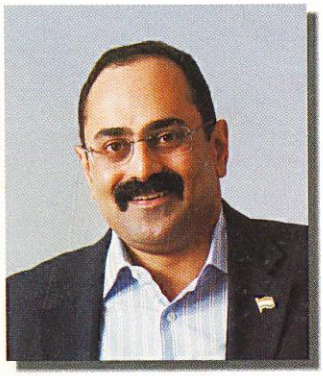
FICCI

81st Annual General Meeting

February 12, 2009



Presidential Address by

Mr Rajeev Chandrasekhar, MP
President, FICCI

"Security, Governance and Global Economic Crisis : Challenges for India"

Address

by

Mr. Rajeev Chandrasekhar
MP and President FICCI

at the Inaugural Session of the
81st Annual General Meeting
"Security, Governance and Global Economic Crisis : Challenges for India"
12 February, 2009, New Delhi

Hon'ble External Affairs Minister, Shri Pranab Mukerjee, Excellencies, Ladies and Gentlemen:

On behalf of the National Executive Committee and myself, I welcome you to this inaugural session of the 81st Annual General Meeting of FICCI, the theme of which is 'Security, Governance and the Global Economic Crisis' – the three serious challenges that have characterized 2008-09.

A year ago, I took over as President of FICCI. At that AGM, the Hon'ble Prime Minister and indeed most of India, was upbeat about the economy and had forecast at that AGM, "a 9% growth despite the growing clouds over the global economy". The Indian economy, industry and financial sector was on an unprecedented expansion cycle, committing to

large number of large scale projects – both Greenfield and brown-field. All this was obviously on the back of unprecedented global liquidity sloshing all around the world searching for yield – causing, in turn, a feeling that things could not go wrong and this growth was sustainable. Things have obviously strayed dramatically from the script, since the year has been eventful and not in a very positive way at that. Growth and confidence has sharply declined - both globally and domestically, investments that piggyback on growth and confidence have almost disappeared completely.

2008/2009 will go down in the history of India, where the fast express train of growth got derailed – for how long and what the costs and consequences of this derailment will be, only the coming years will tell. The year can be described as consisting of the blows from the Global Credit Tsunami, Domestic monetary policy induced demand slowdown, Terror threats and now the Satyam scam. Most importantly, it's a year that has revealed that we had started believing too much of our own marketing hype – that the Indian growth formula was sustainable and continuous. That has proved to be delusional. It has laid bare the fact that there are many more structural changes and reforms that are needed before our economy can truly be sustainable,

and manage global economic shocks with minimum local collateral damage.

More than the growth rate of this year and speculative growth rate of the year ahead, the most disconcerting aspect of the current situation is the rapidity of the loss of confidence, investments and decline of the economy, as somebody said "it felt like the train went off the cliff". This, combined with the fact that the growing perception is, that not much will be done at a structural level of the economy, which is where the focus should be, before a new government assumes office in End May - which may be too late to save this year or maybe even make an impact on the year after. A prolonged lag in getting the economy to respond and grow again will have serious collateral damages on vast parts of our economy – financial sector, industry, exporters etc.

At this stage, I must say that I am proud of FICCI's role through this economic downturn. We played the role of an honest, fearless and independent chamber of commerce calling it as we saw it. Starting from late 2007 and early 2008, we picked up the early but sure signs of weakness in the economy. We took the time and effort at communicating our worries and concerns to the Finance Ministry and indeed other parts of the Government as well.

Post the Nuclear deal victory in Parliament, FICCI moved fast and put together an action plan for the Government that we believe could've softened the blows from the then yet-to-come global credit shocks and sharper slowdown of our economy. FICCI had suggested to the Government at two critical points on this economic cycle – one at the top of the downturn and one at the middle when we believed and could see the velocity of the slide picking up. I suspect on all occasions, our voice of reason was drowned out by the cheerleaders of the economy elsewhere in Industry and the basic and understandable state of denial in a system, that fails to see fault when things seem so rosy and good. As a matter of fact, buoyed by the FICCI research and my own gut feel, in the Budget debate in Parliament, I responded to the former Finance Minister's claims of being a lucky one, by saying I thought this was a highly risky budget and that he would need all the luck to sustain the previous year's performance. Going back to the last AGM, in my speech then, I had sounded like the contrarian, cautioning against the overconfidence and allowing the rhetoric to get ahead of the reality. I had suggested then as I do now again, that it's best to look at India as a cup half full and accept that we have a lot of ground to cover before we can start believing in this story of sustainable growth.

There is a moral in this story of this year – Let's not carried

away by the marketing hype and rhetoric in the exotic locales of Davos, New York and other forums. There are real challenges in India – we know what they are - we must start tackling the nitty-gritty of those challenges and not get waylaid by slick talk and rhetoric. We must do this if we are to really become an economic superpower.

So what are these challenges and how do we get this train back on track without suffering too much more collateral damage? We have to address the issues of getting the stimulus packages to work, slowly and surely bring back investor confidence, undertake governance reforms and make sure the country and its economy is protected against further Terrorist attacks.

The monetary policy tightening that caused the domestic demand erosion is no longer the issue after recent RBI moves. The current crisis has no monetary policy solution. As a matter of fact, the focus must now clearly move to the fiscal and real economy side to restart the economy and stop this slide. The problem there is the death of demand, lack of credit and stalled investment flows.! Sectoral stimuli packages are meaningless if they don't catalyze these. Consumer spending will restart only if there are sharp increases in consumer disposal income and this will require to government to look at Direct taxation reliefs,

which both the stimulus packages have not touched. These temporary direct taxation reliefs should put money in the hands of the consumers. Real economy is also currently suffering from lack of credit flow from credit markets. While some of this is due to risk aversion on part of banks, some of it also due to the mismatch between costs to the banks versus the required lending rates. This can easily be addressed through an interest subsidy model, where 2-3% interest subsidies can be provided by the government directly. These two steps along with a concerted effort to restart investment by using MAT, Dividend distribution taxes as offsetable against investments – can form a package of fiscal steps to push start the economy in the short term.

In addition to steps to restart the economy, there must be an effort, and FICCI will play its role in doing this – in creating a consensus on key structural economic issues between political parties before this election. This is vital, because a large number of the years of the current government, it seems, could not be used to do more structural reforms because of lack of consensus or consensus building efforts. Primarily the area of consensus that needs to be created is around the declining state and state institutional capacity. This is a critical challenge and will pose a big milestone for our revival and growth. FICCI's position is that whilst the last several years have been the years of economic

reforms, the next decade must be about Governance and state institutional reforms. Governance reforms are more difficult and time consuming and so we must start this at the earliest.

There are other areas of consensus that can be explored and brought about. This is important even in the best of times, but given the current economic context and the uncertainties around it, this becomes even more pronounced and urgent. The country cannot afford a lack of consensus on issues like reforms in Public spending, Directed subsidies, Foreign Direct Investments, Public sector performance, Downsizing and reducing costs of Governance etc.

Lastly, the issue of National Security and Terrorism – 26/11 represented the first clear sign that our Economy is and will continue to be targeted by Terrorists. This has brought the issue of terror and safety squarely into boardrooms and investor conferences. Business and Entrepreneurs, who have been silent and on the sideline of this often political discussion of Terror thus far, are very clearly engaged in this debate now. As proof, FICCI's Conference on Terrorism and National Security was heavily attended and most of our members have sought from us a commitment that we

will keep the Spotlight on this issue long after the media stops reporting 26/11. This remains a continuing concern and whilst we have seen the Government take some steps in terms of new law and new agencies, the confidence is brittle and can be shattered anytime. To continue to ensure we have a voice in this debate, FICCI has instituted a Task force on the subject comprising some of best security minds in the country that will put out a Report for consideration of all political parties by end of this month. Let's make no mistake, terror and security remains a significant challenge to our economic growth.

Let me end by saying, I remain very confident about India's medium and long term economic growth prospects. It is in the short term that we have challenges – The right thing to do is to address these challenges with the right solutions and moves and we shall surely overcome them.

Being at the helm of FICCI through this year of challenges has been a truly satisfying experience for me. FICCI is truly an organization that lives up to its legacy, heritage and history of playing an important role in nation building. We have done it in good times and bad and I am sure we will continue to do it going forward.

Thank you all for being here this morning and Jai Hind.

FICCI

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