



December 2008 • Volume 04 • Issue 04

A Quarterly Newsletter

# circular

Covering developments in the area of research, training and education on public policy issues



## Politics Triumphs Economics?\*

### *Political Economy and the Implementation of Competition Law and Economic Regulation in Developing Countries*

The political economy of regulation has been examined extensively in economic literature from both theoretical and empirical standpoints. Economic theory recommends the correction of market failures through regulation as a means to maximise total welfare. The sheer magnitude of regulatory challenges facing developing countries is frequently overwhelming so that there remains a huge gap between the regulatory options suggested by economic theory and what is achievable in practice. Bridging this gap is a major challenge that necessitates sustained collaboration among experts, policy makers and regulators.

Conditions prevailing across different countries differ widely such that uniform prescriptions, remedies or recipes are not feasible. There are real issues which need to be deliberated upon and resolved in tailoring regulatory regimes to country specific circumstances so as to maximise benefits and minimise costs of such regulations, and ensure their administrative feasibility.

CUTS along with CUTS Institute for Regulation & Competition (CIRC), have envisioned a biennial research programme entitled, 'Competition, Regulation and Development Research Forum' on competition policy and regulatory regimes in the developing world, with a strategy of motivating developing country researchers to undertake research on issues relating to problems that developing countries face in implementing their competition and regulatory regimes. The first cycle has come to an end with the release of a research volume, entitled, '*Politics Triumphs Economics?*'

A wide range of issues have been captured in the research volume – for instance, the political economy underlying the implementation and enforcement of competition and regulatory laws and regimes, barriers posed by vested interests to the free and fair functioning of competition and regulatory regimes and the often choppy relationship between competition enforcement agencies and regulators attributable to functional overlap which often delays decisions and is, therefore, detrimental to the welfare of any country.

Several findings come to light through the volume, which could not have been anticipated otherwise. A very fundamental result stresses the influence of vested interests on competition and regulatory agencies in developing countries with the recommendation for wide implementation of competition policy to tackle such vested interests. Another major recommendation is for competition agencies to prioritise their casework, given their limited financial resources and human capabilities.

An important finding is that there is a lack of positive association between affluence and independence of regulatory authorities. Thus, the research volume makes a significant contribution to raising awareness about regulatory challenges facing developing countries and suggesting appropriate means to address these.

\* Edited by Pradeep S Mehta, Secretary General, CUTS International and Simon J Evenett, Professor, International Trade & Economic Development, University of St. Gallen, Switzerland

## Cover Story

Politics Triumphs Economics?

## What's Inside

What's Happening  
– An Overview (p 2)

- Yale launches India Initiative
- Addressing Skills Gap
- Education City near Delhi
- Clueless on Ground Realities
- Tata's Gift to Cornell
- Woman on the Board
- Boosting Pharma Sector
- 1,000 New Polytechnics

Expert Corner (p 3)

Our Cacophonous Debate  
– Nandan M Nilekani

News & Views (p 4)

Forthcoming Publication  
Forthcoming Events

## What's Happening – An Overview

### Addressing Skills Gap

Speaking at a conference, "International Academic Forum 2008: Focus Andhra Pradesh", organised by the British Institute of Technology and E-Commerce (BITE), academics pointed out that India would need more skilled professionals as the industrial sector grew. And British universities, with their long experience of industry-led research, could help in this.

K C Reddy, Chairman, Andhra Pradesh State Council of Higher Education, said that British universities could play a role in addressing India's skills-gap. "We can share good practices and develop a more cohesive education system in Andhra Pradesh", Prof. Reddy added. (TH, 18.11.08)

### Education City near Delhi

The Haryana Chief Minister Bhupinder Singh Hooda said that his Government was setting up Rajiv Gandhi Education City at Kundli near Delhi as part of efforts to usher in comprehensive education reforms at all levels besides enacting the Private University Act to encourage private sector investment in higher education.

"The Centre has sanctioned the setting up of an Indian Institute of Management (IIT) in Rohtak, a B-School and a Knowledge Park, a Central University and a Defence University", Hooda said. A Women's University and University of Health Sciences had already been set up. (TH, 05.10.08)

### Clueless on Ground Realities

A Parliamentary Committee has taken the All-India Council for Technical Education (AICTE) – the country's apex body for technical education – to task for being "clueless" about the ground realities of the disciplines falling under its charge. It has suggested changes in the AICTE Act to ensure that the Council delivered on its original mandate.

In its report, the Parliamentary Standing Committee on Human Resource Development has questioned the ability of the Council to formulate policies and regulations in the absence of any effort by it to anticipate and forecast the growth and development in technical education.

The panel, however, took note of the difficulties the AICTE faced in carrying out its mandate. (ET, 16.12.08 & BS, 15.12.08)

### Tata's Gift to Cornell

Tata Group chairman Ratan Tata has gifted US\$50mn to Cornell University, New York, his alma mater. The gift will help recruit top Indian students to the campus and support joint research projects with Indian universities in agriculture and nutrition. The donation will be used to set up a scholarship fund to bring more Indian students.

The endowment consists of US\$25mn to establish the Tata-Cornell Initiative in agriculture and nutrition and US\$25mn for the Tata

Scholarship Fund to help attract more bright Indian students to Cornell University. (BL, 20.10.08)

### Woman on the Board

Two corporate – a retail giant and one of the top three IT companies – are trying to take on board experienced women professionals to pass on their domain knowledge and lessons-learned-at-work. The novel programme could prove to be a 'win-win' for all the stakeholders.

Highlighting the newer dimensions of flexi-time careers, Rajesh, Chief Executive, Avatar Career Creators said, "Hiring interim women managers not only establishes connect between students and the industry, but is also an opportunity to mould young minds, giving them a peek into the work world. (ET, 26.11.08)

### Boosting Pharma Sector

In a bid to boost research and development (R&D) in the pharma sector, the Government will provide Rs 2,100 crore (US\$426.57mn) for establishing six National Institutes of Pharmaceutical Education and Research (NIPERs) over the next five years.

"The department has earmarked a budget of Rs 350 crore (US\$71.09mn) for each NIPER for the next five years, which would be spent on infrastructure, training, equipment, recruitment and the working of institute", Ashok Kumar, Secretary, Department of Pharmaceuticals, Government of India informed newsmen. (BS, 15.12.08)

## Yale launches India Initiative

US-based Yale University has launched its India initiative with a corpus of US\$75mn to increase engagement with India and South Asia.

"The initiative will create new faculty positions on India-specific courses and new curriculum across the arts and science disciplines apart from student recruitment efforts, faculty and student exchanges, research partnerships and leadership education", said Yale University President Richard C Levin.

Yale's India Initiative will create Yale's professional school of architecture, environmental studies, law, management, medicine, public health and nursing. As part of this initiative, the University would triple the number of faculty from India to about 30 in specialist position.

Yale has committed US\$30mn of its own unrestricted endowment resources to this enterprise and expects to raise at least US\$20mn from donors within 2009. (BS, 18.11.08)



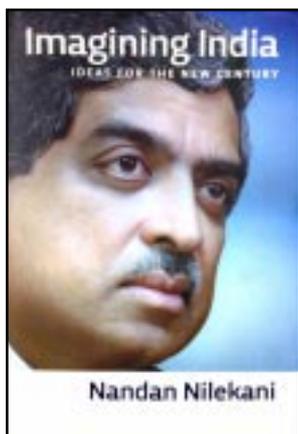
### 1,000 New Polytechnics

The Cabinet Committee on Economic Affairs (CCEA) has decided on a financial allocation for the 1,000 new polytechnics to be set up across the country at a total cost of Rs 737.82 crore (US\$149.87mn).

Of these, 300 polytechnics are to be set up with a one-time central grant of Rs 12.3 crore (US\$2.49mn) a polytechnic to meet the capital cost. Another 300 polytechnics would be set up under the private-public partnership (PPP) mode with partial funding of Rs 3 crore (US\$0.60mn) a polytechnic from the Central Government. The rest 400 polytechnics would be set up through private funding. (BL, 26.12.08)

## Our Cacophonous Debate

– Nandan M Nilekani



**Dividing the book into four parts, he goes from ideas and concepts that India has by and large accepted – from the need for democracy to English as a ticket to a better life, on to ones that are still contested, energy and environment – presenting passionate arguments for his case. He makes a strong case for reforms and remains optimistic about India, with its unique strategic advantages being able to meet the aspirations of a young population with growing desires.**

I began the task of writing my book *'Imagining India: Ideas for the New Century'* with a great deal of trepidation. I knew at the outset that it would be difficult for me as an entrepreneur with an engineering background, to take up a book that tackled Indian politics, society, economics, and our critical policy issues. Through researching and writing my book, I might be able to glean something about the heart of our conflicts.

More than two decades into reforms, India struggles with the fundamental challenges of a poor country. Our contrasts are clichés: Asia's second-largest slum is here, in the world's fastest-growing democracy. A nation that is a burgeoning knowledge power also has the largest number of school dropouts in the world.

A major barrier to bridging these chasms is our conflict in ideas. India is deeply divided on the way forward on a variety of policies. There is for instance, huge disagreement between what people in business and those in politics see as the country's critical challenges. The pulls and pressures politicians in India face are very different from that of the corporate sector.

Such differences in ideas are difficult to overcome. It is not easy to find common ground – between governments, entrepreneurs, the middle class and the poor – when people's incentives are set so wide apart. In fact, our ideas for the Indian economy have recently become more ghettoised than ever, thanks to our growing inequalities. Indian governments have tried to address such inequality by redistributing wealth – through a massive subsidy system, and loan waiver schemes.

But our governments somehow seem to have refused to recognise the role access plays in reducing inequality. People everywhere, regardless of their income levels, should have access to health facilities, clean water, basic infrastructure, jobs and capital, a reliable social security system, and good schools where their children can be educated in the English language.

This dawned on me fully only when I heard the Nobel Prize-winning economist-historian Douglass North on how countries explicitly limit such access for their citizens. I was with him at a Conference Board meeting in Ireland in June 2005 when Dr North delivered his compelling speech. He spoke passionately on the immense importance of promoting what he called 'open access societies'.

"The limited access order is what we now see in most countries", Dr North told me later. "It promotes policies that cut off easy entry into markets and institutions for everyone". These include limiting the access to capital that people need to start businesses and education systems where quality is directly linked to affordability. As a result we see existing elites consolidate their hold on power and wealth, and it becomes very difficult for people to break out of the income class they are born into.

To break closed access systems, India needs a comprehensive programme of reform – competition and choice are crucial towards providing people with the access and opportunities to take part in the economy, and bypass gatekeepers and interest groups.

Another compulsion to write this book was to reiterate what many of us forget in our quest for growth – that India's biggest economic strength come from its democracy. Many people I meet complain about India's slow growth under democracy, and suggest that a strong, authoritarian leader – who can be decisive when it comes to policy – would be more effective.

An authoritarian system is always susceptible to tyranny and abuse – it is as likely to produce a Robert Mugabe as a Deng Xiaoping. The democratic system, despite its flaws, is its own cure – in its guarantee of liberty for all people, irrespective of background and wealth, it offers the real drivers of change that can help overcome entrenched interests, inequalities and centuries-old divisions.

There is a broad sense of possibility in India today, despite the ups and downs of the economy. My friends often tease me on my dogged optimism when it comes to India's long-term destiny, but a big reason that I have held on to my positive outlook on India is this 'can-do' spirit and a sense of aspiration that pervades the country today.

Harness it effectively, and we can turn India into an innovative economic giant; lose the opportunity, and India's chances at growth will implode.

Policy Document

**Developing Infrastructure through an Ideal Regulatory Framework**

This Policy Document celebrates the creation of CIRC. It also doubles up as a mechanism for raising funds for this extremely significant and important endeavour of CIRC. But apart from the useful function served by it the Policy Document also represents a treasure trove of articles on regulation of infrastructure sectors and the like. The articles fall into two different categories – those that look at the length and breadth of infrastructure regulation and through illustration and generalisation make inferences about the art and science of regulation; and those that focus on a particular sector and its problems and elaborate on how regulation can overcome these.

The articles are accessible to all – layman, government official and budding sector regulator alike – because of their lucidity. Thus, the Policy Document not only serves as a foundation for what should become an important nursery for regulators and policy makers but also does its bit for furthering the culture of competition and market friendly regulation.

The Policy Document will be released by C Rangarajan at a Roundtable to be held in New Delhi, on January 16, 2009.



Forthcoming Events

**Roundtable on ‘Developing Infrastructure through an Ideal Regulatory Framework’**

CIRC will be organising a Roundtable on ‘Developing Infrastructure through an Ideal Regulatory Framework’ in New Delhi, on January 16, 2009 to progress the debate on a consensus on an effective regulatory regime in India so as to attract the required huge investment in the infrastructure area.

C Rangarajan, Member, Rajya Sabha will be presiding and Vinayak Chatterjee, Chairman, CII National Council of Infrastructure will be moderating the discussion. Panellists include: N K Singh, MP; Ashok Chawla, Secretary, Department of Economic Affairs; Nripendra Misra, Chairman, Telecom Regulatory Authority of India (TRAI); Pramod Deo, Chairman, Central Electricity Regulatory Commission (CERC); Isher J Ahluwalia, Chairperson, Indian Council of Research in International Economic Relations (ICRIER); Nandan M Nilekani, Co-Chairman, Infosys; and Vikram S Mehta, Chairman of Shell Group of Companies in India.

**Residential Training Course on ‘Electricity Regulation and Consumer Protection’**

CIRC with the support of Central Electricity Regulatory Commission (CERC), New Delhi will be organising a five-day Residential Training Course on ‘Electricity Regulation and Consumer Protection’ in New Delhi, in February 2009. The programme would be designed for about 25 participants on the major issues, which include:

- Provisions of the National Electricity and Tariff Policy on consumer protection.
- Legal issues arising out of the various pronouncements by the Appellate Tribunal and the Supreme Court, especially on Section 42 (5), (6) and (7), Section 50 and 56 etc.
- Role of and functioning of Consumer Grievances Redressal Forum (CGRF) and Ombudsman on consumer protection.
- CGRF and Ombudsman *vis-à-vis* Consumer Court under the Consumer Protection Act.
- Quality of supply.
- Monitoring of Compliance etc.

Sources: BL: Business Line; BS: Business Standard; ET: The Economic Times; TH: The Hindu



**CUTS Institute for Regulation & Competition**

B-2, Greater Kailash Enclave II, New Delhi 110048, India  
 Phone: +91-11-2922 3021, TeleFax: +91-11-4053 5921  
 Web: www.circ.in • Em: circ@circ.in

