



## **INDIA AND GLOBALISATION**

### **FPC Event report**

A keynote speech by

**Shri P. Chidambaram**  
**Minister of Finance, Government of India**

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Chaired by:

**Mervyn Davies CBE**  
**Group Chief Executive, Standard Chartered plc**

On the eve of India's first ever attendance of the G8 meeting of finance ministers, Shri P Chidambaram, the Indian Finance Minister, gave a keynote speech to launch the Foreign Policy Centre's India and Globalisation programme. He argued that globalisation was still heavily weighted in favour of the developed countries and called for an adjustment of the international architecture to take into consideration the emergence of rising powers like India.

This event report includes a transcript of Mr Chidambaram's speech, and of the lively discussion that followed.



## **Speech by Shri P. Chidambaram, Finance Minister, India**

Globalisation means different things to different countries. Within a country too, globalisation means different things to different people.

Prior to World War I, the world had a high degree of globalisation of finance. This gave way to capital controls in the inter-war period, and then to Bretton Woods.

After World War II, at first, the globalisation process was focused on trade in goods, fueled by dropping costs of sea and air transportation. Then, as the economies of the developed world graduated into the post industrial stage, they pioneered trade in services. The steep decline in prices of telecommunications made possible trade in services in a manner that was previously unimaginable.

The next two milestones were 1980 and 1990. First China, and then India, began to integrate into the world economy in terms of trade in goods and services and capital flows. Between the two countries, they have nearly 2.4 billion people. The story is yet to play out fully.

In this talk, I shall try to offer an Indian perspective on globalisation, and how the story might unfold in India in the next few years.

The international architecture, comprising the UN, the World Bank and the IMF, has served the globe reasonably well in the last 50 years. As we face new kinds of complex challenges in the future, we need to find new ways of organising the international architecture in response to the emerging new poles of economic strength on the planet.

### **The India Story**

India's GDP, at market prices, is nearly \$800 billion per year. Exports of goods and services amount to \$ 133 billion a year. Net capital inflows average about US \$ 19 billion annually.

The trade-GDP ratio (including both goods and services) has gone up from 25% in 1992-93 to 35% in 2003-04. In addition, gross flows on the capital account went up from 15% to 20% of GDP. Summing up, the total integration of trade and capital, increased from 40% of GDP to 55% of GDP over an eleven-year period.



With exports continuing to grow at a brisk pace and capital inflows continuing to remain robust, I expect that the ratio of total integration will rise steadily over the next ten years.

A new aspect of India's globalisation is outward FDI by Indian companies, who are now enormously confident, and are in the process of becoming multinational corporations. In 2003-04, outward FDI from India amounted to a sum of \$1.4 billion -- a small step by world standards, but a giant leap for India. In my view this is only the beginning. Indian companies are hungry to go abroad, acquire manufacturing firms as well as brands, and position themselves at the doors of new markets. For the first time, Indian companies are seen as potentially major players in the world market.

The traditional face of Indian business has changed dramatically in the last few years. Indian firms are no longer only seekers of foreign technology or producers of staple goods or providers of low-end services. Their engagement with the world has acquired new dimensions.

Even in the traditional engagement in goods and services, India has become the leading nation in software services – TCS, Infosys and Wipro are acknowledged world brands. India is also a major hub for manufacturing and export of manufactured products, especially in sectors such as automobiles, auto parts and accessories, leather goods, textiles, pharmaceuticals, petroleum products and machine tools. And if you will add handicrafts and hand made products, flowers and herbs, the traditional engagement with the world is quite impressive.

## **The Non-traditional Engagement**

The non-traditional engagement that we have witnessed in the last few years is even more striking. Spearheading this phenomenon are remarkable individuals who have ascended the ladder of success and achievement in areas ranging from education to medicine to consulting to finance to politics. Behind these individuals are the millions of families which constitute the Indian diaspora. Indians abroad are adding to their global wealth. In the United States, the Indian ethnic community has the highest average per capita income. So is it in many other countries. The Indian diaspora remains attached to its languages, books, music and, above all, its movies. As the influence of the Indian diaspora grows, one can perceptibly feel the growing influence of India's music, books and cinema.

I would identify four non-traditional sources of India's engagement with the world:

1. Outward FDI by Indian firms, and the rise of Indian multinationals
2. India's prominence as a platform for R&D, and thus a source of new ideas in science and technology,
3. The cultural influence of books, music and movies from India,



4. The role of Indian nationals in global corporations, particularly in the fields of science, technology and finance.

These four aspects of globalisation go well beyond the traditional notions of trade and capital flows. But there are strong synergies between these four aspects and the traditional focus on trade and capital.

## **The Demographic Opportunity**

India also enjoys, almost uniquely, what has been described as the demographic advantage. It is perhaps the only large country where the size of the working population is expected to grow over the next 20 years. It is also perhaps the only large country where the average age will decline, before it begins to rise after about 2030. We are in the process of ensuring that every child is in school for at least 8 years and, if possible 10 years. We will also continue to produce thousands of engineers and technologists, doctors and nurses, accountants and managers, and teachers and administrators. In sheer numbers, India's human resources will dwarf that of every other country, save China. A growing and educated working population will, I believe, power India's economic growth.

India's opportunity is also the world's opportunity. Where will the developed countries of the world look to for satisfying their enormous appetite for quality goods and services? Where will they find avenues for investing their savings? Where will they turn to for recruiting the human resources needed to run their hospitals and colleges and businesses?

## **The Other Side of the Story**

My prediction is that globalisation will become a truly two-way street over the next 20 years. When India plugged its economy into the world economy, it marked the passage from childhood to adolescence for India. When, over the next 20 years, the countries of the world plug their economies into the Indian economy, it will mark the passage from adolescence to adulthood for India.

However, I must enter a few caveats.

India's producing classes range from the very poor to the very rich. Needless to say, the rich will be in the first line of beneficiaries of globalisation. The high growth rates witnessed in the industry and services sectors will keep them in the vanguard. However, the Indian train is long and, at the very end, are unskilled and semi-skilled workers who work on the land or work with their hands. Their aspirations are modest and few – reasonable wages, shelter, drinking water, electricity, schools, hospitals and connectivity. As of now, many of them are sceptical of globalisation. The Indian State cannot ignore their aspirations even while it integrates the Indian economy into the world economy.



You will therefore, I hope, understand our concerns – and constraints -- when we argue the case of the developing world in the WTO. Or, when we enact a law on patents. Or, when we seek new markets. Or, when we suggest new ways for reorganizing the present architecture of international institutions.

The issue is not globalisation. India accepts and willingly embraces the imperative of globalisation. We do so in our self interest. The real question is the terms of engagement in globalisation.

As of today, the terms are heavily weighted in favour of the developed countries. Millions of people in the developing countries, and in the least developed countries, watch in silence, and with a growing sense of bitterness, that the Age of Prosperity is passing them by. This does not augur well for either globalisation or stability.

I urge you to review the process of globalisation. And I urge you to renew the process by making it more inclusive, more just and more equitable.

The Foreign Policy Centre is well placed to take a leadership role in this behalf. I thank you for this opportunity and I urge you to seize the moment. We, in India, will be very happy to work with you in these areas of mutual interest.



## **Transcript of Q&A session with the Minister**

### **Q: Ashish Bhatt, Deputy Director, Ditchley Foundation**

That was a very stimulating and insightful talk. My specific question concerns what to do about the losers of the process of globalisation. What specific reforms would you like to see in that international architecture that you spoke about earlier in order to redress the imbalance?

### **A: Shri P. Chidambaram**

If you look at the World Bank, I think the mixture of funds between the International Bank for reconstruction and development and the International development association (IDA) must change and more funds must flow from the (IDA) window to the developing countries. Especially for what seems to be 'unbankable' projects, irrigation, land reclamation watershed programmes supply of drinking water, and rural electrification, seem to me unbankable in a commercial sense. I

If only market forces are to play and funds are to be raised in a competitive environment I am afraid many of these projects will remain on the back burner for the next fifty years, so we need a larger flow of funds to these sectors. You cannot apply the standard measures or yardsticks to decide whether a project is viable or bankable or implementable and I have mentioned just five of them which are of highest concern for us here in India.

As far as the WTO is concerned it's a very complicated story. India for example has been an active player in the WTO, we engage the rest of the world we go more than half way to meet the rest of the world, and we abide by every obligation that we undertake in the WTO. That can't be said for many developed countries. There is no obligation of the WTO that India has violated, yet; we are denied markets, we are faced with new protectionist measures and we are told that it is not possible to adhere to obligations undertaken at the WTO because of domestic compulsions. How then do we sell the case for global trade and more opening up to our own people? A lot must change, there is lot of talk but not much action, there is lot of preaching, but very little amongst the physicians to heal themselves.

### **Q: Nicholas MacLean, Senior Fellow for International Affairs, International Institute for Strategic Studies**

Could I ask you Minister about the trickle down effect in India - maybe the trickle across affect? Some states possibly because of their own particular style of governance seem much more affective at embracing reform and bringing their



people the benefits of globalisation, though one wonders about the results in Andhra Pradesh recently.

**A: Shri P. Chidambaram**

The trickle down affect cannot be denied, but it is not as enduring as some would like to believe. In states like Punjab and parts of Maharashtra, and Haryana, parts of Tamil Nadu, parts of Andhra Pradesh where water is plentiful and land is fertile one can see that the benefits of opening up India's economy have percolated down to the lowest levels. But that's not so across the country. As I said that unless we have a frontal onslaught, a frontal assault on what holds back any kind of development I don't think its possible for millions of people to break through the circle of poverty and this as I said is water, drinking water and watershed programmes, irrigation, land development - these are the areas that we need to make a major breakthrough if we are to bring about change in the quality of lives of those people.

For centuries they have just worked with their hands, tilling, growing crops which fail regularly every three years, or so because of monsoons, and they simply cannot break through that circle of poverty, we need to make a frontal assault on these problems and we cannot hope that a trickle down affect will take care of these problems. We need a direct assault on these problems.

**Q: Arjun Raychaudhuri, Mercer Consulting**

I had a couple of questions particularly with regard to what you just said. The first is about the trickle down affect and I wanted to know – there a are a lot of foreign banks which want to enter India, and you have spoken very recently about banking sector deregulation, how do you see the foreign banks in India reaching the 'unbankable' projects, that's the first question. The second question: there was lot of talk recently about how there could be a change in the tax situation. Such a small number of people actually pay income tax and that is crucial to the trickle down affect. Do you have any changes in mind which you plan to implement?

**A: Shri P. Chidambaram**

I don't think foreign banks are going to play a major role in areas that I have outlined as very critical to India's poor. I think foreign banks will remain by and large urban. Their clients will be very limited to the Industrial classes the upper middle classes and I don't think that they are going to go into rural India, and set up branches there or deal with these seemingly 'unbankable' projects. This is not a criticism just a statement of fact. I doubt that foreign banks are going to do that, but if they do, those foreign banks which are there and those which are likely to come, I'll be very happy, but I'm not so confident as you seem to be



As far as taxes are concerned please remember very few farmers have surpluses leading to taxable incomes, the entire farming community I think is beyond the pale of income taxes. The average holding in a country is about one hectare, and if one half of the land is what we call rain fed land and if the monsoon fails regularly every three years, what is it that we are going to tax them on.

Having said that I agree with you there are a large number of people in the industrial sector who do not pay tax, like a lot of people in the world they are cleverer than the income tax departments, but we are trying, and in 1997 when I sharply reduced income rates, the base of taxation did increase over the next five, six years, it went up from 12 to 25 million, now it's close to 30 million, so we have to do something to raise 30 million to fifty million, if you have any ideas I am willing to listen to them. February in India is a month where the finance minister listens rather than says anything. (audience laughs)

**Q:**

Minister you rightly pointed out India's great pending advantage of the rise of people of working age but of course that's only an advantage if they find work which gets a decent income, and as you know the results there have been rather worrying, the time rate of unemployment is now up to 7%, the best estimate that was made is that it is going to double to 14% by 2020. Even if you have growth at the present rapid rate and that is of course because agricultural growth has been slower and less employment intensive than in the past, I wonder what strategy you planned to develop for raising the rate of growth of employment that corresponds to India's growth and helping to cut poverty that way.

**A: Shri P. Chidambaram**

Most of the people who are unemployed, or underemployed are unskilled or semi skilled have, very little education, or very few skills which can be applied to any other area except working on the land, there are a large number of educated people who are unemployed but I think that if India's Industry and services sector grows at 8% each many of them will get a job, so we need to find a way to employ the unskilled and semi-skilled young men and women who are in the millions in rural India.

We have launched a food for work programme which will shortly become a rural employment guarantee programme, and we've identified four or five areas in which these people will be employed and these include as I said irrigation, watershed programmes, land reclamation, forestation, actually its work on the land. Now its low quality work, its low wage work, its low end work, but it is better than no work. If we can employ millions of people in this work over the next five ten years in this type of programme we will find that valuable assets are created in rural India especially in reclaimed Land or irrigation and watershed



programmes, and we hope that this will directly benefit agriculture. Because in a way this is investment in agriculture and it is investment in agriculture and improvement in agriculture which can, in the medium term provide jobs to these men and women in the long term we hope that the dependence on agriculture will come down and more and more people will become absorbed into the industrial sector. The challenge is huge.

## **Q: Jeff Potter, Stonehenge public relations**

Thankyou Minister for a very interesting talk. Turning to your list of non-traditional engagements the number one on there was outward FDI from Indian companies. You said that the figures were high, a very good start, but only a beginning of what you obviously see as a major trend going forward, could you please try to illuminate for us what you think was the trigger, the driver which instigated this extraordinary change in the outward approach of Indian industry? And secondly what would you say was the advantages, competitive advantages that Indian companies will bring in the coming 10 -20 years to fulfil this great promise?

## **A: Shri P. Chidambaram**

I can't put my finger on one single event and say that it triggered this outward flow, I think the trigger may have been outside India. Indians who live abroad and who have climbed the success ladder and who are in banking and consulting and finance in large multinational corporations have demonstrated that it is possible for Indians to do business abroad and do it successfully. I think the forays made by software companies, perhaps were the first forays and then today many manufacturing companies are looking to acquire companies abroad.

One of the reasons, is they have accumulated a lot of wealth and this wealth has to be deployed, and if there are opportunity's abroad, they are willing to seize these opportunity's in telecommunications in steel, and in petroleum products. I think Indian companies are looking to acquire businesses abroad. Over the next twenty years, I won't be surprised if this number of 1.4 billion goes up ten times. We allow them to take capital out of India to acquire businesses we allow them to retain export earnings outside India.

All of them are today flush with money and if there is money they will have to find avenues for investment, and what better ways to grow, than the merger and acquisitions route. Organic growth has come to be the single biggest driver of growth of successful companies and I think Indian companies are looking for space to grow and if the whole world is a stage then they are happy to grow. I can see this number go up at least ten times over the next ten years

## **Comment: Mervyn Davies Standard Charter**



I thought I might add a comment. I do think, I do believe it's down to quality of labour. I believe the quality of the workforce that we have in India is so high. I don't mean just in operations centre where we have 4000 people, but just the quality of the workforce running our business there and they get incorporated into the rest of Standard Charter. We have seen Chinese companies like Sinochem recently buying, and we are seeing Indian countries doing the same and I think it's because the quality is there. They should be expanding overseas and I think the rest of the World has got to wake up to the fact that Chinese and Indian companies have got capital, they have got quality of labour and they are going to expand. So I think it's a big challenge.

## **Devika Bannerji Strategy and Communication Consultant in the creative industry and head of the Satyajit Ray Foundation**

I thought your talk, short sharp and very inspiring, but I want to shift the focus now to the cultural arena. What specific measures is your government taking, to support and empower the music, books and commercial and non-commercial cinema industry in India.

### **A: Shri P. Chidambaram**

I think commercial cinema would be very happy if Government keeps its hands out. I don't think they are looking for any support and I don't think we should deploy an army of government officers to go and support them that's the last thing I think we should do. We allow them to go abroad, we allow them to take capital out, we allow them to shoot films abroad, in fact we place very little restrictions on commercial cinema, there are of course censorship restrictions in India like in any other country, but apart from that I can't think of any restrictions that we place on musicians or actors or producers of films

### **Q: Devika Bannerji**

Could you please clarify the support the Indian Government does give to the Arts in India?

### **A: Shri P. Chidambaram**

We offer modest support. There is the ICCR, and similar organisations which sponsor concerts, which sponsor young artists to go abroad which give scholarships, which confer awards all that is in a very modest way. I mean I can't claim that we are doing anything dramatic, but given the innumerable claims on the state and Indian exchequer I think modest amounts are set aside to promote artists and other people-Very modest.

### **Q:**



We've got 120 billion in reserves indirectly funding the US deficit, whilst we have a deficit in India also, could you please shed light on this dichotomy

**A: Shri P. Chidambaram**

There is no dichotomy, if I have foreign exchange then I must keep it in some currency, the international economy is still largely dollar denominated.

I can't disclose to you in what currency we keep our reserves but let me tell you, we also spread our risks rather widely, but if international trade is still largely dollar denominated, a lot of business is dollar denominated, how is it possible that part of my reserves will not be in dollars? Yes, we finance the deficit of the US but so does China, so does Japan. China with 400 billion dollars doesn't seem to worry about its reserves, why should I worry at 130 billion dollars?

I think we need to build up our reserves not by any shortcuts, but if reserves build up let them build up, it gives us so much more comfort and so much more confidence to do business with the rest of the world. How do you think we allow Indian business to take capital abroad? For a country which is essentially a capital importing country, we now encourage our businesses to take capital abroad and I think the reserves give us a great degree of comfort.

**Q: Harjinder Singh, TransIndia**

Minister good afternoon, tourism is one of the fastest growing industries in the world and given India's vast natural resources and its cultural heritage and its enormous man power which could be deployed in tourism do you have any cohesive plans for developing this industry?

**A: Shri P. Chidambaram**

Sure from time to time plans are made. But as I say again these are areas where the government should stay out. I think we should allow private sector to lead from the front. I have never been terribly impressed by government sponsored tourism, promotion; yes. Government must engage itself in putting the infrastructure in place, airports seaports roads. If Governments puts in place the infrastructure, I think the private sector will take care of the flow of tourists.

The deficiency in India is an Infrastructure deficiency. We have heritage sites, we've no hotels near them, we've got airports which cannot take more than fifteen or twenty aircrafts at the same time we need to deal with this infrastructure deficiency. That is what we are doing, once we deal with the infrastructure deficiency you will find India's vibrant private sector with support from state governments and local governments will take care of the flow of tourists, actually tourism is growing at a very brisk pace, in the current year 2004-05 I think the growth rate is over 20% but we are still a fraction of what China gets, a fraction of what Spain gets and a fraction of what London gets.



Therefore I think there's so much potential in tourism, but we must first bridge the infrastructure deficiency. We are opening up, we are now allowing Indian airlines to fly abroad we have adopted the open sky's policy, we are about to enter into an open sky's agreement with the US and we are allowing more charter flights. We are going to build brand new airports in Mumbai, Delhi, Bangalore and Hyderabad so I think its happening. In the last 4 or 5 months, at least in the air traffic sector its happening and if it also happens in the railway sector and the road sector, you will find that tourism is poised for tremendous growth.

## **Q: Owen Ryan, Anglo-American**

Just to try and tie up a few of the comments made earlier and following on from the question about fiscal deficit: Privatisation, I wonder if you could perhaps give us some comments on the speed of privatisation, what's likely, what we could expect to see particularly in the natural resource industry in the medium term five years or so, and if you could particularly address the issue of where certain states are very valuable strategic assets, but perhaps have a different view on privatisation to the central government, and how that might play out in the near future? Thank you.

## **A: Shri P. Chidambaram**

Well there is a change in the policy. The previous government, pursued privatisation as an end in itself, now our coalition Government does not share that view and I am not going to engage in a debate here whether we are right or wrong. I am merely responding to a question and stating the policy. The policy is that public sector will occupy an important place in India's economy. Profit making public sector companies will, as a general rule not be privatised. They will of course be allowed to go the market to raise resources. When they go to the market to raise resources there will inevitably be a dilution of Government stake.

Seemingly profitable companies, which are profitable only because they function in a monopoly situation, will be examined on a case by case basis and they will be candidates for strategic disinvestment, which means bringing in a strategic partner to run and expand that business. Loss making, chronic loss making public sector enterprises will be sold off.

These are the three legs on which the policy now stands. The First leg deals with profitable public sector companies in a competitive environment. The second, seemingly profitable which require infusion of technology, capital management and the third, chronic loss making companies. Now only last week, I announced setting up the national investment fund, now this I think addresses a very difficult question, that has been debated in India for the last twelve years: should



you sell family silver, to pay for current consumption? Now that's a very colourful way to put the issue, it may not be the correct question but that's the question that has been debated so what we have said now is any privatisation or disinvestment proceeds.

Beginning 1<sup>st</sup> April 2005 we will start a corpus fund. That fund will be managed by professional fund managers, and the returns from that fund will alone be used for social sector expenditure as well as for providing additional capital to deserving public sector companies that's the policy, and I am sure there are many in this audience who will find the policy not going far enough but that's the policy.

## **Q: Shobana Mani, Goldman Sachs**

My question has to do with the two success stories of our time, India and China. Now both countries are similar in that they both have large labour pools and that they both contribute to economic development with their large diasporas. They differ in their approach to economic development, one being manufacturing led the other being services led, however India is still behind in the economic race. In reforms it's ten to fifteen years or so behind and in the area of education in the primary sector, it's also a bit behind. In the area of infrastructure there could be much needed change, additionally in the historically protected private sector we could see some more openness. So what is your prescription to compete in this economy and become the number one success story when there are currently two?

## **A: Shri P. Chidambaram**

Yes, you rightly mentioned the similarities between India and China, but please remember there are huge dissimilarities between India and China. Firstly India is a democracy, and there is a rule of law and there are multiple institutions which play in India. Political parties, elected legislators, free press, a completely free judiciary and ultimately the power of the people to bring about change.

The Communist party is the master of the situation, what it says is law, and it can enforce that law without any opposition, if there is any opposition that opposition can be brushed aside, now I think that the two systems are so very different that you can't compare results simply by saying they have done better in some areas than you have. The systems are very different. Given India's system, are we doing enough? To which my candid answer is no.

Given India's system we are not doing enough, we can do better we can do more, so my respectful submission will be we do not look upon the India-China issue as India vs. China. China pursues its path and India pursues its path and I think there is enough space in the world for India and China to grow.



I think we need to do much more, we need to do much more in education we need to do much more in infrastructure and we need to do much more in implementation. Where India fails is India's inability to implement its decisions some of it is in built difficulties. For example if we decide to build a road of say 1000km if I were an all powerful leader I could simply decree that a 1000km road was to be built and it would be built. But in India you can't do that, you have to acquire land and acquisition of land has to follow a process of law, people will say that their property rights have been taken away and we'll have to go to court there is a press which will write about, why is A's land is acquired and not B's land, the affected people will vote from time to time, and they may vote to change their member of parliament. They can vote to change their member of legislature and that Member of Parliament or legislature will say you shouldn't build a road here; you should build a road elsewhere. We have to through a tender process the unsuccessful bidder can go to court and say that I should have been selected the other guy should not have been selected, overcoming all these things I think we can still implement these things.

Look at the way Delhi's metro has been implemented it's an extraordinary story of one man's remarkable leadership in building a project way ahead of schedule, the IBM chief has told me he's got a small contract in Delhi metro, and he cannot keep with the pace of Delhi metro. IBM cannot keep with the pace of Delhi metro.

Given all these quote unquote constraints, we can do more but we can do more only if we have good governors and good administrators. We'll have good governors and good administrators if only you and your friends elect good governors and good administrators. States where there is good governance, have done better, states which have very poor governance have done very badly it ultimately comes down to governance.

**Q: Rob Jenkins, Birkbeck College.**

In your talk you mentioned the need for India's International partners to be aware of the concerns and compulsions that the Indian government faces in implementing and passing new legislation. You mentioned patent legislation and that connection, or at least it followed shortly after and I am wondering to what extent the way in which the Indian patent legislation has taken shape, represents concerns on the part of the government of India about the suitability of the international standard for patents and to what extent it represents political compulsions arising from within India within the ruling coalition and so forth. So how much of it is politics and how much of it is principles?

**A: Shri P. Chidambaram**

Well when we sought five years to comply with Trips - that was largely driven by political compulsion, we wanted the transition to be EMR and then to Patent. That was because five years ago we could not have sold a patent law to the



Indian people, it may not have passed parliament, but five years I think has been adequate time to legislate on patents, and we did have as promised a law in force on the 1<sup>st</sup> January 2005.

Now I have looked at the law, and I think it's perfectly compatible with the WTO obligations, some lawyers, some political parties, take a different view. But in matters concerning law, there will be two views until it's resolved in a court of law but at the moment, speaking for the government of India, I think the law is fully compatible with our WTO obligations.

The law has invited strong criticism from the communist party and the left parties of India, saying that this is not the time to introduce such a patent law, and we should have pushed it a few years back, we should have taken a few more years. It has also been criticised by some smaller producers in the farmer industry who think that they cannot survive under this new law the big companies who were opposed to any patent law in the early 90's have all come round, they support a patent law.

There is also a section of the consumer movement in India who think that prices will rise exorbitantly once the patent law kicks in, now we will have to deal with these apprehensions as they come about, and we'll have to show that our patent law not only complies with WTO obligations but addresses fears of an inordinate price rise. Now I was in the US, about three months ago and I had a very minor ailment, and the doctor prescribed me a prescription drug, and I got the drug. Now in the US since I was not carrying one of those cards, that drug cost me something like \$40 in India it would have cost me maybe at the highest 40 rupees, which is about a dollar. I

If prices in India rise then there will be a backlash but we think we have put in enough safe guards in the law to ensure that prices will not rise, but it is only in the working of the law that we can really judge if the law serves the people of India, but let me assure you, the law is fully compatible with our WTO obligations.

## **Q: Anirudh Suri, London School of Economics**

I want to bring you back to two points that you have talked about, one is the role of Indian's living abroad and second of good governance, which you see as crucial to India's development. I want to ask you, you have mentioned a lot how you see the Indians living abroad contributing to India's economic development, and I see that India's doing a lot to develop infrastructure both at home to attract them back.

What I want to ask you about is whether the government or maybe the political parties, or political leaders are they doing anything or do they have anything in mind to bring back this talent, to help in the governance to bring them back to politics, to help them to become leaders. As you were saying we need to elect



good leaders and we need to have good talent to choose from, I wondered whether you had any thoughts on that?

**A: Shri P. Chidambaram**

Anyone who says someone must bring me back to India is not likely to be a leader. The world is a very small place now, people are born in one country, they study in another country, they marry in a third country, they live in a fourth country and they work in a fifth. It's a very small place. I don't think a government can say, you can come back here, or you can't come back here.

What we need to do is create the conditions under which more and more people will be happy to work in India, and please remember we cannot create an India, with working or living conditions, comparable to the US or any other country over night, there are pockets in India where working and living conditions are just as good if not better than the US. Now the Infosys campus in Bangalore is one such place. Mr Narayan Murthy told me one day that every employee of his makes a trip between India and the US every day it's a cultural passage, he lives in India, works in the US then he goes back home to India, now that's the kind of situation we are in, so we will try to make living and working conditions, better and better and better, but it is really for the individual to decide where he wants to work and we cannot give compensations.

Can we pay our professor in a university what a professor in Harvard, Yale or Stanford gets? We can't. Can we pay our doctor in our best hospital the same amount of money as a doctor in the US gets? We can't. We have to understand that the income levels of these countries are very different and therefore the compensation packages are very different, given all that please remember, hundreds of Indians are happy to work in India, Hundreds of Indians are happy to come back to work in India, therefore there's no lack of human resources in India, in fact I often say, we have such an abundance of human resources that we can lend enough to the US and to the UK.

**Q: Lynn Forester de Rothschild, President and CEO ELR Holdings LLC**

Thank you very much for being here. India's very fortunate that you decided to go back, you must have had a few interesting opportunities in America. I'd like to ask you about Doha and what you can tell us about what India expects in the round, and also what Europe needs to understand or the G8 needs to understand about what India is looking for from the developed nations in that round.

**A: Shri P. Chidambaram**

India's now part of G20, and apart from our own concerns we need to articulate G20's concerns and G20 I believe speaks for the developing world, put very



briefly, India's biggest demand is for market access, and we're not getting market access. There are peculiar demands, for individual countries, some have an issue with cotton some have an issue with sugar, we have an issue with agriculture subsidies, granted to the developed countries to their farm sector which keep prices at such a level that we are not able to export to those countries.

I don't think the developed countries have complied with their obligations to scale down agriculture subsidies, and unless our farmers are able to export their farm produce to world markets, they will never be convinced about the benefits of globalisation. I alluded to this in my speech, my farmer must be able to export his products to world markets, that's not happening because of protectionist policies adopted by developed countries and the huge subsidies that they grant in total violation of WTO commitments. So if you ask me one word, I would say we want market access, and we want developed countries to comply with their obligations under the WTO, vis-à-vis agriculture.

## **Q: Lord Desai**

My question is a political one. A lot of people have been concerned that I have talked to that the Government is currently being supported by a Communist party of 62 members outside. Now the Finance Minister has worked before in a fragile coalition, and he is again in a fragile coalition, I think it would be nice for us to be able to understand, what kind of pressures you have been able to face and face so that the whole programme of reform that you have is still in tact?

## **A: Shri P. Chidambaram**

Fortunately for me there is a document called the common minimum programme and in a lighter vein it has been said that it's like the Bhagavadgita, it's capable of interpretation before we can interpret it. Be that as it may, the common minimum programme, I said in my first statement as minister, does give me ample room to carry out economic reforms, I don't think the CNP constrains economic reforms, what the CNP does is imposes obligations on the government which were not done earlier, for example investment in agriculture and irrigation. It provides a safety net for the very poor through a food for work programme, it means and increase in investment in education and rural electrification which has been neglected for the past twenty or thirty years.

These are obligations which the CNP imposes but it doesn't constrain or tie the government down in carrying out these economic reforms. But the Communist parties quite rightly have their own manifesto and their own political policies and like any other political party it's perfectly legitimate for them to try and influence Government to accept some of their policies and implement them. Now they do so quite articulately and quite vehemently but I don't think they constrain us, in the last week alone we have announced the national investment fund, we have restated the disinvestment policy and we have announced the NIF.



Yesterday we announced the increase in foreign direct investment in telecommunications from 49% to 74% we have announced a new electricity policy and we have announced the acceptance of the 12<sup>th</sup> Finance commissions report, which makes a very generous award in favour of states...we can therefore carry out reforms, but given the fact that we are a coalition, we are obliged to negotiate with our partners here them out carefully, convince them and then implement what Government thinks is the right thing to do, and this is precisely the road that we are taking. We will consult them, we will engage them in discussion we will take on board their views but since they are not part of government, the decision is Government's decision. But the congress party as well as the Communist party, share a lot of commonality matters like irrigation, agriculture, education, healthcare and rural electrification these are all matters on which there is no dispute at all, no differences at all they would like me to invest more money there I will do my best given the fiscal constraints.

## **Closing Statement from Mervyn Davies, Chairman, Standard Charter (chair):**

Can I just wrap up proceedings and ask Keith Didcock to say a few words. I think the reason that the international community and banks and financial community has so much confidence in India, is because they have got individuals like you at the helm. I mean what I say that India is making massive strides as an economy. I do think that we are going to see decades of huge growth in India, and in China, in the next ten twenty, thirty years.

## **Closing statement by Keith Didcock, Deputy Director, the Foreign Policy Centre**

Thank you very much; I just wanted to say three very quick things. First of all I would like to commend our new publication, *India as a New Global Leader*, to you. To order a copy, or to find out more programme that we are launching today with this publication and the speech by the Finance minister here on India and Globalisation can be found on our website at [www.fpc.org.uk](http://www.fpc.org.uk).

I would like to thank Mervyn Davies for agreeing to chair this session this afternoon. Most particularly I would like to thank Mr Chidambaram; thank you for giving so generously of your time and I'd also like to wish you good luck with your discussions in the G7, G8, G12 whatever we want to call tomorrow's meeting. Thank you all very much for coming.