

## WHARTON INDIA ECONOMIC FORUM 9TH ANNUAL CONFERENCE

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### ON "DAWN OF THE INDIAN CENTURY"

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AT THE PARK HYATT HOTEL, PHILADELPHIA.

Students and Faculty of Wharton, Distinguished Guests, Ladies and Gentlemen.

It gives me great pleasure to address this august gathering and to share my thoughts on a theme which is close to my heart, because I truly believe in the buoyant economic growth of my country, India and in the contribution that India will increasingly make to the global economic community.

I am sure, like me, all of you have gained immensely over the last two days from the exposure to a truly stimulating variety of views expressed by the very eminent personalities whom the Wharton India Forum has brought together on one stage.

Let me say at the very outset that I am very conscious that I stand before a very select and special gathering of young men and women. I have a sense of what Wharton means, what Wharton gives to all those who are privileged to cross its portals and the manner in which Whartonianians are moulded and made ready to take on the world.

My own daughter Pia is a Whartonian graduate of the Class of '94. My grand daughter Savitri is currently a student of this wonderful institution. And her sister Anushka is hoping to follow in their footsteps soon.

In contrast, I must confess in all humility that unlike my daughter and my son Rajiv, who is a graduate from MIT, I have not had the benefit of any formal management education. However, perhaps my ten years as an officer of the Indian Army have instilled in me certain values of discipline and hard work.

I learnt the corporate ropes the hard way, making my share of big mistakes, but also learning from them, inspired by the legendary Henry Ford's philosophy that "Failures are only opportunities to begin again more intelligently".

Back in 1986, by a stroke of good luck I came into contact with one of the greatest corporate gurus of modern times, the legendary Jack Welch, the then Chairman of General Electric.

Being the National Advisor of GE in India, I was privileged to interact closely with him the first time he came to my country, during what proved to be a significant era in India's economic history.

For me, personally, it was a turning point, in the sense that it was the ultimate crash course in global management practices and perspectives, especially after he inducted me as a Member of GE's International Advisory Board.

Of far greater relevance for India's future development, was the impact that Jack Welch had on the then Prime Minister, Rajiv Gandhi. Very few people are fully aware of the confidence boost the Prime Minister got in India's own intellectual abilities, from Jack's observations.

In keeping with his stature, Jack was given a rousing red-carpet welcome. He kept asking everyone he met: "Why is India moving so slowly?"

The reply he would invariably get, from senior bureaucrats and political leaders alike, was that India was a "Nation in Transition". India, they told him, was after all, only a "Developing Democracy".

Even the Prime Minister's response to Jack's question was the same. "India is just a Developing Democracy and things do take time", said Rajiv Gandhi.

That was when Jack came out with an observation which had a big impact on the mind-sets of the policy-makers of India, including the young Prime Minister.

He said: (QUOTE) "Mr. Prime Minister, may I suggest that you and your colleagues should no longer describe India as just a Developing Democracy. But rather as a 'Developing Democracy with a Highly Developed Intellectual Infrastructure'. Some of the best and smartest managers of GE and other global corporations are Indians. We know how to spot their skills and tap their talent. The tragedy is that you don't. The day you begin to harness your intellectual resources, India will become a superpower of the world". (UNQUOTE)

This simple truth had been eluding the Indian leadership till then - that India's strength lay in its own intellectual potential. That the key to transforming the country into an economic powerhouse was to respect and utilize the intellectual resources of its own people.

Jack Welch's advice inspired the young Prime Minister to push ahead with greater confidence towards reform and modernization.

Although the conventional wisdom is that India's economic reforms began only in 1991 during the Narasimha Rao-Manmohan Singh era, in fact the seeds of liberalisation were sown during Rajiv Gandhi's time in the mid-Eighties.

I remember an accidental and ultimately most fortunate meeting with him in 1981. It was a hot day in the wastelands of the State of Haryana. I was standing on a barren tract in a village around Gurgaon, surveying the land and dreaming of developing it into a modern city. Just then, a young man in a jeep drove down the dirt track towards me and stopped to ask the way back to Delhi.

That young man was none other than Rajiv Gandhi, at a time when he was just an ordinary commercial airline pilot and nobody could have foreseen that one day very soon he would become Prime Minister of India.

We struck up a conversation. He asked me many questions about my company DLF and the problems we were facing. He listened attentively as I outlined the prevailing scenario in which archaic land laws and needless red tape were strangulating our efforts to develop modern townships. All over the country, the virtual monopoly of the government had led to rampant corruption and the emergence of fly-by-night operators and builders, resulting in lowering of living standards and urban decay.

Little did I realize what that chance meeting would lead to. Three years later, soon after Indira Gandhi was tragically assassinated and destiny placed Rajiv Gandhi in the Prime Minister's chair, he sought me out and asked me to prepare a blueprint for opening up the real estate sector.

That blueprint eventually became the framework for far-reaching reforms, clearing the way for private initiatives in township development, and positioning the housing and construction industry as a dynamic driver of the domestic economy.

Destiny had blessed India with a leader who was determined to usher in a new era, and who had the courage and wisdom to learn from past mistakes and begin again more intelligently.

In many ways, the history of my country's economic development since gaining Independence in 1947 has been a story of mistakes made and lessons learnt.

There is a school of thought that believes that newly Independent India made the first big mistake by embracing the socialistic pattern of development rather than taking the path of an open market economy.

Many are convinced that Jawaharlal Nehru's Mixed Economy experiments, wherein the public sector occupied the Commanding Heights and the private sector found itself hamstrung by the license and permit regime, were an

exercise in futility which merely led to the loss of nearly four valuable decades of precious time.

In retrospect, however, we need to ask ourselves whether a more pragmatic assessment of the Gandhi-Nehru era would be more appropriate.

One of the great legacies inherited by free India was the legacy of governance and that legacy of governance taught us how to preserve institutions and how to get them to grow - institutions like parliamentary democracy, the judiciary and the free press. Today, these institutions stand as hallmarks of modern India.

But at the same time, the liabilities and challenges were formidable. The Partition of India was indeed a very painful experience, administratively, emotionally and socially. Freedom unleashed the pent-up energies of a nation, which was and still is virtually a continent of heterogeneous peoples and differing cultures, languages, dialects and religions.

It was then a country in the making where 72 per cent of men and 91 per cent of women did not even know how to read and write.

This was the India of the early Fifties, which Nehru had to lead, unite and inspire. If he chose to give greater priority to issues of social justice, if he decided to strengthen the roots of Democracy before allowing economic freedom, should posterity judge him too harshly?

It was Nehru who was the first to instinctively understand that the true challenge for India lay in its ability to work democratically to generate the economic growth necessary to eradicate poverty and improve economic and social conditions of the masses. It was Nehru who laid the groundwork for the Indian Institutes of Technology which today are credited with making Indian software firms amongst the leaders in the World.

Admittedly, somewhere along the line, especially in the Seventies, the opportunity to bring about mid-course corrections on the road to growth with social justice, was lost. Mrs. Indira Gandhi's reign was undoubtedly marked by some meaningful achievements, particularly the success of the Green Revolution, which ended the era of grain imports and made India into a food surplus economy.

But it was also an era when the State sector was allowed to dominate all economic activity, corruption became the order of the day and what should have been the decade of transition and reform, was lost.

Fortunately, the experiences of that decade gave birth to a longing for political and economic freedom and unleashed the energies of the nation towards free enterprise.

Today, as India moves forward on the new path of liberalisation and globalisation, there are many who despair over the gradual pace of the economic reforms programme, which, in the eyes of the critics, appears to be progressing by fits and starts and ifs and buts. Still far away from achieving market economy status.

A more objective assessment would, perhaps, indicate that while the pace is undoubtedly slower than what all of us would wish for, the process is being carried forward through a slow building of consensus, in a noisy atmosphere of vested interests and pressures and pulls, but always within democratic parameters and towards democratic solutions.

This gradualism is often compared unfavourably with the dazzling pace of growth of the Chinese economy over the past two decades, which has overshadowed all earlier experience. Undoubtedly, China has registered spectacular success in fast-track reforms, attracting huge flows of foreign direct investments, which account for more than 10 per cent of that country's total investments annually.

But it is not without reason that in the widely quoted Goldman Sachs report both India and China are being billed to become the two biggest economies of the world in the decades ahead.

In some ways, the economies of China and India are almost mirror images of each other. Both have pockets of excellence and high-technology at par with international leaders in the field. At the same time, both have billion plus populations, plagued by poverty and under-development.

However, the truth that is often glossed over is the fact that China is still a Command and Control economy, while India is a live Democracy. Although India may appear to be slow-moving, its strong point lies in its institutional capabilities and democratic framework.

India embraced Democracy first, and Capitalism afterwards. This has made all the difference. China, on the other hand, has grown vertically without adding these dimensions to its system of governance.

As the country matures, China will sooner or later have to contend with the issues of a pluralistic society and invent the mechanisms for resolving inevitable pressures and pulls from various sections of society and interest groups. The world will be watching to see how China copes with the task of reconciling growth with aspirations.

It is important to realize that the economic transformation of India is being accomplished through incremental but complex changes in policies in the direction of market orientation and greater integration with the world economy and without any big ideological U-turns.

There is no denying that during the decade of the Nineties, there have been instances of taking two steps forward and one step back. "Roll-backs" became part of the reform process.

But one needs to understand that this is precisely why gradualism is necessary in a nation of India's size and diversity. There are pulls and pressures from all sides, some of them based on genuine misgivings and legitimate demands for a level playing field for domestic industry.

For far too long, we in the private sector in India had lived in a protected environment and the prospect of suddenly facing up to global competition was frightening. When the going got tough, the tough ran straight to the Government. In fact, some of us were sometimes astonished when colleagues in the business community actively lobbied against fast-track globalisation and free market legislation.

Those who could not see the writing on the wall fell by the wayside, whereas those who could, quickly restructured and have now become among the fastest-growing and most globally competitive enterprises. Corporate India is fast learning how to spot the skills and tap the talents of India's own intellectual resources in order to face up to global competition.

This emerging scenario, Ladies and Gentlemen, is a sea change from the time, just a few years ago, when business lobbies routinely pleaded with the government for concessions, sops and protection from global competition.

I distinctly remember an interaction with Atal Bihari Vajpayee very early in his tenure as Prime Minister, just 12 days before the dawn of the new century. As the elected president of the Associated Chambers of Commerce and Industry of India, we had invited him to address our annual convention.

Normally, such occasions are utilized by Chambers of Commerce to list grievances and seek concessions from the government. But I decided to deviate from this practice and instead reminded him of the commitments of the Founding Fathers of the Indian Constitution at the time of Independence to rid the country of Ignorance, Poverty and Disease.

I asked him to ponder whether we had achieved those goals and, if not, where the fault lay and urged him, as a visionary leader, to take bold steps and leap forward into the new Millennium, putting it to him rather bluntly that unless he did so, posterity would never forgive him.

Evidently taken aback by the tone and tenor of my remarks, the Prime Minister put his hand on my shoulder at the conclusion of the convention and said (AND I QUOTE): "Mr. Singh, you have given me a wake-up call. Had captains of industry been so outspoken with my predecessors, perhaps the state of affairs in India would have been altogether different. Imagine where our country would have been!" (UNQUOTE)

Vajpayee was indeed a statesman and visionary in the Nehruvian mould and a nationalist to the core. It was a surprise to many that he was so very vocal and focussed in pushing pro-market economic reforms to boost economic growth.

The truth is that India did register significant progress during the Vajpayee era. He not only pushed the pace of liberalisation further on many fronts, particularly the knowledge-based sunrise industries, but also built bridges of friendship with other countries near and far and thereby raised India's international stature both economically and strategically.

The impact of his quiet diplomacy and economic leadership was so spectacular that it generated a "feel good" environment in business and industry.

Unfortunately, it also prompted the National Democratic Alliance government that he led to coin the "India Shining" slogan while seeking a fresh mandate. That election slogan proved to be Vajpayee's Waterloo. Claiming that India was shining, amounted to prematurely proclaiming a false dawn.

The reality was that, while urban India may have been shining, rural India continued to lag behind. The agriculture sector was still mired in poverty and unemployment, and human development issues like Healthcare and Education were yet to be addressed effectively, particularly in rural India.

What the Vajpayee government perhaps overlooked, Sonia Gandhi and her colleagues in the Congress Party were able to see with clarity. Having visited village after village as an Opposition leader, Sonia Gandhi was able to bring fresh life into her aging party by making the Common Man the focal point of the election promise of "Reforms with a Human Face".

In a masterstroke which, perhaps, has few parallels in political history, Sonia Gandhi declined to become Prime Minister herself and instead put the team of original reformers back in the saddle - with the added advantage of being able to learn from past mistakes and begin again more intelligently by focussing on rural uplift and employment generation while continuing to pursue infrastructure reforms.

The Oxbridge-educated Dr Manmohan Singh was the Finance Minister in 1991 when India's economic policies made a radical break from the past. The current Finance Minister, P. Chidambaram, a graduate of the Harvard Business School, and the Deputy Chairman of the Planning Commission, Dr Montek Singh Ahluwalia, an Oxford-educated and internationally renowned economist, were part of the team that worked with Manmohan Singh in the first phase of reforms in 1991.

Under them, while the form and content of the reform process may change to include agriculture, health and education, the growth orientation can be expected to remain the basis of policy formulation.

By retaining her position as the president of the Congress Party, Sonia Gandhi has attempted to evolve a new model of democratic governance, whose intention is clear - to enable Dr Manmohan Singh to concentrate, with a minimum of political distractions, on the task of pushing through reforms in a nation of one billion people, where half the population is below 25 years of age and a good two-thirds of the people live and work in the farm sector.

This, perhaps, is what the Left party allies of the current coalition government are most concerned about. Their role is that of a Devil's Advocate, to constantly remind the Prime Minister of the commitment to factor in the needs and aspirations of the vulnerable sections of society.

India is a complex country of exploding aspirations, with a growing middle class of more than 300 millions, whose Purchasing Power Parity is estimated at 1.5 trillion dollars. Imagine what the Purchasing Power Parity of the country would be if the rural populace is brought into the mainstream!

During the past two days, Ladies and Gentlemen, we have all gained a deeper insight into what gives India the human capital edge. In sector after sector - from Pharmaceuticals to Biotechnology, Automobiles to Entertainment - India is reaping the benefits of steadily opening up and creating world-class companies that can compete with the best in the world.

And this is happening because India has a stable Democracy with a credible Judiciary, a free Press and a large pool of technically trained manpower proficient in English language skills.

If India is now being projected as one of the fastest growing economies and most attractive investment destinations of the world, it only reflects the reality on the ground today, whereas visionaries like Jack Welch saw it coming 20 years ago.

His meeting with Rajiv Gandhi in 1986 wasn't just a symbolic event. It resulted in GE's major foray into Indian economy - from an involvement of less than 2 million dollars at that time to over one billion dollars today - which, in turn, became a forerunner to the inflow of massive investments by hundreds of other global corporations.

But it is far from enough. The annual inflow of Foreign Direct Investment is currently only about five billion dollars, as against the 30 billion dollars a year required over the next five years to meet the needs of development, particularly infrastructure projects, which in turn would have a tremendous Multiplier Effect on the entire fabric of our economy, down to the grassroots level.

India's economic performance in the next decade will depend critically upon attracting more foreign investment. And, at the same time, on cutting down of unproductive expenditure to reduce the fiscal deficit, which has admittedly assumed alarming proportions.

To my mind, the country faces three basic challenges. Firstly, to resolve the unemployment problem by stepping up the growth rate to around 10 per cent per annum, in an environmentally sustainable way.

Secondly, to overcome the income disparities between regions and States and between areas of affluence and pockets of poverty to preserve the social cohesion of the nation.

And thirdly, to evolve an effective mechanism for arriving at a national consensus on reform policy issues, within the compulsions of coalition politics, rising above party ideologies.

The Herculean task before Dr Manmohan Singh is to meet these challenges by implementing the Common Minimum Programme of his coalition government, Whether the expectations aroused can be fulfilled through drastic cuts in other areas or tempered in the face of fiscal reality, remains to be seen.

But the bottom line for any government, present and future, is to deliver the benefits of economic reforms to even the most vulnerable sections of Indian society.

The rise of a country from poverty to prosperity is a great and fascinating struggle. I believe that this struggle of one-sixth of humanity for dignity and equity is of great consequence for the future of the world and has meaning for all mankind.

I also believe that with its institutional capabilities, upwardly mobile middle class with technical and linguistic skills, expanding consumption base and robust Democracy, India will increasingly become a magnet for attracting substantial inflows of foreign direct investment in the coming years.

Men and Women of Destiny, I know not the contours of the future. I know not if we are witnessing the dawn of an Indian century. I know not how many Indian billionaires there will be in the years ahead. But what I do know that India is fast emerging as a land of opportunities, not only for foreign investors but equally also for corporate managers and innovative thinkers from all corners of the world.

In that sense, what we are witnessing today is the birth of a truly global century, in which India will contribute significantly towards making this planet a better place to live in.

Thank you.