Globalising Indian Economy: Prospects for Industry

I am indeed thankful to the Thane-Belapur Industries Association (TBIA) for the invitation to deliver the Shri. N. K. Mehra Memorial Lecture on the occasion of its 24th Annual General Meeting. The TBIA needs to be commended for its multifarious activities including the establishment and expansion of new industrial units and its coordination with various Government agencies on industry-related issues. I would particularly like to congratulate Shri Dinesh Parekh for his leadership of this esteemed Association and his initiatives to maintain a clean environment while pursuing the overall objective of facilitating industrial development.

I did not have the privilege to meet Shri. N. K. Mehra. But I do know that Shri. Mehra was a multifaceted personality and his seminal contribution and single-minded devotion to the development of the Indian Petroleum Specialities Industry was exemplary. His painstaking efforts to encourage the development of world-class manufacturing processes, his emphasis on R&D and more generally, his conviction of adaptability to change, are not only laudable in their own measure but also hold key lessons for the entire industrial community which is striving for excellence in this *milieu* of globalisation.

As my humble tribute to Shri N. K. Mehra, I am going to speak today on :

"Globalising Indian Economy: Prospects for Industry".

I need not underscore the significance of the topic before such an august audience. I am sure that the TBIA has been continually grappling with this issue in the pursuit of its laudable objectives. I thought that I could use this opportunity to share with you some of my own thoughts on the matter. Let me make it abundantly clear that I am not representing the RBI here. Views that I am going to express are my own and must not be attributed to the RBI.

My address is divided into four broad parts:

- First, as a prelude to the main discussion, I shall briefly recount the present global economic situation and its broad implications for India.
- In the second part, I shall take you through an assessment of the impact of the structural reforms in India in respect of industry, trade and foreign investment.
    - Ø In this context, I would like to offer a comparison with a few other countries, which will essentially clarify the extent to which we are globalised and highlight our own structural problems.
- Next, I shall take up a few specific issues ---- our WTO commitments, industrial financing, industrial restructuring and corporate governance and the Small Scale Industries --- that would have a bearing on the future course of globalisation of the Indian economy.
- Finally, I shall summarize the prospects and imperatives of the Indian industry for the future.

I. The Global Economic Situation and the Transmission of Global Effects

Initial Global Uncertainties: According to the IMF's World Economic Outlook, the growth rate of global output was expected to increase moderately from 3.0 per cent in 2002 to 3.2 per cent in 2003. This Report was published in April 2003 and reflected the then prevailing uncertainties relating to the Iraq war as well as the adverse impact of the crash in equity markets. At that time, corporate earnings were expected to decline. Oil prices were expected to increase sharply by 24 per cent in 2003. World trade volume (goods and services) was expected to be below the long-term trend and both exports and imports of developing economies were projected to slowdown during the year.

- There were fears of deflation in several major countries like US, Germany, Japan and Hong Kong. Currency markets were expected to remain volatile (with US dollar depreciating by as much as 30 per cent against the euro) in view of global macroeconomic imbalances.

Synchronized Slowdown: The perception at that time was that each emerging market was going to be affected by the synchronized global slowdown, with the transmission operating through trade flows, financial flows, deterioration in terms of trade and shifts in confidence - the relative importance of each channel differing across countries.

- While the *Asian* region was expected to be affected the most through the trade account (due to the high degree of trade openness of some of these countries),
- *Latin American* countries were likely to be more affected by the shocks transmitting through financial markets (due to their reliance on substantial external financing and high external debt) and
- the *African* countries were expected to be particularly affected by the deterioration in terms of trade.

The confidence factor seems to have been important everywhere.

Improvement in Risks to Global Recovery: With the recent cessation of the Iraq war, the overall balance of risks to global recovery seems to have improved.

- The increase in *oil prices* has come to a halt.
- International equity prices have rebounded.

- There has been limited *impact of SARS* on economic activity before the epidemic was brought under control.
- With both the US and ECB reducing *interest rates* further, there is a clear signal that policies are geared towards supporting recovery and preventing deflation.

Relationship between Macro Variables Globally: These welcome developments augur well for developing economies like India. Studies have shown that:

- Ø a one percentage point *change in G-7 real GDP* is associated with a 0.3-0.4 per cent change in developing country growth and
- Ø a 1 percentage point *fall in world real interest rate* can give rise to 0.25-0.3 percent increase in the growth of developing countries.

Global developments therefore have important implications for India.

Global impact on India: I am happy to note that:

- India has remained as one of the leading growth performers in the current phase of global slowdown.
- India has successfully avoided the contagion from financial crises in emerging markets in recent times.
- During the phase of global slowdown, the recent surplus condition in India's current account of balance of payments (in 2001-02 and 2002-03) and export growth of 19.2 per cent (in 2002-03).
- In the face of strong capital inflows, this development has given rise to a situation of significant reserve build-up to US $ 85 billion. When the global economy recovers, the strength of the push factors may weaken, which indicates that the current policy of reserve build-up is appropriate and forward looking.

Let us understand that process better. For that, we should begin at the beginning. Let's start from the basics.

II. Globalisation and the Indian Economy

A. ***What is Globalisation:*** The term 'globalisation', as we all know, has different connotations, one of which refers to the growing international integration of markets for goods, services, capital and labour. The process of globalisation is certainly not new, although it has changed its pace and character over time, facilitated by technological developments. In fact, globalisation over the last three decades or so, has been associated with greater intra-industry and intermediate goods trade, reflecting more intense global competition; increasing share of services in world output; increasing asymmetry in the international mobility of labour and capital; and totally unregulated mobility of international capital as opposed to domestic capital (Reddy, 2001). The extent of globalisation of different countries and of different markets continues to vary.

Globalisation --- Pros and Cons: Globalisation offers both opportunities and challenges to national economies.

- The opportunities have generally taken the form of access to international markets for goods, services, technologies and finance and reaping the benefits therefrom,
- The costs are reflected in the faster and wide-spread propagation of adverse global or regional shocks, volatility of output and employment, environmental damage in the quest to be globally competitive, and exacerbation of income and wealth inequalities within and across countries.

The Reality about Globalisation: Obviously, it is the assessment of the benefits and costs that shapes the varied reactions of countries, associations and individuals to globalisation. In this context, it is apposite to recall Governor Jalan's convocation address at the Indian Statistical Institute in January 2002 wherein he indicated that:

- "The only rational view is to accept it (globalisation) as an emerging and powerful global reality which has a momentum of its own.
- Our job as an independent nation/state is to ensure that we maximise the advantage for our country and minimise the risks.
- One big difference, however, is that unlike the olden days, today our destiny is in our own hands."

B. Liberalisation and Structural Reforms in India

Structural Reforms in India: The process of globalizing the Indian economy in the recent period coincided with the initiation of structural reforms in 1991 in response to an unprecedented external payments crisis.

- The *objective* of the reform process has been to achieve a higher rate of growth through enhanced levels of investment and improvements in productivity, efficiency and competitiveness by providing greater access and exposure to international markets.
- The reforms encompassed *areas* relating to industry, trade, exchange rate management, government finances and the financial sector. In particular, industrial and trade reforms included the elimination of industrial licensing, de-reservation of sectors hitherto reserved for the public sector, abolition of restrictions on MRTP companies, removal of quantitative import restrictions on intermediate and capital goods, automatic approval of foreign investment and progressive reduction in import duties. The enactment of the Competition Act, the Parliamentary approval of the Electricity Bill and further de-reservation of items for the Small Scale Industries are some of the recent reform initiatives.

C. *Impact on Industry*

Accelerating Growth but deceleration since 1996-97: The positive impact of the reforms process has been reflected in the doubling of the growth rate of industrial output from 5.3 per cent during 1992-93 to 1993-94 to 10.8 per cent from 1994-95 to 1996-97. Industrial deceleration, however, set in subsequently with the growth rate of industrial output declining to 4.3 per cent during 1997-98 to 2002-03.

- The growth rate of *employment* which had increased from 0.8 per cent in the 1980s to 2.3 per cent during the first half of the 1990s also declined to –2.1 per cent during the second half of the 1990s.
- The industrial deceleration reflected a myriad of factors viz., business cycles, build up of excess capacity during the initial phase of reforms, insufficient industrial restructuring and inadequate availability, relatively high-cost as well as deterioration in the quality of infrastructure.

Compositional Shift in Manufacturing: Over the period of reforms, the production structure in India witnessed important changes:

- Within registered manufacturing, the shares of traditional industries (such as textile, jute and other vegetable fibre textiles) have declined while those of modern sectors (such as metal products and electrical machinery) have increased, possibly reflecting differentials in productivity growth, technological upgradation and access to credit.

Industrial Dominance Not Enough: In the aggregate, however, the share of industry in GDP in India increased but only marginally to 25 per cent over the decade of the 1990s as compared with 51 per cent in China, 47 per cent in Indonesia, 45 per cent in Malaysia and 28 per cent in Mexico.

- Cross-country experience indicates that the sharp increase in the share of industry in GDP in the East Asian economies largely reflected the implementation of more conducive industrial policies which encompassed flexible use of labour, creation of a large and efficient social infrastructure, proclivity towards international technology transfer, sizeable investment in public technology institutions and emphasis on exports-engendered competitive pressures.

We should take note of these factors.

Short-term Outlook for Indian Industry: It may be mentioned that the Indian industrial scenario has improved substantially during 2002-03 and 2003-04 (upto May) on the back of a strong growth in exports, pick up in retail demand, turnaround of the consumer non-durables after 12 months, and an upsurge in capital goods production and imports.

- The financial performance of the corporate sector has improved.
- The monsoons have been good and are thus likely to stimulate rural demand for industrial products.
- The Hon'ble Finance Minister's first Quarterly Statement on the economy has also projected a robust outlook for the economy, and has,
- highlighted the improvement in the investment climate based on the buoyancy of stock markets and increase in FII inflows.

In short, given the somewhat benign global climate and the robust outlook for the Indian industry, prospects have indeed brightened for us to reap the benefits of globalisation.

D. Impact on Trade

Greater Openness: The impact of trade reforms was evident in the acceleration of both exports and imports during the 1990s; the growth rate of imports during the 1990s was, in fact, higher than that of many East Asian economies barring China. Consequently, the export-GDP ratio moved up from 4.6 per cent during the 1980s to 8.0 per cent during the 1990s while the import-GDP ratio increased from 7.2 per cent to 9.5 per cent over this period. The increase in the ratio of total merchandise trade to GDP in the 1990s was indicative of the greater degree of openness of the Indian economy.

- Consequent upon the impressive performance of exports over the 1990s, *India's share in world* merchandise exports improved from 0.5 per cent in 1991 to 0.7 per cent in 2001, but remains much below those of other East Asian economies such as China (4.4 per cent), Malaysia (1.4 per cent), Singapore (2.0 per cent) and Thailand (2.0 per cent). In 2002-03, India's share further improved to 0.8 per cent.
- The *commodity composition of India's exports basket* has also transformed in favour of technology-intensive and industrial products such as engineering goods as well as high-value agricultural products.
- Furthermore, India has emerged as one of the *fastest growing exporters of services* in the world; in particular, earnings from software exports have increased sharply from US$0.3 billion in 1993-94 to US $7.5 billion in 2001-02.
- The *commodity composition of imports*, on the other hand, shows an increase in the share of petroleum and related products and a decline in the share of capital goods during the latter half of the 1990s.

E. Impact on Foreign Investment

Foreign investment inflows (both direct and portfolio) have increased over the period of reforms.

- FDI has increased from US$ 0.3 billion in 1992-93 to US$3.9 billion in 2001-02.

    - The direction of FDI has moved in favour of computers, electronics and electrical equipment (34 per cent in 2001-02) and services (38 per cent).
    - Mauritius has emerged as an important source of FDI in recent years, reflecting, to some extent, the significance of tax policies for FDI flows at the global level.
    - The Global Competitiveness Report 2000 ranked India at number one position in terms of a liberal regime for the import of foreign technology.
    - The majority of the FDI approvals have been in respect of Maharashtra, Delhi, Tamil Nadu, Karanatka, Gujarat and Andhra Pradesh.
    - On an average, the realization rate (FDI inflows to approved FDI) has remained low at 45.5 per cent during 1991-2002 although during 2001 and 2002, realization rate of FDI showed a marked improvement despite a steep decline in global FDI flows in 2002.
- FPI has also increased from US$ 0.2 billion to US$ 2.1 billion over this period but has shown larger annual fluctuations.
- Notwithstanding the liberalisation of policies, both FDI and FPI inflows into India remain lower than those of emerging market countries such as Argentina, Mexico, China, Korea, Thailand and Malaysia. In fact, total foreign investment flows to India constitute only a miniscule proportion of global glows.

III. Globalisation of the Indian Economy --- Some Specific Issues

Let me now turn to some specific issues which are close to the heart of the industry analysts.

3.1 India and the WTO

India favours the multilateral approach to trade relations. India grants Most Favoured Nation (MFN) treatment to all its trading partners.

- Tariff levels in India have been progressively brought down over the period of reforms.
  - The peak level of import duty on non-agricultural products has declined from 150 per cent in 1991-92 to 25 per cent in 2003-04.
  - The weighted average tariffs of India declined steadily over the period 1991-92 (72.5 per cent) to 1996-97 (24.6 per cent), but increased thereafter following the imposition of various surcharges, to 35.1 per cent in 2001-02.
  - The increase in weighted average tariffs has been primarily been in respect of agriculture (57.7 per cent in 2001-02) and consumer goods sector (67.1 per cent in 2001-02).
  - Notwithstanding the reduction in weighted average tariffs since the early 1990s, these continue to remain higher than those of some of the East Asian countries including China.
    - Further reduction in tariffs would increase the competitive pressures on the Indian industry.
- Secondly, India agreed to phase out all balance of payments quantitative restrictions (QRs) by end-March 2001.
  - While progressively removing QRs, safeguards (in the form of tariff adjustments, safeguard duties, temporary QRs, anti-

dumping duties and restriction of imports of some agricultural products) have been taken to preclude dumping.

- Thirdly, India has submitted detailed proposals for seeking a reduction in the extant high tariffs and subsidies in developed countries with the objective of safeguarding the livelihood of the large subsistence level farming community as well as maximising export opportunities for Indian agricultural products.
- Fourthly, India is a signatory to the Agreement on Technical Barriers to Trade and the Agreement on Sanitary and Phytosanitary measures and in this context has emphasised the alignment of Indian standards with international levels. At the same time, India has expressed the need for developed country members to extend ‘Special and Differential treatment’ to developing countries, given the latter’s lack of access to technologies developed abroad.
- Fifthly, under the TRIPS agreement, appropriate changes in most of the legislations relating to the protection of IPRs have been enacted coupled with *sui generis* legislations in some TRIPS related cases.
- Finally, India’s commitments in respect of services have been implemented and, in some cases such as telecommunications, fulfilled even ahead of the scheduled date. Recognising the importance of efficient performance of the services sector, especially infrastructure services, India has been advocating that negotiations should be geared towards increasing the participation of developing countries in trade in services.

3.2 Problems of Small Scale Industries

The significance of the Small Scale Industries (SSI) sector for new entrepreneurship, regional industrial growth and promotion of employment has been well recognized.

- The SSI sector has so far been resilient to the impact of the policy changes

    - increasing domestic and foreign competition following the de-reservation and import liberalisation of items and
    - has withstood the general deceleration in the industrial sector.
- The investment limit for some SSI sectors was increased from Rs.1 crore to Rs.5 crore recently. It has been well recognised that the investment limit of Rs.1 crore for SSI units leaves little scope for such producers to achieve economies of scale and scope and become competitive.
- Today, it is, in fact, incentive-compatible for SSI units to remain deliberately small --- by fragmenting production --- in order to avail of fiscal benefits and to stay outside the purview of labour laws.
- The pace of de-reservation of SSI items, therefore, needs to be accelerated so as to ensure that size does not remain a constraint to higher production, cost-efficiency and technological upgradation.
    - The case for de-reservation of the SSI sector becomes even stronger in the light of the experience of South-East Asian economies which indicates that
        - their export basket transformed from labour-intensive and relatively low technology products (textiles, clothing, shoes, toys, etc) in the 1980s to higher-technology consumer goods and capital-intensive goods (capital goods and petrochemicals) in the 1990s and
        - production of such consumer goods could be achieved by large-scale final assembly operations coupled with copious out-sourcing to small enterprises in order to maintain their competitiveness.
    - Thus, with the de-reservation of the SSI sector in India, a larger number of industrial units would be in a position to exploit the opportunities provided by globalisation, given the vast potential of exports from this sector.

3.3 Industrial Sickness

- The number of **sick SSI** units in Maharashtra has declined sharply from 17,925 (8 per cent of all-India) in end-March 1998 to 7,270 (4 per cent) in end-March 2002.
    - Notwithstanding the reduction in the number of sick SSI units in Maharashtra, the credit outstanding in respect of such units increased from Rs.750 crore (19 per cent of all-India) to Rs.1,052 crore (22 per cent of all-India). (The increase in the credit outstanding could be more reflective of the interest accrued rather deterioration of principal recovery).
- The incidence of **non-SSI** sick/weak units in Maharashtra has deteriorated in recent years, with the number of such units increasing from 410 (17 per cent of all-India position) at end-March 1998 to 611 (19 per cent) at end-March 2002.
    - The total credit outstanding in respect of non-SSI sick units also increased from Rs.2,092 crore (17 per cent of all-India) as on end-March 1998 to Rs.4,864 crore (19 per cent of all-India) as on end-March 2002.
- Notwithstanding this mixed evidence, there are clear signs that those entities which have adapted to the changing times by means of greater investment, industry focus, restructuring, and infusing greater management and technological skills have prospered which is abundantly evident from their recent performance.

3.4 Changing Contours of Industrial Finance

An important issue that has arisen particularly in the context of the industrial slowdown during the second half of the reform period relates to the availability of finance. Over the period of reforms, the availability of aggregate resources has not been a constraint for growth as reflected in the improvement in gross domestic savings from around 21 per cent of GDP in the early 1990s to around 24 per cent of GDP in the early years of the present decade.

Declining Credit Off-take: Even so, credit off-take form scheduled commercial banks has been generally declining particularly since the second half of the 1990s, coinciding with the industrial slowdown.

- The share of bank credit to industry has declined from an average of 55 per cent in the 1990s to around 43 per cent in recent years. The reduction in bank credit has occurred in respect of exports and the SSI sector.
  - The reduction in the share of bank credit to industry is partly reflective of new avenues for bank financing such as housing and retail trade.
  - Risk-based prudential requirements of banks and FIs also seem to have enhanced their proclivity to invest in (risk-free) Government securities, over and above the statutory requirements, rather than extend credit to industry.
- The deployment of gross bank credit across major industrial sub-groups has also undergone some change as reflected in an increase in the shares of infrastructure, iron and steel, electricity, cement, and gems and jewellery and a decline in the shares of engineering industry, metal and metal products, construction, chemicals, cotton, jute and other textiles, leather and leather products.
- The growth in the disbursement of financial assistance by All-India Financial Institutions (AIFIs) also declined sharply from around 25 per cent during the first half of the 1990s to around 8 per cent in the second half of the 1990s, reflecting the slowdown in investment demand particularly for greenfield projects and expansion activities in the industrial sector.

Increasing Recourse to Alternative Sources of Funds: The availability of alternative sources of funds to industries has also played a role in the reduced access to bank and AIFI credit.

- There are, in fact, indications of increasing recourse to internal resources by non-financial public limited companies as against borrowed sources of funds, particularly since the late 1990s.
- Furthermore, there has been an increasing recourse to private placement of debt and equity due to less stringent disclosure norms, low cost of and reduced time lag of issuance and the ease of structuring instruments.

Implications of Financial Liveralisation for the Indian Corporates: In the present scenario, what implications would globalisation have for industrial finance particularly in the context of the need to finance an estimated 15 per cent of the total infrastructure investment from foreign sources?

- External Borrowings: Consequent upon the progressive liberalisation of the capital account, larger or top-rated companies have been in a position to access requisite funds at relatively cheaper rates in international markets.
    - It is important to recall in this context that the policy on *External Commercial Borrowings* has accorded priority to projects in the infrastructure and core sectors (power, oil exploration, telecommunication, railways, roads and bridges, ports, industrial parks, urban infrastructure and 100 per cent EOUs) and end-use and maturity prescriptions have been substantially liberalised to provide greater leeway to borrowers.

- The credit requirements of smaller industrial units which are unable to access international markets for funds would, however, need to be addressed separately.
    - In particular, the inadequate credit risk assessment of small and medium enterprises by banks and FIs on account of poor credit information base would need to be redressed, apart from simplifying procedures.

3.5 Industrial Restructuring and Corporate Governance

3.5.1 Global Industrial Restructuring:

- ***Mergers & Acquisitions:*** The current phase of globalisation world-wide has been associated with an upsurge in FDI flows and cross-border Mergers and Acquisitions (M&As)/international joint ventures. Cross-border M&As constituted the largest share of FDI. Moreover, mega-mergers (of value greater than US$1 billion) accounted for 60 per cent of the total value of M&As. In recent years, however, the wave of M&As have waned to some extent on account of the sluggish global economy and also partially due to the realisation that some of these M&As were driven primarily by valuation and not management considerations.
- ***Other Restructuring:*** Empirical evidence in respect of developing countries suggests that the success of industrial restructuring has been facilitated by, *inter-alia*, reduced government ownership of industrial enterprises, macroeconomic stability, market liberalisation and appropriate labour policies.

3.5.2 Industrial Restructuring in India: The issue of industrial restructuring has assumed considerable importance in India in the wake of WTO commitments, trade liberalization and competitive pressures from abroad.

- ***Mergers & Acquisitions:*** The first wave of M&As in India was, in fact, driven primarily by competitive compulsions but subsequently this form of restructuring has became a channel for assuming market leadership. In the process, the takeover bids have also acted as a market disciplining force for the Indian corporate sector.
    - Till 1999, the biggest M&A deals were in the fast moving consumer goods (FMCG) sector while recently there have been some major mergers in the steel, cement, aluminium, pharmaceutical and telecom sectors.

- ***Other Restructuring:*** Where mergers were not convenient, companies tried to become competitive through strategic alliances with the MNCs as witnessed in the pharmaceutical sector.
    - The industrial scenario has also witnessed the emergence of 'new economy' companies (such as Infosys, Wipro and Satyam Computers) as top companies in the market. Some big business houses (such as Tatas, Birlas, Godrej and Dabur) have tried to restructure themselves by reducing number of companies and concentrating on core businesses only.
    - Some of the units in the automobile and consumer durable sectors have tried to reap the benefits of globalisation through joint-ventures between Indian and foreign counterparts. In some cases, these joint ventures proved to be a failure on account of inadequate resource mobilisation by Indian companies for expansion and poor corporate governance.

- ***Future Policy Imperatives:***
    - ***Industrial and Labour Laws:*** The main factors which impact upon the speed and character of industrial restructuring in India relate to rigid and obsolete labour laws, restrictions on the acquisition and use of land for industrial purposes and the reorganisation and bankruptcy of sick units. These need to be addressed expeditiously in order to enable companies to undertake restructuring and reap the benefits of globalisation.

- ***Corporate Governance and Global Economy:*** With the increasing scope for expansion and the rising global operations brought about by M&As, there has also been a felt need for a sound corporate governance framework in the industrial sector with the objective of gaining investor confidence.
    - It has been well recognised that companies that embrace high disclosure and governance standards invariably command better premium in the market and are thus able to raise capital at lower costs.
    - Following the financial crisis in South-East Asia and the more recent Enron bankruptcy, there has been a growing international focus on corporate governance. Concerns about good corporate governance have increased in the context of corporate failures, financial irregularities and inadequate management accountability.

- ***Corporate Governance in India:*** In India, as you may recall, the CII had released the Desirable Corporate Governance Code in April 1998. Subsequently, in the context of best practices and codes of corporate governance evolved by the OECD and the World Bank, the the SEBI-appointed a Committee of Corporate Governance

(2000); the recommendations of the Committee relating to investor protection, greater transparency in management and disclosure in accounting practices, are being implemented.

  - More recently, on the heels of Sarbanes Oxley Act in the US, a slew of amendments to the Companies Act (1956), Chartered Accountants Act (1949), Cost and Works Accountant Act (1959) and Companies Secretaries Act (1980) are currently underway, in line with the recommendations of the Committee on Corporate Audit and Governance (2003).
  - It may, however, be underscored that while the Indian corporates need to benchmark their extant corporate governance framework with the best international practices, the series of financial irregularities in the developed countries calls for serious introspection and due diligence before their adoption.

IV. Prospects and Imperatives for the Indian Industry

In the context of the on-going process of structural reforms in India, the improvement in the global economic situation and the revival of industrial growth in India, the prospects for the Indian industry to reap the benefits of globalisation are indeed bright.

- As Governor Jalan had indicated, the sources of 'comparative advantage' have changed dramatically in India's favour in the 1990s following the technological revolution.
  - Domestic factor endowments such as land, labour and capital, in the age of globalisation and technological advancement no longer determine a nation's comparative advantage.
  - As a consequence of the IT and communications revolution, the role of the services sector in developing economies ---- particularly in terms of providing long-distance and high-

value services ---- has increased significantly. We may thus need to concentrate on knowledge-based services (professional, technical and IT services) where we have a huge comparative advantage.

The extent to which the Indian industry would be in a position to take advantage of globalisation would depend a great deal on the pace and extent to which it can address its structural problems.

- For one, it is clear that further reduction in import tariffs, withdrawal of quantitative restrictions on imports and the alignment of the 'quality' of our exports with international standards, in line with our WTO commitments, would expose the Indian industry to greater international and domestic competition.
    - In order to gear up to these challenges, there is a need for more 'broad-based' industrial restructuring, M&As, amalgamations, takeovers and technical collaborations.
    - This would entail *inter-alia*, institutional reforms to enhance labour market flexibility coupled with the social safety nets that could address possible retrenchment and programmes for retraining/re-deployment, more rapid bankruptcy procedures and reforms in urban land ceiling.

- Secondly, there is a need to address the demand-supply gaps in infrastructure services which continue to impede the growth process.
    - The lack of adequate risk-mitigating arrangements coupled with limited supply of long-term funds have inhibited:
        - the development of the infrastructure sector;
        - development of markets for long-term debt and
        - transparent and non- discriminatory rules need to be designed expeditiously.

    - The pricing of infrastructure services needs to draw a judicious balance between the objectives of providing adequate return to the investor and social equity.

  - Thirdly, the policy of de-reservation of SSI is a step in the right direction since it allows large Indian firms to manufacture (hitherto) reserved SSI items domestically which can in any case be imported following the removal of quantitative restrictions. The high export potential of the SSI sector needs to be exploited.
    - For this purpose there is a need to upgrade their technical capabilities which in turn would require the provision of adequate finance by banks and FIs.
    - These financial institutions, therefore, need to upgrade their credit assessment capabilities to obviate problems of adverse selection.

- In the aggregate, it is development of requisite skills, entrepreneurship, managerial competence and the adaptability to change which will enable us to truly benefit from globalisation. The extant trends in Government policies/initiatives and the efforts of the Indian industrial sector give us confidence that we are well on the way!

  Thank You.