

Yet another colonial legacy

India's regulatory regime needs a radical overhaul

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A recent event in Kerala, though far from the industrial centres of India, may hold a clue to understanding the malaise crippling the nation's industry. This event took the form of one of the State's major employers making a much publicised investment outside Kerala. What is unusual about this is that the company had earlier announced that it would make an even larger investment within the State itself.

The negative publicity given to its departure by the company was considered unnecessary by the State government and experts have pointed out that the original promise of investing this larger amount in the State is incredible, as its volume is several times the firm's market capitalisation. The investor, however, announced that he had been hounded out by the regulatory authorities. Independently, journalists have confirmed that the company's premises had been subjected to 11 inspections in one month by the concerned government departments, and its CEO had stated on public television that he had been charged with over 70 compliance failures following these.

In a swift move, Kerala's Minister for Industries appeared on public television, where he opened himself to questioning. He stated categorically that the inspections had been in response to alleged violation of human rights and labour laws by the company, and that they had not been ordered by the Industries Ministry of the State. We have no reason to disbelieve him, but are left wondering about the legitimacy of a regulatory arrangement under which the elected government of the day has no say on inspections, even if some of them are related to court rulings.

The picture of an ungoverned bureaucracy that emerges from this incident is breathtaking in its implication for the kind of democracy that we are living in. But it is not difficult to see where this originates from. It was the governance model during colonial rule in India. In an insightful commentary on his compatriots of the East India Company, the economist Adam Smith had observed that their only concern was to build a fortune by any means and to get out of

the country as fast as possible, no matter what the consequences for its inhabitants. However, even this understanding of the rationale of colonialism is not enough to appreciate its debilitating consequences for India. To hold India, the British invented an intermediary class standing between themselves and the natives. For the latter, there was no redress against the depredations of this class, whose excesses the colonial regime tolerated as a small price for retaining their colony.

Crippling effect

The colonial administrative apparatus has been retained intact in Independent India. Of course, this was not inevitable. The toxic measures that enslaved Indians could have been removed forthwith, but for reasons that are not difficult to comprehend, India's political class kept them. Now, it has the Supreme Court asking why stick with a sedition law that had been used to immobilise Indians. While many understand the absurdity of the sedition law today, and the more aware among them can see how it kills our democracy, the crippling effect of colonial practices that govern economic activity have gone unscrutinised. Random inspection of a company's premises by State functionaries sits at their pinnacle, preventing India's industry from achieving its potential.

On the 30th anniversary of the economic reforms, a puzzle that needs resolution is that while they have been focused on the manufacturing sector, the manufacturing sector has not expanded relative to the economy. Its share has remained quite the same. We may just have received a clue from Kerala to comprehend this outcome. While the elegantly crafted trade and industry reforms have addressed the policy regime, they have not addressed the conditions under which production takes place in this country. This may have held back investment, standing in the way of the expansion of the manufacturing sector as intended. India's regulatory regime needs a radical overhaul.