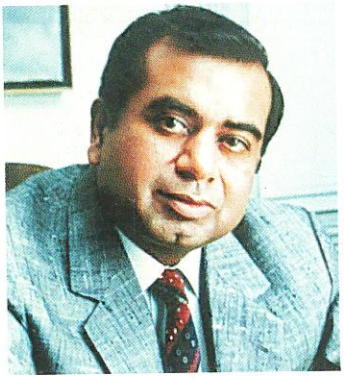
Welcome Address
of
Shri K K Modi, President FICCI



at the

71st Annual Session on
Rhetoric & Reality of Globalisation:
India's Strategic Response

October 24, 1998, New Delhi

Federation of Indian Chambers of Commerce & Industry

WELCOME ADDRESS OF SHRI K K MODI, PRESIDENT, FICCI, AT THE 71ST ANNUAL GENERAL MEETING : OCTOBER 24, 1998 - NEW DELHI

Respected Pradhan Mantriji,
Honourable Ministers,
Your Excellencies,
Leaders of Indian Business,
Senior Civil Servants of India,
Distinguished guests, and
Ladies and Gentlemen,

Sir, I take pride in welcoming you this morning during such an auspicious week. We have just celebrated Diwali, the symbol of prosperity, wealth and peace. And here we are, gathered to dedicate ourselves to the cause of our mother land, encouraged by your warm blessings. What could be more gratifying.

What ever the world may say and what ever may be the diverse opinion within our country, as far as I am concerned, I can raise my head with pride in the world fora after Pokhran. I take this opportunity to congratulate you and our world class scientists for further developing this important technology which must ultimately be a vehicle for peace and service to mankind. I also have great pride in celebrating

the Nobel Prize bestowed on our leading social scientist, Prof. Amartya Sen. I am sure, the path breaking achievements of Indians will not be restricted to any one field and we will continue to match the best in the world.

I am honoured to address such an august gathering on the challenging topic of Rhetoric and Realities of Globalisation : India's Strategic Response. Undoubtedly, we are at a watershed in history.

The world stands face to face with :

(1) the stark reality of an unprecedented meltdown of the 'tiger economies'.

(2) economic conflagration in Russia;

(3) deep unease in Japan,

(4) economic disjunction in Brazil; and

finally, a significant compression in global trade. This is in sharp contrast to the expectations from the WTO Regime of a golden era in world trade. It is even more alarming that the world output is expected to fall by a massive Rs. Ten lakh ninety two thousand crores ($260 billion) this year. Thus, the Newsweek Magazine of Sept. 14, 1998, titled its coverpage as "Global Economy : Sick and Tired : Is the world growing weary of market capitalism?". This fractured global vision is forcing theorists into deep introspection.

The hallmark of market led economies is the free convertibility of currencies. The fundamentals of this perspective were based upon the belief that the values of currencies of different nations are reflected by economic fundamentals but not by perceptions. The happenings of the last 12 months have clearly established that the nominal values of currencies are subject more to perceptions, and can easily fall a prey to hyper speculation. This has led to change of opinion amongst the leading economists of the world. No less than Prof. Paul Krugman of M.I.T. has called for controls over global financial flows, and restraint on trading of currencies, surprising many.

Sir, had we fallen into the temptation of capital account convertibility, repeatedly recommended to us by multilateral agencies, we too would have fallen victims to the contagion and ultimate meltdown. In the current order of world capitalism, the existing global institutions such as the IMF and the World Bank have limited policing instruments and authority. In fact, Prof. Jeffrey Sachs, from the Harvard Institute for International Development, has strongly concluded that "the IMF and the institutions that it coordinates (the World Bank, the regional development banks, the Paris Club of creditors) have proved technically ill-equipped for the challenge." Till a new and effective global regulatory structure emerges, nations such as ours would have to be cautious. At these

turbulent times, I tend to agree with the Nobel Laureate, Prof. Amartya Sen's celebrated work which draws us back to the basics, - health, education and welfare. The emerging world order is bound to be defined by 'social market' which embodies the efficiency of the market economy but wears a human face. I am sure these values are dear to you personally, and to your government, and we in FICCI would like to be your partner in this balanced progress.

I must add here that economists, the world over, are in search of an engaging, yet calibrated interface between developed and developing nations - the former with 'complete markets' and massive but mercurial financial resources - the latter with 'incomplete markets' and now evolving regulatory and prudential norms. The lack of appreciation of these deeper differences in the stages of development between nations led to the rhetoric of indiscriminate globalisation. The next phase of global thinking, I hope, will be defined by the complexities of realities and tempered by compassion and wisdom.

Globalisation to us means the adoption of the best practices from all over the world in the fields of finance, business, human resource development, research, legal systems, and above all governance. Globalise, we must, but do so at a steady and judicious pace, absorbing each impact, productively and through an honest dialogue between the North and the South.

Sir, I am a supporter of Swadeshi. To me, Swadeshi means an intense national partnership between four components of our society, namely, the government, financial institutions, labour and business. These four must work in total tandem to deliver to the Indian consumer the best products and services of world class at less than global prices. The partnership should lead to a new era of prosperity, a prosperity which should be shared by all segments of our society. This 'force of the four', as I see it, should empower Indian producers and service providers to penetrate world markets not only on the basis of price, but also on the basis of quality and ingenuity. The proliferation of Indian professionals in the Silicon Valley in California offering cutting edge computer service to America is only the tip of the iceberg of Indian capabilities. Similar partnerships in Japan, Germany, Korea and Taiwan were responsible for the reconstruction of these economies on their own terms with significant increases in their share of global trade.

I am glad that, of late, a partnership seems to be emerging between business and government. But, it is now necessary to bring in labour and financial institutions to complete the 'Force of the Four'. I must congratulate you for creating Prime Ministerial Advisory Councils. I only wished that you would have included the Presidents of the apex Chambers who represent the industry and trade in totality. I am

also hoping that you will bring in labour and financial institutions to synergise a collective will.

I must confess to you that business is passing through a very difficult time in India today. Many of our large basic industries such as iron and steel, cement, paper, chemicals , textiles and capital goods are experiencing unprecedented slow down in demand and terrible squeeze on margins. Millions of investors who have invested in these companies have suffered heavy losses due to sharp decline in market capitalisation of these companies. Many of these companies had invested heavily in capacity creation and modernisation in the post 1991 era to make themselves world class. Nobody could have predicted the global meltdown and the subsequent dumping of goods from abroad into Indian market and an acute demand recession in India. Now, many of these companies are on the verge of financial disaster and thereafter will be easy prey to global players at throw away prices, or will end up at the door step of BIFR. Both the situations are highly undesirable. I, therefore, urge you to interface with us in the spirit of partnership to find a solution to this impasse.

Now, I must draw your attention to a sunrise industry that will define the very nature of the 21st Century, the Telecom Sector. You are aware that 50 telecom projects across the country in basic and cellular services are being pursued, amounting to a massive

investment of Rs.200,000 crores ($48 billion) over 15 years. Unfortunately, the telecom reforms in India are now faced with the worst kind of threat that can be imagined and a major proportion of this investment potential can be in jeopardy. Furthermore, the revolution in information technology that your government has brought to the fore, with 108 recommendations, could remain still-born unless telephone lines are available to carry this major leap forward in history.

Our policies towards globalisation since 1991 have remained tortured. On one hand, we have chosen to reduce tariffs deeply. Yet on the other, we have failed to remove scores of draconian anti-market processes established over decades of controls not only on manufacturing but also on trade. Sir, the Inspector Raj continues unabated, as we hold our breath for the next Committee Report.

Our producers are grossly handicapped by their inability to 'right size' their labour force, and restructure their businesses to meet global competition. Therefore, entrepreneurs are forced to greenfield new units, and that too of capital intensive nature in a labour surplus economy. The old units head in the direction of BIFR with their overstaffed unviable structures which nevertheless still hold significant hidden wealth. Your government, being associated with the large trade unions of India, could muster the political will to find a viable solution.

Sir, the amendments to the Companies Act, which could have allowed many fresh avenues for restructuring, remain in a state of animation. We urge you to push the bill through in Parliament at the earliest.

Unfortunately, the Prevention of Money Laundering Bill has been drafted in such a manner that it leads to the creation of a Super Act and a Super Authority. Clearly, Sir, this Bill needs to be recast. We are, of course, grateful to you for asking for the repeal of FERA and replacing it with FEMA - a Bill which is basically robust and well conceived.

There is a consensus among thinkers that we cannot remain competitive in the midst of falling tariffs unless the cost of infrastructure and finance decline in tandem to the global levels. We congratulate your government for pushing through three fast-track global power projects which had remained in limbo for five years. We would wish to see similar action in the area of ports, airports and roads as has been boldly initiated in the area of housing and urban development. We are now concerned that the path breaking policy measures initiated by your government in the area of housing, particularly the repeal of the Urban Land Ceiling and Regulation Act, may now be lost in the quick sand of politics. We need your assurance that this and other measures, that are pending, will be pushed through expeditiously.

On the financial front, the capital markets must be revived. We fail to understand as to why the buy-back of shares by companies, removal of restrictions on lending against shares and the permission for investment by pension and provident funds in equity cannot be introduced forthwith. Here, we must congratulate your government in protecting the UTI from an engineered collapse which would have put in jeopardy 2.4 crores small investors and could have brought about a collapse of our capital markets. This was a case where business-government partnership worked. FICCI was proud to stand up and be counted on this score last week.

Moving forward, we must attain sustained GDP growth between 7 to 8 per cent per annum over the next decade. This will require huge mobilisation of financial resources and imaginative enterprise on the part of the Indians from all walks of life. There must also be a Second Green Revolution to uplift the condition of the rural poor through massive value added agriculture.

We welcome and invite foreign investment in our country. We are ready and willing to give commanding role to foreign entrepreneurs in the field of infrastructure and select industries. In other sectors, foreign enterprises can play complementary role with Indian enterprises particularly in areas where Indian enterprises have competence and resources. However,

it must be realised that the torch bearers for sustained growth in India will be Indians who have unambiguous stake in the future of India. Mr Prime Minister, let us create a new conducive environment where Indian businesses can harness and profitably deploy the national savings which stand at the present moment at approximately $80 billion annually. Of course, the investment can be further topped up by another critical $8 to 10 billion annually through foreign investment.

I must congratulate you and your government for the stunning success of the Resurgent India Bonds which were backed boldly by the overseas Indians and raised over $4 billion. I may also mention that FICCI has submitted a Task Force Report on creating dollar export zones in line with the export zones of China. These will attract not only the finances from overseas Indians, but also attract NRI entrepreneurial skills to serve overseas markets from our own export zones.

I would like to bring you back, Sir, to the point of Swadeshi. We need to seriously look within our culture and society in search of products and services of unique nature which can catch global imagination. For example, we praise Ayurvedic medicines but have no national focus on introducing standardisation, validation techniques and upgradation of this rich heritage to meet global benchmarks, as China has done for Chinese medicine. This is what I would

have called true Swadeshi. I am, Sir, alluding to a new mind set that garners the finer elements of our heritage and upgrades the traditional products and services to the highest global standards. What may have frozen in history at different points of the 5000 years, needs to be re-juvenated through a creative yet modern outlook; then only the global marketeers will flock to us for value. This is how FICCI humbly views the deeper challenge of Swadeshi.

Allow me to digress for a moment and express my gratitude to my seniors, Members of the Executive Committee, Chairmen of various Committees, the President-Elect, Shri Sudhir Jalan, Vice President, Shri G P Goenka and the devoted team of FICCI Secretariat under the guidance and leadership of Dr Amit Mitra. A special word of thanks to Shri P Murari, my advisor, and Shri V K Grover, Honorary Advisor to FICCI.

Vajpayee jee, I am a quiet admirer of yours and perhaps even a fan. And this, I was, much before you took up the mantle of Prime Ministership of the Nation. I and my family cherish the memories of many years of interaction with you. Perhaps, you are one of the foremost leaders of the world in whose mature hands Indians have put their destiny. The hand which is strong, and yet so soft and humane. The strength of your hand lies in its nimbleness in etching out poetry which touches many hearts and

yet it has the firmness and the grit to keep India strong and our heads high in the comity of nations.

May I now request you, Mr Prime Minister, to deliver your Inaugural Address at the 71st AGM of FICCI.

THANK YOU.