

MODI TACKLES INDIA'S 'LICENCE RAJ' WITH A THOUSAND CUTS

By Amy Kazmin in New Delhi

Making life easier for companies should attract investment



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In 1863, a boiler exploded in Kolkata, killing several people and prompting a new rule for regular inspections of potentially hazardous steam boilers. In 1923, India's colonial administration passed a new Indian Boilers Act to harmonise boiler rules across the subcontinent. It required every boiler to be registered, and inspected, by state officials every year.

Fast forward nearly a century and the boiler law remains in force, with mandatory annual checks. A limited number of boiler inspectors handling a growing workload is a chronic problem for industries trying to keep paperwork up to date. Meanwhile the inspectors profit handsomely from their relative scarcity.

But days after coming to power, Prime Minister Narendra Modi and his team called for a new national approach to boiler safety. Companies, New Delhi wrote to state authorities, should be allowed to "self-certify" industrial boilers, or hire credible third-party evaluators. Barely noticed abroad, the move was an early signal of Mr Modi's approach to India's economic challenges.

As a prime ministerial aspirant, Mr Modi was imagined by many to be a potential Margaret Thatcher-style reformer, who would boldly tear down the remains of India's Nehruvian socialist state, even risking run-ins with powerful vested interests. He may yet. Presently, though, his team's main priority is cutting through the dense thicket of niggling rules, regulations and reporting requirements that have contributed to India's reputation as a fiendishly difficult place for business.

Though it may seem like mere tinkering with government machinery, analysts say making life easier for companies is a logical first step towards Mr Modi's goal of attracting more investment to job-generating manufacturing industries. "It seems to me they have a grand plan," says Sonal Varma, chief India economist at Nomura. "The changes so far are quite micro in nature, rather than macro, but if you put them all together, there is a method in the madness."

India certainly has plenty of red tape to cut. Industries currently need to get nearly 70 clearances a year to operate. Complying with labour law requires employers to maintain – and submit to authorities – 16 separate types of worker registries. Starting businesses, registering properties and getting construction permits can be Herculean tasks.

The Licence Raj or Permit Raj, a result of the decision to have a planned economy, was the elaborate system of licences, regulations and accompanying red tape that were required to set up and run businesses in India between 1947 and 1990 - Wikipedia

Mr Modi is seized with the importance of reducing these woes, and ministries are now working to reduce reporting requirements, allow electronic submission of forms and reports, accelerate clearances, and permit more self-certification, in lieu of state inspections.

A committee is reviewing the law books – which still have many colonial-era statutes – to identify obsolete rules for repeal. Plans are even afoot to integrate the computer networks of the Directorate General of Foreign Trade – which regulates imports and exports – with the Central Board of Excise and Customs. Hoorah!

Modernising how the government handles its official business can, on the margins, help improve Indian business sentiment and also give a small boost to faltering growth. But if he really wants to unleash India's economic potential, Mr Modi will eventually have to make tough political choices – which he so far appears in no hurry to make.

Land law is among the thorniest challenges, given the administration's inheritance of a new law that companies complain makes acquiring land for industry virtually impossible. The new government had indicated it would amend the rules to make them more business-friendly, but that seems to be on the back burner.

The near impossibility of big companies firing permanent workers is another big disincentive to large-scale labor-intensive manufacturing. But any hint of diluting labor law

threatens immediate backlash, although New Delhi does want to allow longer overtime hours, and to let women work factory night-shifts.

State companies like Coal India, unable to keep pace with rising demand for coal for power generation, are big drags on the economy, while private companies gripe that the existing framework for public-private partnerships in infrastructure projects has them shouldering too much of the risk.

Meanwhile, many big Indian companies with the capacity for large projects are also heavily indebted, after the last decade's difficulties. But state banks have yet to admit that many loans may never be fully recovered – or prepare for the consequences like possible debt write-offs.

It remains to be seen whether Mr Modi has the political courage to deal with these fraught issues. But rebooting India's economy will definitely require more than upgrading government computer systems.