

Business Standard

VOLUME XI NUMBER 234

Energy & synergy

The Prime Minister's exhortation to India's oil companies to "think big, think creatively and think boldly" may be an indication of his personal commitment to managerial autonomy in the public sector, but the remark raises more questions than it answers. Can any CEO actually afford to think and act boldly when political opinion on the role of the public sector, especially in a supposedly "sensitive" sector like oil, keeps changing so much? A year back, the NDA government was asking oil companies to prepare for disinvestment and develop marketing skills for operating in a competitive environment. Today, they are being asked to think about energy security, achieve global size through domestic M&As, deliver huge dividends to the exchequer, and also bear the burden of subsidies on kerosene and cooking gas.

Public sector undertakings (PSUs) can think big and bold only in an enabling political environment where ministers see policy-making as their core job and not the running of corporations. While enlightened ministers, such as the current petroleum ministry incumbent, Mani Shankar Aiyar, can be trusted to avoid meddling in the day-to-day operations of PSUs, true autonomy cannot be left dependent on whether the minister concerned has set higher standards for himself or not. The issue of managerial autonomy goes beyond the question of a minister's personal integrity—or lack of it. It is the job of the CEO and his senior management to decide what is right for their company, not that of the minister, howsoever intelligent or above board he may be. If the management of ONGC thinks that the company's best interests lie in downstream expansion and not bidding for some gasfield in Timbuktu, it is the ONGC board that is in the best

Flying high

For the two million passengers who travel between India and the United States—and the number is growing significantly each year—the decision to have an aviation pact between the two countries is good news. The agreement should ensure a dramatic increase in the number of flights and cities covered. To cite just one instance of how fast traffic is increasing, in December, 2002, Air India flew just 10 flights a week directly to the US, and that, too, to just New York and Chicago. Today, the number of flights is up to 25, and the city list is up to four. By March, Los Angeles will be added to the itinerary. Since the pact allows airlines in the two countries to select routes and destinations based on consumer demand, the number of cities that will be served directly is sure to go up even further. Cities that do not offer enough regular demand may be served through code-sharing agreements between airlines.

The agreement, which is in keeping with the overall government policy of opening up the skies to competition and increasing the availability of flights to different parts of the world, has the potential to reduce fares. The fact that domestic private airlines have also been allowed to fly abroad will only add to the pricing pressure. But more than what it does for the flying public, the pact underscores the rising confi-

dence India has in the ability of its airlines, both public and private, to compete with their global counterparts. One of the reasons for not having open skies in the past has been the fear that big global airlines will knock out the local players. As a result of this, the premium on flying into and out of India was high and airlines like Air India benefited significantly from it.

If India is to make the most of this pact, other related issues need to be tackled. One relates to airport infrastructure—which is poor by global standards. Another is the excessively high sales and other taxes on aviation fuel. These ensure that Indian airlines pay 30–40 per cent more than foreign carriers for tanking up. Given the importance of fuel prices in airline economics, Indian carriers are at a significant disadvantage vis-a-vis their global competitors. Something needs to be done to level the field. In the case of Air India, similarly, plans to acquire new aircraft have been doing the rounds for close to a decade, but nothing has materialised. In the meanwhile, the airline has tried to plug the gaps by going in for leased aircraft since 2000. Currently, half its fleet of 35 planes is leased. This has, no doubt, pushed up costs. Unless these policies are fixed, the open skies policy will remain a limited skies one in practice.

THE CHINESE ECONOMIC MIRACLE: I

Walking on two legs

One wonders what old Communists would make of this capitalist China, says Deepak Lal

I visited China in October after a gap of five years. I found it transformed. As in the other economic miracles I have personally witnessed in my life time—Japan in the early 1960s, and South Korea in the early 1970s—the pace of change is breathtaking, as its scale, given China's size. Its most visible physical manifestation is the change in the physical landscape, with construction in the intervening period leaving few familiar landmarks. There is a surge and energy, particularly amongst the young, which seems boundless. For me, the major symbol of the change was a visit to a Communist shrine in Shanghai: the traditional house where the Chinese Communist party was founded. In the mid 1990s, it was still surrounded with traditional houses and drab "socialist" housing. When I visited it last autumn, it looked forlorn in a little street off a large pedestrian mall containing every symbol of decadent Western capitalism: Starbucks, McDonalds, Pizza Hut, Kentucky Fried Chicken, French restaurants, karaoke bars and elegant shops with every Western brand in stock. The mall was filled with the burgeoning new affluent Chinese middle class. I wondered what those old Communists looking down from their Marxist heaven would make of this capitalist paradise that their successors have created. Perhaps Dr Manmohan Singh should give free passage to the indigenous Communists and Leftists tormenting his government to visit this Chinese Communist shrine and the economic miracle surrounding it. So how has this come about? Can the miracle be sustained? What are the lessons for India? And in the race for growth of the two emerging Asian giants who is likely to win: the tortoise or the hare? These are the questions I will explore in this and the next two columns.

China's movement from the plan to the market began with Deng Tsao Ping's retreat from the collectivisation of agriculture in 1978 with the introduction of the household responsibility system. This in effect restored, all but in name, privately run and owned family farms. This reversal of policy was the pragmatic response to the deep economic and social crisis caused by Mao's collectivisation, Great Leap Forward and the Cultural Revolution. The peasant's response was stupendous. Agricultural output, which had grown at 2.9 per cent p.a. between 1952 and 1978, grew at 7.6 per cent p.a. from 1978 to 1984 (Justin Lin, *American Economic Review*, March 1992). The large increase in farm incomes led to a rapid rise in savings, from below 5 per cent of GDP from the 1950s to the mid 70s, to nearly 34 per cent in 1994. The rise in savings was also fostered by China's forced demographic transition with its one-child policy, which reduced the dependency ratio (the number of the old and young to workers) and thus—on the lines of the life cycle theory of savings—to a rise in the savings rate (see F Modigliani and S L Cao, *Journal of Economic Literature*, March 2004).

The crucial difference between China and Russia in their transitions from the plan to the market lay in their initial conditions. Russia and Eastern Europe had about 90 per cent of their labour force in state-owned industrial enterprises, whilst most of the labour force in China (80 per cent) was in agriculture. For Russia and Eastern Europe the only route to a more efficient private market economy was a "big bang" dismantling of the state-owned industrial enterprises. China could, through its own rural big bang, immediately convert the majority of state employees into private owner operators, and see a rise in output rather than the losses experienced by Russia, leaving time for a gradual reform of its inefficient state-owned industrial enterprises.

A momentous unintended consequence of the privatisation of agriculture was the initiation of a boom in small-scale non-farm rural enterprises. This began with Deng's injunction that it was virtuous to be rich. The local party officials took this to heart, becoming directors and managers of township and village enterprises (TVEs). With the rise in farm incomes the pent-up demand for manufactured goods and housing was met by these



Illustration: R PRASAD

TVEs. Collectively owned but run as profit-making capitalist enterprises, they provided the local authorities extra budgetary resources and their officials legal opportunities to become rich. Unlike the state enterprises, they did not carry any welfare responsibilities and were free to hire and fire the abundant local labour in a completely free labour market. With Deng's creation of the special economic zones in China's southern rim in the early 1980s, these TVEs and later individually owned private firms became the spearhead of a Dickensian capitalism which, using the cheap labour in the Chinese countryside with foreign technology, self financing from household savings and enterprise profits, and (some) foreign capital, became the processing centre for manufactured goods in the world. This labour-intensive industrialisation is now spreading inland along the Yangtze.

Total employment in TVEs rose from 28 million in 1978 to 60 million in 1996. There was dramatic growth in individually owned enterprises, rising from nothing in 1978 to 4 million in 1984, and 23 million in 1996, employing 76 million people. They have been the motor of China's spectacular labour-intensive industrialisation. Angus Maddison (in his *Chinese Economic Performance in the Long Run*) estimates that real value added in this new small-scale sector rose by about 22 per cent a year from 1978 to 1994. It has made China the workshop of the world.

These spin-offs from the privatisation of agriculture were aided by the massive buildup of infrastructure by the state. Labour-intensive export industries were further helped by domestic price reforms, and one of the largest unilateral liberalisations of foreign trade in history. Today, most relative prices in China (unlike India) are closely aligned to world prices. Chinese exports have exploded, growing eightfold between 1978 and 1995. By 2003 China was the world's third-largest trading country, when its trade increased by over \$200 billion—twice the level of India's total trade in 2002. Its share of global trade is six times that of India's (N Lardy, IMF-NCAER "Tale of Two Giants" conference, November 2003).

As its non-state sector grew, China undertook a gradual re-

form of its state-owned industrial enterprises. Most were set up, as in India, under the unviable heavy industry-biased industrialisation strategy. In the reform period, they have been kept alive to avoid losses in output and employment, till the dynamic non-state sector is large enough to absorb the labour their closure would release. Today 70 per cent of manufacturing output is produced in the non-state sector, even though 70 per cent of all fixed assets and 80 per cent of working capital is still in the state sector. Most state firms are making losses, worsened by the "social" welfare burden they continue to carry. Worried about the social disorder entailed in their wholesale closure, the Chinese government has to tread warily. Closing the worst loss-making units has reduced state employment from 109 million in 1995 to 70 million in 2002, of which 10 million are in manufacturing. The rest have been kept alive by subsidies through the banking system. The consequent debauching of the financial system and inefficient uses of massive domestic savings pose serious problems for China's economic future, taken up in my next column.

Why national champions do not work

Dear Mr Verheugen

I hope you are enjoying your new job as European commissioner for enterprise and industry. You achieved much with the enlargement portfolio. But your reputation as one of the ablest politicians in Brussels is now staked on the Lisbon Agenda, that rather embarrassing document that our leaders signed at the peak of the new economy hysteria. At the confirmation hearing, you were suitably modest and realistic, downplaying the role of the Commission and emphasising the role of the governments and business itself.

But it is hard for anyone in your position to resist the temptation to announce policy initiatives. You suggested that the Commission might take a more relaxed view of mergers, allowing the creation of more European champions. I had hoped that your advisers would have told you that no industrial policy has been more comprehensively discredited than the notion that the best way to achieve competitiveness abroad is to suppress it at home.



John Kay
INSIGHT

The edition of the FT that reported your comments also contained the headline "How AT&T stumbled towards insignificance", recounting the failure of America's national telecommunications champion. The article told a story of infighting between corporate baronies, more concerned to thwart their rivals than to advance a common interest. You will recognise the problem. Government agencies fight each other because the competition they perceive is with each other. Dominant companies come to resemble government agencies, which is why these agencies are so comfortable dealing with them. As industry commissioner, you would like a single number to ring if you want to talk about telecommunications, or automobiles. You will be more effective as enterprise commis-

sioner if there is no one to take your call.

As the US economy became integrated a century ago, there

We all regret European weakness in information technology ... But the size and market dominance these businesses achieved were the result of the quality of products

were many advocates of national champions. When antitrust law was used to break up Standard Oil and American Tobacco, the

US turned its back on that idea. AT&T was an exception. There was another, US Steel, which at the outbreak of the first world war had the largest market capitalisation in the world. But far from spearheading American competitiveness, the company steadily declined until it is not even an important steel producer.

The creation of European champions has one success story, in Airbus. It is a special case. Aircraft manufacture is the only industry in which scale economies are so large that Europe really can support only a single producer. The champions strategy has failed everywhere else. You are said to be particularly concerned about the automobile industry. You can learn a lesson here from Britain. We promoted the consolidation of our indigenous motor companies under the leadership of Leyland. The result was not the revival of the industry but the destruction of Leyland. The merger of companies struggling to compete rarely adds up to more than the sum of the parts, and often to less. Today, Britain has a lively automobile sector that is fragmented, and

mostly Japanese-run. The Japanese understood that domestic rivalry was the basis of global competitiveness. In the industries where they gained a large share of the world market, several companies have shared in that success.

We all regret European weakness in information technology and wish the continent had its International Business Machines, its Microsoft. But the size and market dominance these businesses achieved was the result of the quality of their products, not government sponsorship or exemption from antitrust laws. Europe's attempts to rival IBM with national champions Bull in France, Siemens-Nixdorf in Germany, and ICL in Britain all failed. But these companies did not fail because they were too small: they were too small because they failed.

Please do not forget that the industry part of your portfolio will succeed only if the enterprise part does: and that it is competition, not size, that promotes enterprise.

Best wishes, John Kay
(Financial Times)

It was four hundred years ago almost to the very day that a gentleman called Quixada or Quesada (possibly even Quesana) emerged from La Mancha. He was not a young man, being nearly fifty, but a great sportsman nevertheless, a man of regular habits whose income teetered between straitened and genteel.

His small pleasures were gradually consumed by a creeping absorption in reading—"to such a pitch did his eagerness and infatuation go that the sold man an acre of tillage-land to buy books of chivalry to read". The obsession with knights and knightly lore began to steal the gentleman's life from him: "... He became so absorbed in his books that he spent his nights from sunset to sunrise, and his days from dawn to dark, poring over them ... His fancy grew full of what he used to read about in his books, enchantments, quarrels, battles, challenges, wounds, wooings, loves, agonies, and all sorts of impossible nonsense; and it so possessed his mind that the whole fabric of invention and fancy he read of was true, that to him no history in the world had more reality in it."

This is how the history of Don Quixote de la Mancha begins. Its author, Miguel de Cervantes Saavedra, had mained his left hand in the battle of Lepanto. His nickname from that time was El manco de (the cripp-

ple of) Lepanto, in which he took inordinate pride. He was not a young man when he embarked on Don Quixote's adventures; in his Preface, he wonders what the Public will think of him, "after slumbering so many years in the silence of oblivion, coming out now with all my years upon my back" with a story he called "dry as a rush". He had been a tax collector and subsequently landed in a debtor's prison: he apologised that his offspring, which he called "dry, shrivelled, whimsical" was "just what might be begotten in a prison, where every misery is lodged and every doleful sound makes its dwelling".

The public would judge, he hinted, and the public did. Before the publication of *The History of The Ingenious Gentleman Don Quixote Of La Mancha*, Cervantes' greatest literary success had involved a composition that won three silver spoons as a prize. The first edition of *Don Quixote*, published on January 16, 1605, ran to a humble 1,200 copies—not unlike the first print run of an Indian novel in English these days.

But between 1605 and 1616, when Cer-



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vantes died (Part Two of Don Quixote's history came out in 1615), Part One had already run into nine editions—thirty thousand copies in all. The demand for the book has stayed constant; *Don Quixote* is rivalled only by the Bible, and the four hundredth anniversary of its publication has seen a surge in new editions, annotated, illustrated, cartooned and in e-book form.

Critics down the centuries have been effusive in their views of *Don Quixote*, but it was probably E C Bentley, inventor of the four-line verse called the clerihew after him, who summed up Cervantes' charms the best. "The people of Spain think Cervantes Equal to half-a-dozen Dantes; An opinion resented most bitterly By the people of Italy." Cerv-

vantes has been seen as one of the greatest comic writers of all time, as the creator of the "universal" novel, as the towering predecessor to works as disparate as Fielding's *Tom Jones* and John Kennedy Toole's *A Confederacy of Dunces*.

To this day, no one knows what Cervantes' intentions were. Did he mean *Don Quixote* to be taken at face value, to be enjoyed merely as a riproaring comic romp, a hilarious parody of the classic tales of quests and chivalry? But four hundred-year-old comedy rarely lasts; Shakespeare's puns barely survived his time. Some have peered into *Don Quixote* and seen a searing vision of humanity, lonely and sustained by the power of imagination; others have seen a lasting commentary on the human condition; the magic realists have claimed Quixote (Borges wrote a short story on the book); each generation finds something to claim, to hold on to.

Even the convention of sending up the conventions of the day has lasted: Cervantes' mockery of provenance when he asserted that Quixote's tale was originally written in Arabic by Cide Hamete Benengeli (Syed

Hamid Aubergine) has been imitated through the ages. And we still use stray phrases that he introduced into Spanish: not just "quixotic" and "tilting at windmills" but "the Haves-and-the-Have-Nots", "out of the frying pan into the fire", "make hay while the sun shines". It is tempting to trace the descent of the phrase "You ain't seen nothin' yet" back to Cervantes' original "Thou hast seen nothing at all".

To mark the fourth centenary of the man from La Mancha, Spain is hosting a series of "windmill congresses". You can retrace Don Quixote's absurd journey across the landscape of La Mancha, meet broken-down old nags that bear a striking resemblance to Rocinante, watch musicals, listen to readings, see the film. A solemn team of researchers mapped novel to region and tracing distances mentioned in the story in an attempt to discover the identity of the "village of La Mancha, the name of which [the author had] no desire to call to mind". It has since been identified as the Villanueva de los Infantes, a small town some 144 miles south of Madrid, famous for absolutely nothing

before this small band of the faithful academics who conceived a quest so perfectly quixotic.

Why would we, in the twenty-first century, want to read the dusty adventures of a knight who wasn't really a knight, in 126 chapters, some four hundred years later? Everyone has a different answer, and mine is simple: because Don Quixote, or Quixada, Quesada, perhaps even Quesana, was the first character in literature to understand the lure of the written word so completely that he disappeared into it.

Imagine a man at fifty, the best years of his life behind him—a man not so very dissimilar to his creator, then—who had dried up his brain "from reading too much, and sleeping too little". Imagine a man who sallied forth to seek adventure, his only protection a pasteboard helmet, who made a faithful friend out of a servant called Sancho Panza, giants out of windmills, saw beauty in an ordinary village damsel, who understood that "in order to achieve the impossible, one must attempt the absurd". Imagine, then, a man whose response to the world was simple: he tried to rewrite it. Four hundred years later, the verdict is that he, and Cervantes, succeeded.