

**INDIA'S ECONOMIC PROSPECTS:
OPPORTUNITIES AND CHALLENGES**

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I am extremely happy to be with this august gathering on the occasion of this 11th Field Marshall KM Cariappa Memorial Lecture on one of the very important topics of the day. I compliment you for requesting a very able and appropriate personality to deliver this lecture on the subject, i.e., "India's Economic Prospects". Mr. Montek Singh Ahluwalia is not only an able expert but is one who is whole-heartedly committed to the cause. Our country needs more such personalities. We have all just heard Mr. Ahluwalia. How lucidly he has explained the entire subject and enlightened us all.

When we talk of India's economic prospects, understandably and rightly, it has to be in the context of opportunities and challenges.

In today's era, the economic prospects have to be seen in the light of growth and development as a consequence of various opportunities that in recent years have dominated the economic field.

The mother of all opportunities is the recent trend of 'Globalization'. But before we talk of opportunities that globalization has thrown open to us as a major booster for our economic prospects, it is necessary to first see the herculean task and the challenges that face the country.

In India, the main challenge we have to face is that of vast disparity of status and opportunities. The diversity of the country – having numerous religions, castes, languages and cultures are additional factors which make task more difficult. Large number of those living in rural areas, remote villages, coastal areas, form a very sizeable block which deserves to be uplifted and made partners and beneficiaries of the opportunities. Still millions are living below poverty line, there is large scale unemployment, illiteracy and numerous other deprivations of unalienable basic human rights of our fellow countrymen. Lot may have been done but lot more is required to be done. It is a long way to go. The benefits which may arise from opportunities leading to better economic growth, if do not, percolate to such million of people within a reasonable time, the benefits can be short-lived or counterproductive.

Making such class aware of their rights and remedies and then providing those remedies to them is a daunting task. Task can be

achieved only when all stakeholders sincerely work in that direction. This is the obligation of all. This is the real spirit of our paramount document – Constitution of India. The economic benefits have to progressively reach those who are less fortunate irrespective of caste, creed or religion. These extraneous considerations can hamper the economic growth and act as major obstacles in our competition with other economic powers. The surer and certain and most important of all reforms which can help immensely in changing their destinies is, as some one said – Education – Education and Education.

Now let me briefly talk of opportunities in the context of economic prospects. The biggest opportunity provided in last about two decades lies in globalization.

WHAT IS GLOBALIZATION ?

Globalization stands for shrinking of Government controls and mobility of corporate capital facilitated by modern technology. The gain of economic globalization has been that it has given boost to Decentralization and Privatization. It results in making the Government more efficient. De-centralization makes the governance easier and efficient. Take the example of amendments made in

Constitution of India in 1993 and devolution of Powers and Functions to Panchayats. It has increased the public participation and decreased the weights carried by the Government. It involves less governance.

Let us also see effect of Globalization on working of the State Government. I am told that with globalization, even State Governments can now approach International Monetary Fund (IMF) and World Bank for financial assistance provided they carry out reforms at State level. It is very important because today it is the deficits of the State Governments that contribute considerably to Macro-economic imbalances.

Globalization also helps the Government of today to combine with other Governments at international level to co-ordinate and fight various problems faced by the humanity all over, such as, Terrorism, Tsunami, AIDS.

See the advantage of competition which results because of economic globalization. The competition, in turn, reduces costs. You can see for yourself the examples in many fields, such as Telecom and I.T. Industry.

Further, it results in increase of Foreign Exchange Reserves. I am told that as a consequence of the increase in Foreign Exchange Reserves, the value of rupee vis-à-vis the dollar has appreciated.

Now, let us see another side and steps that are necessary to be taken. An important role the global finance can play is the Competition that can drive out our Export Portfolio. What we need is harmonized taxes, infrastructure, removal of bottlenecks, employment friendly regulations and able financial markets that allocates capital for expansion. Prudence and better quality of expenditure in public finance is the need of the hour. Yet another grave problem is about corruption, unfortunately the level of corruption is very high. There is acute and urgent need to do something in this area.

Let me also mention another advantage of globalization. It leads to free trade which in turn means greater outsourcing. Greater outsourcing helps India. Therefore, globalization which means dismantling of trade and investment barriers and integration through trade and capital flows provides really great opportunity to India.

The object of globalization would be to bring Political Democracy closer to Economic Democracy.

Let me also briefly mention about drawbacks of globalization and possible remedies.

In globalization, consumerism grows and cost cutting in the form of Wage Restrain and Labour Downsizing also grows. Therefore, we, in India, need globalization with Inclusive Growth.

These factors can result in unemployment. To counter it, the Government should consider increasing employment under Employment Guarantee Act, which in turn, can result in increase of the home demand. Today, India's large population in certain areas could be turned into an Asset with better educational facilities and affirmative action on social and political fronts. Clever mix of expansion in the purchasing power of the poor with the increase in production capacity through De-centralization reaching the lowest level of Local Governments (Panchayats) can be an answer to the drawbacks. This can cater to what I have mentioned about our problem of deprived class and our constitutional obligation.

CONTRIBUTION OF SUPREME COURT

CONCEPT OF NPV:

We have in India a Central Legislation named Forest (Conservation) Act. It provides that no forest land can be used for non forest purpose except with the approval of Central Government. Further, the environmental value of one hectare of fully stocked forest is Rs.127 lacs to accrue over 50 years.

The annual loss of forest-lands due to timber-cutting alone by the Projects is equal to interest borne by the capital. This loss till today has not been taken into account, till recently when Supreme Court intervened. Now, industry is required to pay Net Present Value for conversion of forest land for non forest use. Therefore, I believe that the Eco-Management should form part of the Balance Sheet of companies which undertake such Projects. Recently, the Supreme Court has evolved the concept of NPV which values Future Income. It is, in fact, valuation of consequences. These are all part of opportunities and challenges in the context of India's economic prospects.

CONCEPT OF INCLUSIVE GROWTH:

India's most defining characteristic is its diversity. In early 1990's, when our present Prime Minister was the Finance Minister, economic reforms were introduced. In my opinion, India's future

rests on two pillars, namely, economic growth and social equality. Both are vitally linked under the Constitution to the rights of an individual. Globalization without equity has no meaning. Economic and financial reforms after 1990 have increased our GDP growth to eight per cent. However, that growth has to be counterbalanced with development, equity and Inclusive Growth.

Inclusion is central to the Indian political process. It is part of the project of national building. It is an important element in the preservation of national identity and democratic institutions. Inclusion is the concept which is important as it seeks to address older and deep rooted social hierarchies. It gives importance to education as a pre-requisite to development. It is a pre-requisite as it leads to improvement in general standard of living. An improvement in the general standard of living involves increase in production and equitable distribution. Inclusive Growth must be coupled with planning as an instrument to achieve social justice. Inclusiveness requires spread of employment, reduction in inequality and equal distribution of resources. Today, for example, while there is growth in technical education, the spread of primary education remains low. The education system remains geared to the middle-classes while the primary education remains neglected. Therefore, inclusion is a

philosophy which tells us that equal opportunity should be provided to disadvantaged classes of the society so as to bring them on par with the middle-class and the upper middle-class. The doctrine of Inclusion, therefore, seeks to achieve a stable equilibrium. Unfortunately, in our country, there is tension between Inclusion and Population. Inclusive Growth directs a balance between formal equality and egalitarian equality. The object behind egalitarian equality is to see that the benefit goes to the deserving. Poverty cuts across all castes and communities.

Therefore, what I want to emphasize is that the Inclusion should not be allowed to slide into Populism, nor should it be defeated by corruption. Now, greater power is required to be given to local self Governments like Panchayats. They should be given greater financial autonomy. They should be made accountable for the resources placed into their hands. This is the object behind Decentralization so that social justice at the grass-root level becomes a reality.

In conclusion, India's strong commitment to globalization must complement domestic initiatives in order to foster Inclusive Growth. Only then we can stop farmers' suicides and the agrarian crisis. Investment alone will not solve the agrarian crisis. Inclusive Growth

is the answer because it stands for education, health care, water supply and connectivity between rural and urban areas. Rural areas depend far more on public services as compared to urban areas. The quality of public services in Rural Areas should be given more weightage as is the practice in China because the rural population, as just stated, depends more on these services than the urban population. Therefore, budgeting has to be done keeping in mind the disparities between rural and urban demands.

Resources we have in abundance – whether we talk of natural resources or human resources. We are second to none in talent whichever field you look to - politics, industry, infrastructure, technocrats, civil services and so on and so forth. With all these advantages, why such disparities still exist? Why even after nearly 60 years of independence still we are talking of deprivation of basic human rights to many? Why in many cases inordinate delay in dispensation of justice and why high cost for it to be incurred by those who can ill afford to pay even nominal sums. When we talk of India's economic prospects, all concerned have to put their heads together to solve these problems – draw plan of action and ensure its honest and bona fide implementation in a fixed timeframe. Commitment and devotion to the cause and not popularism is the

need of the day. At right time, right message must be given.
Adhocism has to end.

Let me end by mentioning the Noble Peace Price awardee of this year. It has been awarded to an economist, Mohd. Yunus of Bangladesh. He is known for micro-credit given by Grammin Banks. His philosophy is simple, he says, "if you want to put an end to terrorism and violence then poverty alleviation is the only answer."

It is a great privilege for me to be with you all this evening.
