on that. After all, most of our demands for longer-term commitment in the deal have already been agreed upon.

4. Promoting Fair Competition

Thirdly, we must promote fair competition by adopting and implementing the draft National Competition Policy, including strengthening the Competition Act 2002. Among other things, the competition policy advocates for a level playing field for all actors, thus promoting economic democracy.

It also encompasses Ease of Doing Business, i.e. removing entry barriers on which the Department for Promotion of Industry and Internal Trade (DPIIT) has also prepared a comparative index across states. States which have done well in EoDB are also creating more jobs.

The only problem is that it does not discuss the hurdles of running a business smoothly. The inspector raj continues in most areas extracting their pound of flesh from running businesses and thus hiking costs. Micro, small and medium-sized enterprises (MSMEs) are worst affected because of their resource constraints.

To counter this, we need a robust anticorruption law with disgorgement provisions so that the perpetrator cannot get away with ill-gotten wealth.

5. Improve State Capacities

Fourth, there is an imminent need to modernise and enhance the capacities of our public institutions. We know the problems on which much work has been done in the past through Administrative Reforms Commissions. Someone has to pull the reports out of the cupboard and dust them.

Fortunately, this government has already started implementing administrative reforms, such as lateral entry of experts into the government. This needs to be enhanced with a simultaneous lateral exit through rigorous periodic evaluation to eliminate the flab. Such an exit system exists in our armed forces.

6. The Whole-of-Government Approach

Fifth, there needs to be a 'whole-of-government' approach to be enforced through policy coherence units in the PMO and CMOs. Even the Gati Shakti model which has 16 ministries under one portal can be a good model to use to expedite issues.

Also, many policies work at cross purposes. For example, lack of coherence between trade and industrial policy has often resulted in inverted duty structures, among other problems. This is in spite of the fact that both are under one ministry, though different departments. Policy Coherence Units should be established at a high level in the Centre and states that can deal with problems.

7. **Regulatory Impact Assessment**

   Simultaneously, the civil servant's tendency to draft new laws and rules and retain old ones needs to be checked through institutionalised Regulatory Impact Assessment, which will involve three tests: a) legality, b) necessity and c) proportionality. If they pass all three tests, they should be retained/introduced or scrapped.

Shared Vision, Mutual Learning and Single Market

Finally, we must plod ahead with a shared vision, mutual learning and a single market, i.e., to implement cooperative federalism in letter and spirit. We will need to work diligently, so our demographic dividend is not wasted. The NITI Aayog is planning a new index to rank states on competitiveness, and the six indicators outlined above could be a good starting point.

What is the Evidence from Other Countries?

Here, let me look at three developing countries: Vietnam, Chile and Thailand. Most developed countries are already relatively high on the Competitiveness Index.

VIETNAM

Vietnam is one of the few countries with sustained economic growth, and its trade expanded from 70 percent of gross domestic product (GDP) in 2007 to 90 percent in 2017. While the global economy experiences premature deindustrialisation, Vietnam's manufacturing sector has consistently risen, with an estimated 1.5 million new manufacturing jobs added between 2014 and 2016.

Vietnam has received more attention in recent years. Since 2018, the country has further reinforced its position as a desirable destination for corporations wanting to **relocate manufacturing from China** in the wake of US-China trade tensions. It also had post-pandemic solid GDP growth in 2020.

Fundamental Policy changes made by the country to capitalise on its manufacturing industry and expand its export capacities are as follows:

- In 1986, it launched the Doi Moi Policy (means "**restoration**" or "**renovate**"), which has served as the foundation of **Vietnam's export-led development strategy** and facilitated its **global integration** into the international trade system.
- Between 2002-2021, GDP per capita expanded 3.6 times and **poverty rates have fallen substantially** from 32 per cent in 2011 to less than 2 per cent.
- **Liberal trade policy** has arguably been Vietnam's most important industrial policy. Vietnam has become one of the **world's most open economies**, with a trade-to-GDP ratio of 187.52 per cent in 2018. It is a **signatory to 16 bilateral and multilateral free trade agreements**
- **More than 10,000 foreign companies are estimated to be operating** in Vietnam today, primarily in export-oriented, labour-intensive manufacturing, including major global players, such as Samsung, Intel, LG etc.
- It has also introduced significant reforms to improve its investment climate and make it easier and cheaper for foreign companies to enter its domestic market.
- To better enable foreign investments, Vietnam has a **Foreign Investment Law** that has been amended multiple times to make it more **pro-investor and to reduce unnecessary bureaucratic intervention**.
- It has also **enhanced its contract enforcement capabilities, readily available loan facilities, and improved tax payment system and cross-border trade policies**. It has considerably improved its ranking in terms of global competitiveness and EoDB. *(Global Competitiveness Ranking 2017- 55th, 2019-67th; Ease of Doing Business 2019- 68, moving 31 places up from 2014)*
- Like India, Vietnam has a **high demographic dividend**, with nearly half of its population under 35. To capitalise on its human resource, Vietnam has significantly made investments to **improve access to education in the country**.
- Vietnam has also made **significant public investments in infrastructure development**, emphasising **IT infrastructure** and providing **affordable mass internet access** to better prepare for the upcoming 4th Industrial Revolution.
- Another notable fact about Vietnam's exceptional economic growth is that it

has been **relatively inclusive**, as per the World Economic Forum's Inclusive Development Index. Female participation in the economy is high. In India, it is quite bad. India's overall ranking in attaining gender parity remained at a low of 135 out of 146 countries, according to the World Economic Forum.

- Furthermore, they have also implemented a **Competition Act** with a suitable enforcement mechanism to create a fairer market. This is quite an achievement considering that Vietnam is under a Communist regime and many state-owned enterprises dominate in various sectors.

CHILE

Chile has made tremendous progress toward greater economic prosperity and lower poverty in recent decades. Per capita income has more than doubled over the past 20 years and is now the highest in Latin America. Since 2016, Chile's Global Competitiveness index score point has continuously increased. It rose to a global 33rd rank out of the 140 economies analysed, positioned to be the most competitive country in Latin America.

Some of the policy changes brought about in Chile in the last decade which had positively impacted its global competitiveness perception are as follows:

- Since 2014 the government has undertaken a programme to transform the national education system to make it more inclusive and relevant to the time. Chile has the highest scientific productivity in Latin America and the Caribbean.
- The government has increased public investment in fields related to economic transformation, most notably science, technology, innovation, and entrepreneurship, under its **Productivity, Innovation, and Growth Agenda, launched in 2014**.
- Most of the public funding under this agenda is directed toward **skill development and training programmes** such as Becas Chile (study abroad, postgraduate scholarships), and Coding Dojo, a few to name.
- The Country has a dedicated ministry, the Ministry of Science and Technology, to **finance training programmes for advanced human capital and scientific research.**
- Public funds are increasingly being diverted to support **technology-based entrepreneurship** in the country. Recent research shows that more than 300 newly established technology-based businesses were established in the state.
- CORFO (the Production Development Corporation) provides funds for the

establishment of **Technology Transfer Offices (TTOs)** in collaboration with foreign partners (Fraunhofer-Germany and CSIRO-Australia).

- **University-based technology spin-offs** and **incubation programmes are being encouraged.**
- The **Express Companies Act** simplifies commercial companies' incorporation, amending, or dissolving procedures. The act also established the "**once-only concept**," which states that firms only need to register once by subscribing to **an online gateway to all government administrative sites.**
- Chile's **Single Funds Act** aimed to increase the size and diversity of investments in the country's investment funds by giving tax breaks for foreign participation in Chilean investment funds, establishing a unified tax and simplifying tax payment methods.
- In **2016**, the Chilean government launched the **Invest Chile** initiative to attract strategic FDI inflows into the Chilean National Economy and **explore the possibilities of entering a new value chain** and **leveraging Chile's abundant metal resources**, with a particular focus on strengthening ties with its emerging partners such as China.
- Chile, too, has an effective competition law to deal with market failures and promote economic democracy.

THAILAND

Thailand has achieved extraordinary progress in social and economic development during the previous four decades, shifting from a low-income to an upper- middle-income country in less than a generation.

Following are some of the salient features of Thailand's economic development leading to its improved global competitiveness:

- Its national economy has effectively **transitioned from agricultural to export-oriented industry** while integrating significant industrial production, notably in the **automotive and electronics sector,** into its regional value chain, notably in the **automotive and electronics sector.**
- Thailand has **a strong presence in the global and regional trading systems**. A member of ASEAN, GMS, BIMSTEC etc.
- It **focuses on developing strong relations and economic partnerships with neighbouring countries**, including establishing **Border Economic Zones.**
- The country has its **Thailand 4.0 policy initiative**, which aims at changing Thailand's economy into a "**Value-Based Economy**" by emphasising R&D, creative thinking, and innovation.

- It has also made significant efforts to **enhance its business climate** by making it easier to set up a company. The country ranked 21st out of 190 nations in the World Bank's Doing Business 2019 ranking.
- The country has a welcoming and supportive attitude toward international investment. Thailand's Board of Investment (BOI) offers **tax and non-tax incentives to stimulate foreign investment.**
- It has effectively **used FDI and trade to acquire technology** as part of its industrialisation efforts.
- **Industrial development in Thailand is driven by export-oriented policies and foreign direct investment (FDI**) in labour-intensive manufacturing processes. Thailand is **one of the world's top 15 electrical product exporting** countries.
- The Thai government has signed many **technological cooperation agreements** to boost foreign technology transfer programmes with foreign nations, most notably the United States of America and Japan.
- Thailand had a **competition law** in a country for a long but it was ineffective. Following the harmonisation exercise on economic laws in the ASEAN region in the mid-2000s a new and more effective competition law has been adopted and implemented.

Way Ahead: Is It Time for India to Have a Competitiveness Legislation *À La* America

India has been on a steady path of reforms to improve the economy's competitiveness. Economic reforms include digital growth, trade policy reforms, and a mix of inward and outward-looking measures. The agenda is to alleviate poverty and create better jobs. A six-point agenda for India to raise its competitiveness was laid out above. One of the six essential pillars was the need for a 'whole of government' approach, within Centre and with and among states. For this endeavour, it is time for India to consider the law and an institution which can persuade all organisations to pursue competitiveness.

Overarching Law to Achieve Competitiveness

We can achieve policy convergence of the inward and outward-looking policies through overarching legislation with a supervisory body. For such a statute, India can take a cue from the USA; specifically, the US COMPETES Act. It is umbrella legislation which covers all policies of America, undertaken to strengthen its position as the economic world leader.

A robust institutional structure is essential for achieving competitiveness of industries, capacity building and supply chain resilience. It is also a prerequisite for negotiating free trade agreements (FTAs), which are crucial for the growth of the Indian economy.

Similarity between India and the USA

There are parallel strategic interests in India's policies and USA's Act. **Semiconductors** have taken centre stage, as they are ubiquitous to all developing technologies. Experts have hypothesised that oil has been replaced by semiconductors (and digitisation) in shaping geoeconomics and geopolitics.

Both countries realise the imperative need for a semiconductor manufacturing base. In India, the Union Government announced a ₹76,000 crore (US$10bn) package for semiconductors by way of the Production Linked Incentive (PLI) scheme. The USA provides massive federal subsidies (US$50.2bn) to American manufacturers to incentivise domestic investment.

The other key areas include information and communication technology (ICT), and manufacturing. The Department of Telecommunications (DoT) constituted six task forces on 6G technology. The Ministry of External Affairs, through its New, Emerging & Strategic Technologies Division (NEST) ensures active participation of India in international forums in the area of technology governance and promotes national interests.

Multiple ministries and departments are involved in different functional aspects. But are they talking to each other in a meaningful way? Considering the experience of turf issues that defeat good ideas, a need for competitiveness legislation comes into play.

Resilience in manufacturing India continues ongoing efforts to ensure resilience in **manufacturing** capacity. *Atmanirbhar Bharat* and Make-in-India are aimed at domestic supply chains and heavy investment in manufacturing hubs. For bolstering its global forward and backward linkages, India can leverage the Supply Chain Resilience Initiative with Australia and Japan and multiply it with others in the Indo-Pacific region, covering ASEAN countries in particular.

The steps for strengthening **trade linkages and industrial base** are simultaneous in effect. These include convergence so that inverted duty structures are limited. Furthermore, action is needed on non-tariff factors like incentivising **innovation**, strengthening the intellectual property (IP) regime, reducing logistics costs and ease of running a business (EoRB).

India must also leverage advanced technologies such as 6G, Internet of Things (IoT) and blockchain. Such a position will help India anchor its position in FTA negotiations. Exports of Indian goods and services are dependent on domestic linkages and capacity. So, the proposed idea of legislation will be a unifying factor for overall gains for the Indian economy at all levels.

The inherent issue with the lack of cohesion is the single-perspective approach toward competitiveness. For example, the Ministry of Commerce & Industry has two departments. The Department of Commerce is entrusted with foreign trade policy, multilateral and bilateral trade relations, development of export-oriented commodities, etc. The DPIIT functions in domestic sector growth and overall industrial policy.

The National Manufacturing Competitiveness Council was established as an exclusive body in the past regime but could not make any impact. The proposed National Competitiveness Commission under the new law will provide a continuing forum for policy dialogue to energise and sustain the growth of manufacturing industries in India and provide strategic and legal heft to ensure proper implementation.

We must acknowledge that India is not a pioneer in these sectors. India's priorities are developing competitiveness, self-reliance and exports-led growth, and ensuring administrative reforms work without a business-as-usual approach. Hence, policies differ from the USA in many areas like small and medium-sized enterprises (SME) exports, removing regulatory hurdles, establishing EoRB, research & development (R&D) spending and attracting investments.

Therefore, the pillars of competitiveness must envelop all the policies. Emulating the USA and developing legislation could be a good place to start. The idea of competitiveness-focused legislation needs to be floated in the popular narrative to enable India to carve itself on the global scene.

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