Opportunities & Challenges of India in an Emerging Globalising Economy

- At the inaugural session this morning, you have been given an overview of the four day workshop on the opportunities and challenges in India in an emerging globalizing economy. If you study the background materials circulated you would find some extremely interesting papers. The Hon'ble External Affairs Minister's Shri Pranab Mukherjee's speech at the S. Rajaratnam School of International Studies, Singapore is particularly of relevance with respect to the political – economy content of commercial diplomacy. It gives a comprehensive picture of the issues that influence foreign policy and its strong linkages with trade and commerce.

- Similarly articles by Kishan Rana & the paper by Geza Feketekuty on the training challenges in commercial diplomacy should be examined carefully.

- In my presentation today, I shall try to place before you some of the changes that are taking place and transforming the Indian Economy at a very rapid pace. The two papers by Atul Kohli published in the Economic and Political Weekly (EPW) which is included in your back ground material traces the economic changes in India since 1985. As a commercial diplomat or an administrator you should have a deep insight of the Indian economy, not only from an intellectual and theoretical framework but also keeping in mind the practical reality at the grass-root level. I would like to commence my analysis with a quote from Prime Minister, Dr. Manmohan Singh's article in The Economic Times of 15th August, 2007 "For half a century before independence, the Indian economy registered virtually no growth at all. In the first three decades after Independence, we grew at 3.5% per annum. In the second three decades, our annual growth rate went up to nearly 6%. In the past few years, the growth rate has been close to 9% per annum. This has been made possible by a rising rate of investment, now at 35% of national income, and rising productivity of labour and capital. If we can sustain these rates and step up the productivity of land & labour, we should able to attain double – digit rates of growth in the near future. India is on the move" He went on to add, "Hence, the challenge before us is to make the growth process more socially inclusive and regionally balanced. We must create new employment opportunities for all, especially for the less privileged sections of society and for those living in the rural areas".

- Without a growth rate of 4 % in the agricultural sector it would be difficult for us to attain a G.D.P. rate of over 10% per annum. This transformation from the Hindu Rate of Growth till the end of the seventies has been possible because of a number of reasons which really started with Smt. Indira Gandhi's post emergency government in the early eighties which was further reinforced by her son Sri Rajiv Gandhi. When Sri Narsimha Rao took over as Prime Minister in 1991, the reform process was fully underway. The growth rate which we are seeing today was fuelled to a large extent by the growth in the services sector, particularly IT and IT enabled services. During the eighties services registered a 6 percent growth per annum and accelerated in the nineties when it averaged 13 percent per annum. In 2005 - 06 services constituted 54 percent of India's GDP.

- To understand the strength of the fast transforming Indian economy, I would like to quote from a McKinsey Report of 2005 " India's economy has more then doubled in real terms since 1999. The broad commitment to liberalization demonstrated by three successive governments has sparked unprecedented growth and opportunity. India's consumer demand is growing much faster than the economy revealing the outlines of an aspiring middle class that is vibrant, growing, and young. 70% of India's citizen's are less than 36years old and the country is home to 20% of the world population under the age of 24". By 2025 India's population could reach as much as 1.35 billion".

- The high growth rate over the last four years has generated its own momentum. With high growth rate comes high savings, and investment, reinforcing growth itself. An annual growth rate of 3.9% leads to a per capita doubling of income in little more then 18 years. If growth rate is 9%, per capita income doubles in 8 years. India's reforms have encompassed the real monetary, financial, fiscal and external factors. Structural changes have transformed the industrial sector, from a command and control structure to a liberal and competitive economy. The fiscal environment has been marked by prudence, backed by fiscal responsibility legislation, steep reductions in import duties and other tax rates, introduction of VAT, etc. The financial and others sectors have been restructured with independent regulators in place. To address the issues of inflation, appreciation of the rupee effecting exports set of corrective measures were announced on July 12, 2007, on interest rates on pre- shipment credit, duty draw back rates, DEPB rates, so that some factoring in of adjustments cost are made.

- With 1.1 billion people, India's population is second only to China. India's economy contributes close top 2 percent of world's GDP and 1 percent of world's exports of goods and services. A recently published OECD study has indicated that India's growth has contributed to reduction in poverty headcount rate from 46 percent of the population in 1987 to 36 percent in 2000.

- The importance of better teamwork and the ability to build wider social and political consensus around the ideas of change and modernization cannot be over estimated. For this we need a minimum consensus on a national agenda. At the G.O.I. level we require much greater coordination between the Ministries of External Affairs, Finance, Commerce & Industry, Agriculture, Environment, the Planning Commission and those Ministries dealing with infrastructure like Power. Petroleum & Natural Gas, Shipping, Surface Transport and others.

- With the process of globalization moving and the increasing number of international agreements entered in to in trade & commerce, investments and double taxation dealing with both manufactured goods and services, through the WTO, RTA's. BTA's & PTA's one has to be in a position to analyse the impact of these agreements on the national economy. At all times we need to factor in our national interests from both the political and economic point of view in these negotiations and its impact on the general population in the country, particularly those living in rural India.

Reproduced below you will find a table of India's Foreign Trade since 1993-94 for manufactured goods.

India's Foreign trade

Year	**Export** (US $ Million)	**Growth Rate (%)**	**Imports** (US $ Million)	**Growth Rate (%)**	**Trade Deficit** (US $ Million)
1993-94	22237	20.0	23306	6.5	-1069
1994-95	26330	18.4	28654	22.9	-2324
1995-96	31797	20.8	36678	28.0	-4881
1996-97	33470	5.3	39132	6.7	-5662
1997-98	35006	4.6	41484	6.0	-6478
1998-99	33219	-5.1	42389	2.20	-9170
1999-2000	36822	10.8	49671	17.2	-12848

2000-01	44560	21.0	50536	1.7	-5976
2001-02	43827	-1.6	51413	1.7	-7586
2002-03	52719	20.3	61412	19.4	-8693
2003-04	63843	21.1	78150	27.3	-14307
2004-05	83536	30.8	111517	42.7	27981
2005-06	103044	23.4	149184	33.8	-46140
2006-07 (P)	124629	20.9	190566	27.7	-65937

(P) Provisional Data.

Complied by Economic Division, Department of Commerce based on DGCI&S, data

Source: DGCI&S, Kolkata

The trade figures for services are appended below:

India: Trade in Services in US $ billion

	2003-04		**2004-05**		**2005-06**		**2006-07**	
	Credit	**Debit**	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**	**Debit**
Services (Total)	26.9	16.7	46	31.8	61.4	37.5	81.3	48.6
Software Services	12.8	0.5	17.2	0.7	23.6	1.3	31.3	2.5

Source: RBI Bulletin

Credit = Exports and Debit = Import.

- From an analysis of our trade figure you will observe that there has been a phenomenal growth of over 20% during the last 5 years in exports of manufactured goods. Growth in the services sector has even been much larger. The Foreign Trade Policy announced in 2004 for the period 2004 – 09 was a trend setter to the extent that the mind set had changed from the old EXIM Policy to a more dynamic process in International Trade. Today India’s trade has touched nearly 45% of our GDP. Our engagement with the global economy during the financial year 2006-07 is approximately US $ 450 billion. By the end of the financial year 2007-08 it should touch US $ 500 billion. With the increasing no of regional and bi lateral agreements and if the WTO, Doha Round agreement can be finalized early our trade figure could grow exponentially. At the same time we need to see that labour intensive manufacturing for export are promoted and special emphasis given to the agricultural rural sectors. Special emphasis has been given in our Foreign Trade

Policy to promote labour intensive manufacturing exports. A thrust has been given on agro processing and food processing. The Foreign Trade was based on three pillars

- Continuing liberalization efforts by reducing tariffs, unshackling controls, simplifying procedures and bringing down transaction costs

- Extensive use of duty rebates and exemptions to neutralize the incidence of all levies and duties on inputs used in export products and to stimulate exports from sectors with the highest potential to generate employment particularly in semi – urban and rural areas

- Establishing export processing zones, so called special economic zones, to boost exports and harness FDI into infrastructure building.

FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI)
From AUGUST 1991 to MAY 2007

(Updated up to May 2007)

I. FDI EQUITY INFLOWS:

A. CUMULATIVE FDI EQUITY INFLOWS *(equity capital components only)***:**

1.	**Cumulative amount of FDI inflows** *(From August 1991 to March 2007)*	Rs. 2,32,041 Corer	**US$ 54,628 Million**
2.	**Amount of FDI inflows during 2007-2008** *(From April to May 2007)*	Rs.15, 180 Corer	**US$ 3,670 Million**
3.	**Cumulative amount of FDI inflows** *(Updated up to May 2007)*	Rs. 2,47,221 Corer	**US$ 58,298 Million**

Note : *FDI inflows include amount received on account of advances pending for issue of shares for the years 1999 to 2004.*

B. FDI EQUITY INFLOWS DURING FINANCIAL YEAR 2007-2008:

Financial Year 2007-2008 (April-March)	***Amount of FDI inflows***	
	(In Rs. Crore)	***(In US$ mn)***
1. April 2007	**6,538**	**1,551**
2. May 2007	8,642	**2,119**
2007-2008 (up to May 2007)	**15,180**	**3,670**
2006-2007 (up to May 2006)	**2,972**	1,199
%Age growth Over last year	**(+) 180 %**	**(+) 206 %**

C. FDI EQUITY INFLOWS DURING FINANCIAL YEAR 2006-2007:

Financial Year 2006-2007 (April-March)	*Amount of FDI inflows*	
	(In Rs. crore)	*(In US$ mn)*
2006-2007 (up to March 2007)	**70,630**	**15,726***
2005-2006 (up to March 2006)	24,613	5,546
%Age growth Over last year	**(+) 187 %**	**(+) 184 %**

D. FDI EQUITY INFLOWS DURING CALENDAR YEAR 2007:

Calendar Year 2007 (January-December)		*Amount of FDI inflows*	
		(In Rs. crore)	*(In US$ mn)*
1.	January 2007	8,515	**1,921**
2.	February 2007	3,081	**698**
3.	March 2007 *	16,896	**3,838**
4.	April 2007	6,538	**1,551**
5.	May 2007	8,642	**2,119**
Year 2007 (up to May 2007)		**43,672**	**10,126**
Year 2006 (upto May 2006)		13,635	3,048
%Age growth Over last year		**(+) 226 %**	**(+) 232 %**

E. FDI EQUITY INFLOWS DURING CALENDAR YEAR 2006:

Calendar Year 2006 (January-December)	*Amount of FDI inflows*	
	(In Rs. crore)	*(In US$ mn)*
Year 2006 up to December 2006	**50,357**	**11,122**
Year 2005 (up to December 2005)	19,299	4,362
%Age growth Over last year	**(+) 161 %**	**(+) 155 %**

Note: **** Figures are provisional, subject to reconciliation with RBI, Mumbai.***

- The FDI both inward and outward has been growing dramatically. During the financial year 2006-07 the FDI in to India touched US $ 19.7 billion. If reinvested earnings are excluded this would amount to US $ 15.7 billion. This is 2 .7 times more than that of 2005-06. The FDI out flow for the year 2006-07 was US $ 10.8 billion. The Prime Minister had indicated the need for massive investments in the infrastructure sector to the tune of US $ 300 billion. We need huge investments in our sea ports, airports, power sector, road and rail infrastructure and development of the cold chain to strengthen the agro processing sector in the country.

- A casual glance at these figures would enable you to appreciate how closely interlinked we are with the global economy. Why I am stressing this point is that there are huge stakes, which are involved in the way that you handle commercial diplomacy. From one of the Independence Day articles titled "FOR A HIGH - EQUITY, LOW- DEBT FUTURE", I would like to quote a few relevant paragraphs. " While there is much to rejoice that India has become a trillion- dollar economy, expected to soon overtake Japan to become the third large economy in the world, let us not forget that we are still a developing country, facing acute challenges of poverty, illiteracy and disease…..We should not be unmindful of the many challenges that face. The most important is the serious apprehension that the growth is not equitable. There is growing disparity in incomes and disparity in regional development. Only those with high quality professional education and an urban background have all the opportunities. Very little investment is flowing to northern and eastern parts of India and rural hinterlands. Metro rejoins, which are becoming islands of prosperity and wealth, have cornered all the new investment. The stagnation in agriculture over last many years has serious implications for generation of rural employment considering 58% of India's work force still depends on agriculture. It has also serious implications for food security……Employment in the organized sector is not growing commensurate with the rates of growth in the industrial and service sectors, giving rise to fears that the current model is producing jobless growth. The initiative of setting up export oriented SEZ's to boost employment in the manufacturing sector has hit a road block due to agitation about land acquisition. The question of equitable land use polices for large projects has assumed great urgency…..This should ensure fair compensation, profit sharing and dignified rehabilitation".

- The number of districts under the influence of radical left wing extremist forces have increased from 60 in 1996 to 160 currently. Transformation of the socio - political economy is a hard business, especially if the critical social indicators – health and education defy resolution. While the primary school enrolment rate is expected to touch 100% in the next 5-10 years, to day only 35% of those who enroll at the primary level complete secondary school or equivalent. The overall health indices in the country are deplorable. The agrarian crisis continues. There is the formidable hurdle of declining ground water levels. Irrigation covers only 38% of cropland across India. This could lead to serious economic and social tensions.

- An interesting aspect of India's growth story is the role of Small and Medium Enterprises (SMEs). Today, SMEs play a crucial role in India's economic development. They have a 40 percent share in industrial output, contribute nearly 35 percent of direct exports and 45 percent of overall exports from the country and are among the highest employers after agriculture, providing employment to over 28 million people. The 3 million plus SME units that India has in various parts of the country produce a diverse range of very basic to sophisticated products. The prosperity of large companies are linked to smaller firms. This generates new employment, investment and helps creating infrastructure in the region and for the nation as a whole. The size gives them agility and inventiveness. However, there is a great need for them to establish common resources and facilities such as R&D and design for innovation. There is also the need to move into high technology intensive sectors like bio - technology and education.

- To conclude, I have tried to present before you a number of issues regarding the changes that are taking place in the Indian Economy. You need to comprehensively update your knowledge on a continuing basis. It is only when you are able to analyse the trends that are taking place will you be in a position to negotiate from a position of strength and obtain the best possible package for the country in any agreement. At the same time the knowledge of the domestic scene is necessary so that you project an honest picture of your country. I have always found that this always enables you to get a sympathetic and fair response.