

Good Morning,

1. Honourable Speaker of the Lok Sabha, Shri Manohar Joshi,
Executive President of Jagatik Marathi Chamber of Commerce & Industry,
Shri Chandrakant A. Salankhe,
distinguished guests and friends,

2. The topic of discussion today –“Globalisation – The Gateway to International Market” – I must commend the organizers for coining the topic in a very positive note. Globalisation, as we all know - is a burning issue not only for India - but for all nations across the globe. There have been examples of both - success and failures – for countries pursuing liberal economic strategies. While the mainstream thinking views globalisation as a means to higher growth and therefore, prosperity, the other extreme view contends that it is the perfect recipe for poverty, inequality and financial instability. Whatever may be the extent and rigour of this ongoing debate, the fact is that the process of globalisation is irreversible and has a momentum of its own.

3. I will take this opportunity to first demystify the “animal” called “globalisation”, and then flag certain key issues arising out of the globalisation process for the purpose of macroeconomic policy making and prudent management of the economy, particularly in the Indian context. Finally, I will discuss the key opportunities that globalisation has in store for India, which I am sure will be of interest to many members of this trade body.

4. Globalisation means different things to different people. In simple terms, it is the expansion of economic activities across political boundaries

of nation-states, and refers to a process of deepening economic integration, increasing economic openness, and growing economic interdependence between countries. There are three dimensions to globalisation – international trade, international investment and international finance. Openness is not simply confined to trade, investment and financial flows – it also extends to flows of services, technology, information, ideas, and people across national boundaries. Globalisation is about more than financial markets. Improving productivity is the only way to create wealth, and opening up to competition is a fundamental way to spur productivity.

5. The fact is also that globalisation has social and political dimensions, which had been underestimated. There are trade-offs associated with any economic decision - and globalisation is no exception. While the objective of globalisation is to accelerate economic growth of a country by providing better access to markets, capital and technology, bad policies in a globalised world can reverse the growth objective - impeding growth and widening income inequality, and in some cases severely impacting upon the economic performance in the face of economic/financial crises. Thus, it is often, bad governance, which are the real culprits and not globalisation. The only rational view is that globalisation is an emerging and powerful global reality, which has its own pros and cons. It is, therefore, important for politicians, policy makers, entrepreneurs, trade bodies, labour unions and most importantly, the common mass to recognize and be sensitised to the inevitability of the changing contours of the international order and instead focus on how to reap the benefits of globalisation while minimizing the risks associated with it.

6. What are the challenges in managing an economy with growing integration with the world? My answer to this is that the key policy measures should accord a high priority to growth imperatives, exchange rate stability, and financial sector soundness so as to provide a cover and insulate the economy from global disturbances.

7. During a global economic slowdown, it becomes difficult to insulate domestic growth from the global effects. While synchronization of business cycles lead to some degree of convergence in the stance of both monetary and fiscal policies, thereby leading to some loss of policy independence in fiscal and monetary policy, consolidation of fiscal balance can provide a leeway to stimulate a demand-led-growth while a benign inflationary regime can afford for a softer monetary policy to induce growth.

8. With increasing integration to the external markets, a sudden reversal of capital flows can destabilize the exchange rate, which may in turn have a contagion effect on other countries. To contain any external shock on the primary source of volatility, i.e., capital flows, appropriate sequencing of the capital account liberalisation becomes a key issue, which should be supported by manageable size of the short-term debt and a credible self-insurance policy in the form of comfortable reserves. To avoid volatility in the exchange rate, it is essential that the exchange is aligned to market forces and is not overvalued. It is also essential to have in place a sound and vibrant financial system supported by prudential supervision, regulation, transparency and accountability to ward off any financial crises and instead bolster the growth process through better mobilization and allocation of resources.

9. Another popular concern, which is of crucial importance to the general populace is that how can the country protect its people, particularly the vulnerable population from the adverse socio-economic consequences of globalisation? A gradual approach to globalisation with a human face should aim at minimizing the transitional dislocations like loss of income and employment for certain sections of the society arising from economic restructuring. To compensate the affected people, the economy should also have in place adequate safety nets targeted to the vulnerable sections of the society. Given the unidirectional nature of globalisation, preparing the weaker sections to face it amidst better opportunities and rising living standards for the masses should be also one of the primary goals of the state while pursuing economic liberalisation. In this regard, greater public investment on education and expenditure will help the state to more effectively deal with the challenges of globalisation.

10. Thus, while we cannot wish away increased trade, competition and democratization that globalisation brings with it, for developing countries, a gradual immersion into the waters of globalisation may be preferable to a sudden plunge, steered by the right kind of governance.

11. Although India has been a late starter in the globalisation bandwagon, the Indian experience has been comfortable so far. India's average growth rate at nearly 6% posted during the last decade, which coincides with the liberalization period, is one of the highest in the world. The Indian economy along with China continues to be the main propeller of the world growth in the last two years, despite two major shocks - drought and rise in international oil prices. The impressive growth performance led by the services sector has been achieved under low inflationary conditions and sustainable external account balance. High foodgrain stocks and forex

reserves represent two key domestic safety nets to external shocks for the country.

12. The significant reforms of the external sector, starting from the switch over to flexible exchange rates, full-scale liberalization of the current account, dismantling of tariff and non-tariff barriers, and substantial progress towards capital account convertibility has been carefully phased in leading to a current account surplus and continued accretion to foreign exchange reserves. Prudent sequencing of capital account liberalization ensured altering the composition of capital flows in favour of non-debt flows to 50 percent of the total capital flows, while restricting the share of short term debt to 3 percent of total external debt. It is worth mentioning here that a careful and far reaching financial sector has helped us achieve much of the gains of the reform process while guarding us against any financial crises in the recent years. Although FDI flows increased from less than US\$ 100 million in 1990-91 to US \$ 4billion in 2001-02 and exports as a proportion of GDP increased from 5.8% in 1990-91 to 9.3% in 2001-02, India's share in global FDI flows and world trade are only about 0.4% and 0.7% respectively. Clearly, we are far from globalisation and need to step up exports and foreign investment by increased liberalization in trade and investment. At the same time there is a pressing need for consolidation of public finances, which would augur investment and savings and help reprioritise social infrastructure investment by the government.

13. Now I will turn to the opportunities of globalisation and what India can offer and thereby gain from it. The software industry is one of India's fastest growing industries in the electronic sectors. The benefits from an efficient software industry in globalisation times are not simply greater export earnings and FDI, but the significant gains in the productivity of

resource use in the domestic country. However, we should realize that India's cost advantage because of its software professionals are inexpensive will be eroded as other players like China with similar or lower costs enter the market. At the same time, the Indian software industry's focus is currently on proprietary work for foreign organizations, which is only a small part of the world software market. Instead, to sustain the software boom, Indian professionals-cum-entrepreneurs should penetrate into the large off-the-shelf software market.

14. To sustain the growth in software and services exports, we will have to diversify into such industries as utilities, healthcare, retail trade, transportation, services like outsourced IT-enabled services, internet services, R&D services, and enter into alliances with global players and improve branding and marketing skills.

15. India has emerged as a premier technological hub with about 40 per cent of the Fortune 500 companies sourcing software services from Indian companies. Many companies, including GE and Citicorp, have already reported significant success from outsourcing in the country. The advantages that India offers for outsourcing to the MNC Giants for business outsourcing are mainly couched in terms of:

- lower costs – Indian call centers are typically 45-50 per cent cheaper than US call centers
- the large reservoir of high skilled and more productive graduates and professionals translates into superior quality and the factor-cost differential makes them attractive for employment by companies
- further, when countries like US, UK and China will have labour shortages, the demographic profile suggest that India will still have a labour surplus in 2020, thereby prompting firms to recruit Indians.

- the time zone difference favours the Western world and allows round-the-clock service.

It is thereby imperative, that we provide the foreign companies outsourcing such services with a strong telecommunication support, which has already progressed significantly.

16. Though India is the third largest food producer in the world, the combined turnover of its ten largest food companies is only US\$ 2 billion – less than one tenth the sum earned by Nestle’s operations in Europe. The food processing industry is in fact a sleeping giant. Strategic focusing by Indian companies along with reforms of the agricultural sector, encompassing input prices, output prices and distribution policy, can make it possible for India to emerge as the leading food processing industry in the world. It not only offers huge labour-absorption capacity but also tremendous export potential.

17. India does not have the comparative advantage in higher-segment car production compared to the Japanese or Korean majors. However, India possess significant comparative advantage in the production of auto components, which are no less profit drivers. With the small-scale industries being gradually dereserved and restrictions lifted, we should seize on the labour-intensive operations of the small-scale industries, which makes it an ideal medium to produce auto ancillaries and become a global player.

18. To realize India’s potential from the benefits of globalisation, we should focus on two crucial determinants of economic growth – the size of the home market and the home of world class competitors. While reforms are creating large-scale domestic markets, not enough attention has been

paid to creating world class competitors. To successfully globalise, we have to shepherd our economy by building a world scale domestic market by opening the economy to new products and services and building world class competitors by enabling the economy to upgrade itself. Both of them, in turn, requires an active interaction with industrialized nations and multinational corporations. Domestic industries must tap India's large poor, defranchised population, design products and systems specifically targeted at them. The skills and innovations developed through this process can be used for selling products and services worldwide.

19. To unleash the potential, the country has to strive to develop a shared mindset, target some industries for special support, focus on quality as a national priority, allow mergers and acquisition, and build a strong infrastructure, besides pursuing the traditional lines of economic reforms. India's latent world scale market can facilitate Indian companies to become innovative and low-cost global scale producers of products like processed food, confectionery, cement, textiles, footwear, two-wheelers, software, auto ancillaries, and hospitality. Indian managers need to examine their genetic code and shed a lot of their assumptions about managing enterprises in the face of demands for new economic opportunities. Such radical transformation cannot be managed without a vision – a dream of a new India.

Thank You.