

**Address by Mr Kamal Nath,  
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At the Lowy Institute for International Policy  
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I am delighted to be here at the Lowy Institute this morning. In the short span of less than two years since its establishment, the Lowy Institute has come to be known as one of the most prestigious think-tanks in Australia, and it is a privilege to be interacting with you today. I am told that one cannot get more 'mainstream' in Australia than the Lowy Institute. I am also told that the very first paper produced by the Lowy Institute was "India: The Next Economic Giant". What impressed me was that this phrase had no question mark attached to it! I assure you, the confidence expressed by the author is not misplaced.

When the Congress government, supported by Left Parties, took office in India a year ago – almost to the day – many people in India and abroad were skeptical. Given the pressures of coalition politics, doubts were expressed about whether we could sustain the economic reforms – economic reforms which, incidentally, we ourselves had started in 1991 and which, fortunately, successor governments did not abandon.

It is the most unlikely of people who contradicted the doom sayers: the Chief Minister of West Bengal, the Indian State with the longest surviving Communist Government. Speaking to a business news magazine, he said, and I quote:

*"I have to face the music here. Therefore, I cannot have some so-called ideologues come and say, "No, this is not Marxism." We must come face to face with reality.... We have to attract more funds, more foreign funds..... foreigners could come here. They are not coming here for charity. They will earn profit and create job opportunities. That is the mutual interest".* Unquote.

After these words of a Communist Chief Minister you can make some estimate of the economic climate in India and our responsiveness to foreign investment. I can safely assert that wooing FDI is an integral part of the economic strategy not just of the Central Government, but also of the State Governments. You have a federal system in Australia, and you, more than any one else, can appreciate how important it is to have the States on board.

As I speak about the investment environment in India, I would like to reiterate one simple fact: economic reforms in India are irreversible. The India of 15 years ago is vastly different from the India of today. Our reform programme has transformed policies in the investment, monetary and trade sectors. The Indian economy is growing at 7% per annum on a sustained basis. Our foreign exchange reserves are a healthy 200 billion Australian dollars. All this has not come easily to us. We have struggled within the confines of a fiercely alive and robust –should I say raucous? – democracy. But Indians today recognize the value of globalization, and a distinguishing feature of our reform process has been its continuity, based on a broad consensus.

As a country we have often been pilloried for our FDI policy. We have been told we are too bureaucratic; we have been told that we are poor cousins to China, and we have been told that our sectoral caps for FDI are restricting growth. We have also been told that our infrastructure puts foreigners off. For those of you who still think this way, I would like to share the findings of the annual research survey conducted by the global consulting firm AT Kearney. The study polled CEOs and top decision-makers of the world's largest 1000 firms. In 2002, India was the 15<sup>th</sup> most attractive FDI destination worldwide. In 2003, India moved up to the 6<sup>th</sup> spot. In 2004 we moved to number 3.

In fact, India has one of the most liberal FDI policies in the developing world. Practically all sectors, barring a few sensitive ones (such as atomic energy and gambling) are prohibited for FDI. Where equity caps exist, these are being reviewed and our attempt is to do away with them completely, except in a few sensitive areas where we will have to adopt a policy of gradualism. Most recently we have opened up the construction-development sector; and even the retail

sector – till now regarded as a holy cow – is under examination for constructing an India-specific model, a model that creates new job opportunities rather than one which displaces our mom-and-pop stores. In FDI we are looking for greenfield investment – investment that creates employment, investment that brings in technology, and not just investment that replaces Indian capital.

In India, our one billion people are our greatest strength. We have got around the population problem, and now our demographic growth rate is less than 2%. We have a literacy rate of 70% (up from a mere 15% at Independence). We have engineering and management institutes which can hold their own against the best in the world. (And, of course, we also have cricket – not to speak of the English language!) Our objective is how to leverage our social strengths into economic gains. We want to bring economic prosperity to our people, and bring it fast. We no longer dream of a better life for our grandchildren or children – we want a better life for ourselves. Rapid economic development within our own lifetime is what we seek.

India has emerged as an across-the-board low cost base, attractive enough for multinationals to relocate in our country. A survey of foreign companies conducted by FICCI in 2004 showed that 77% of foreign companies in India were making profits, while another 9% were breaking even. (The remaining 14%, I think, were about to make profits!).

I want here to once and for all correct the misconception that India is poor in manufacturing. This implication is conveyed as a backhanded compliment which goes something like this: ‘India is the Back Office of the world, while China is the world’s Factory’. While complimenting us on our expertise in Services, the implication is that we are poor in manufacturing. This is far from the truth. Of course, we are good in Services & Business Process Outsourcing, but that does not mean that we lag behind in manufacturing skills. In sectors like auto-components, chemicals, apparels, pharmaceuticals and jewellery we can match the best in the world. We have the skills, we have the positive environment and attitude. All we want is investment & better technology. Today few other countries have embraced

foreign technology and management best-practices with as much enthusiasm as has India.

I would not like to compare India with China. Comparisons are always invidious. I would only speak about India's unique strengths and allow you to judge for yourselves. In India it is our institutional strengths that we are proud of. We are a democracy and wear it on our sleeve. We do not see democracy as a hindrance or a luxury, but a necessary and desirable way of life, part and parcel of the Indian ethos. And along with this ethos comes the Rule of Law, a vibrantly free Press, a fiercely independent judiciary and administrative transparency. These may slow things down a bit, but only in the short term. What is more important is that India has an open system with social and political safety valves, and a regulatory environment that provides comfort, long-term stability and security to the foreign investor.

With our shared Commonwealth heritage, there are fewer cultural barriers between Australia and India. It is on the solid base of shared values and a shared commitment to a free, open, democratic and multi-cultural society that I would like to see Australia-India relations develop and flower. Too long India has looked westwards to North America and Europe. We now have a deliberate policy to look East. And for India looking East does not mean only Japan or Korea or South East Asia or China; very prominent on our Eastern radar screen is Australia.

Thank you.