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Address by

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*Shri Atal Bihari Vajpayee*

Prime Minister of India

at the  
71<sup>st</sup> Annual Session on  
**Rhetoric & Reality of Globalization:  
India's Strategic Response**

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October 24, 1998, *New Delhi*



Federation of Indian Chambers of Commerce & Industry



“MY GOVERNMENT ASSERTS  
ITS COMMITMENT TO ECONOMIC  
REFORMS NOT THROUGH  
WORDS — BUT BY SPEEDY ACTION.”

Inaugural Address of

**Prime Minister**

**Shri Atal Bihari Vajpayee**

At the 71<sup>st</sup> Annual Session of

Federation of Indian Chambers of Commerce & Industry (FICCI)

11:00 AM — October 24, 1998

Vigyan Bhavan, New Delhi



*President of FICCI Shri K. K. Modi, President-Elect Shri Sudhir Jalan, Vice President Shri G. P. Goenka, Patron Shri Charat Ram, Secretary-General Dr. Amit Mitra, distinguished businessmen, ladies, and gentlemen,*

As I stand here to inaugurate the 71<sup>st</sup> annual session of the Federation of Indian Chambers of Commerce and Industry, I am struck by the awareness that we are indeed a turning point in world history.

These are difficult times for Indian and global business. A massive churning process is taking place in the world economy. The name of this Samudra Manthan in the modern era is Globalization.

Globalization has brought in unprecedented turbulence, but trapped in that turbulence is also the hope of amrit (nectar). It is a moment when the promise of a new phase of long-term prosperity and progress lies in the womb of short-term uncertainty.

Today, the process of churning has brought the rhetoric and realities of globalization face to face. Some of these realities are indeed harsh and painful.

The international financial markets find themselves in a crisis whose threatening waves have rapidly travelled from local to regional to global waters. There is a distinct downtrend in global trade. Many national economies around the world have shrunk, some even registering a negative growth. For the first time in post-World War Two history, even rich nations have begun to worry that the comforting certainties of their continued prosperity are not foolproof.

Does this mean that globalization itself is a flawed idea, fit only for a quick burial? I know that there are people, both within India and outside, who say so—and I also know that they represent a minority opinion.

Globalization is a historical reality. And, nations cannot prosper in isolation. Forging mutually beneficial and cooperative relations is necessary for growth and prosperity for all.

Even Professor Amartya Sen, the winner of this year's Nobel Prize for Economics—and who, as we all know, is one of the sharpest critics of the failures of globalization—has forthrightly argued that globalization can also be a boon for humanity, if coupled with credible social-sector safety nets.

At the same time, history itself is teaching both business and political leaders in the world what Indian philosophy has explained ages ago: namely, there is no single exclusive path to reach the Truth. Similarly, there can be no single model or solution to the problems of economic development.

Each nation has to pave its own path, based on its own concrete national realities and priorities. This is what Swadeshi means. Globalization and Swadeshi are, thus, complementary and not contradictory to each other.

Friends, India's strategic response to the reality of globalization has to be two-fold: external and internal, both designed to achieve a common goal—namely, to strengthen the global economy and the Indian economy.

Externally, we advocate, with even greater vigor and conviction than in the past, our case for changing the present iniquitous and unsound architecture of the world economy. The World Bank and the International Monetary Fund were set up in the pre-globalization era and at a time when most countries in the world were either not free or had just won their independence.

India seeks an innovative restructuring of the Bretton Woods twins, to reflect the needs of today's interdependent world and also to better achieve the goal in their founding charter—namely, **“The Achievement of Sustainable Economic Development and Reducing Poverty”**.

We similarly seek a radical change in the approach and functioning of other institutions such as rating agencies and global commercial banks.

The UN is contemplating a major international conference two years from now to suggest a new policy framework for the global financial system. India will make an important contribution to the deliberations at this conference and in discussions which will take place in other fora.

Towards this end, the Government is formulating a six-point conceptual framework for the innovative design of a new global financial architecture.

The six pillars of the new architecture will reflect the need for:

- 1) Managing large capital flows without excessive volatility;

- 2) Speedy decision-making and timely corrective action in the face of instantaneous electronic fund transfers across the globe;
- 3) Transparency among all the players—public and private, government and quasi-government, in developed and developing countries;
- 4) Achievement of equity in an inherently unequal world economic order;
- 5) Timely preventive steps against the “contagion effect”; and,
- 6) An ability to introduce adaptation and innovation in a fast-changing financial system.

We shall soon present this for a national debate, in which the views of the opposition parties and all sections of business, industry, and labor will be invited. We shall also engage constructively with other countries in an effort to promote an international consensus for restructuring of the financial system.

Friends, it is not just the global financial system that is demanding radical restructuring. Our own economy is in urgent need of deeper, broader, and faster reforms. My Government is fully committed to this objective.

Our commitment is not in words, but action.

I can say with considerable satisfaction that our record in taking initiatives in the economic sphere is superior to that of any other government in recent memory, for a comparable initial period of six months in office.



In this period, we have demonstrated our resolve to put the Indian economy onto a higher growth path and dispelled all doubts as to our commitment to the philosophy and policies of liberalization. My Government has not gone back on any of the reform initiatives of the earlier governments, but has added a new momentum to the reform process.

Delicensing, decontrol, and debureaucratization have been my personal belief long before I came to the present office. My Government has delicensed sugar, petroleum, and coal/lignite from the purview of the IDR Act. With this, virtually the entire Indian industry, barring those in strategic areas, has been freed from the regime of industrial licensing.

Technology inputs are being virtually freed from Government approval processes to facilitate free inflows.

Intellectual Property Rights are a critical need in the emerging knowledge-based economy. My Government's commitment to the protection of IPR has been demonstrated by acceding to the Paris Convention for the Protection of Intellectual Property on September 7, 1998. We have also declared our resolve to meet the obligations on TRIPs under the World Trade Organization.

Information Technology is revolutionizing every facet of life – including, most dramatically, the national and global economy. It has been an area of high priority for the Government. The IT Action Plan prepared by the National Task Force on Information Technology and Software Development, with 108 recommendations to make India an IT superpower, has been accepted by the Government.

Many of these recommendations have already been implemented. Others, such as giving a major boost to hardware manufacturing in India, are in the process of being finalized as specific action plans.

Recognising the importance of infrastructure in our development process, the allocation for such projects has been substantially augmented by over 35 percent—from Rs. 45,252 crore to Rs. 61,146 crore. In the project sanctions of the All-India Financial Institutions, the share of infrastructure projects has gone up by 217 percent in the current year. Infrastructure projects now account for one-third of the sanctions of Rs. 75,000 crore.

We have also taken other steps to strengthen infrastructure financing. The Infrastructure Development Finance Company Ltd. (IDFC) has been set up with a capital base of Rs. 1,650 crore, with a unique public and private sector partnership to channel private capital into viable infrastructure projects.

Tax incentives for infrastructure projects have been further liberalized during this period.

New initiatives were taken to catalyze the interest of Non-Resident Indians in our developmental process. The success of the Resurgent India Bonds is a demonstration of their willingness to participate in our nation-building mission.

Distinguished friends from industry and business, the point, briefly, is: If you have a viable infrastructure project of national importance, I assure you that neither finance nor governmental clearances will be a constraint.

Regulatory bodies which can foster a competitive environment, coupled with autonomy and transparency, have been strengthened during this period in order to boost investor confidence. This process will continue.

Friends, I have listed these actions not to claim that what the Government has done so far is sufficient. I am as aware as all of you are that Indian industry and business are passing through difficult times. Confidence is low and expectations from the Government high.

There are valid concerns about the capital market, imbalances in sectoral growth, sluggish pace of infrastructure development, and the slow spread of the spirit of reforms within various levels of the Central and state governments.

The present downtrend in the global economy is only a part of the reason for the difficulties faced by Indian business and industry. An equally crucial reason arises from internal factors—and they are not confined merely to the policies and performance of successive governments.

It is time for Indian industrialists and businessmen to look within and introspect deeply. Has business and industry lived up to the expectations of the Indian people and the Government? Let me cite a few issues.

What is the main cause of the present depressed state of the stock market? Is it not, at least partially, created by a large number of public offerings by unscrupulous promoters who exploited the market in its boom phase, and later betrayed their commitment to their investors, mostly small investors?

Can we allow such predatory promoters to go unpunished? I have instructed the concerned agencies in the Ministry of Finance to promptly look into this malaise and take suitable punitive action within the next three months.

I urge organizations like FICCI to cooperate with the Government in taking these firm but necessary measures to restore investor confidence. A reform process without proper checks and balances is neither good for you in business nor for us in government.

Take the matter of good corporate governance. How many Indian companies have adopted its imperatives and improved their own efficiency, transparency, customer-focus, and competitiveness?

The time has come when this matter cannot be left to the promoters alone. The Government would like the Financial Institutions, on the strength of the significant stakes they hold in companies, to demand better performance and adherence to sound corporate practices.

I must also share my disappointment about a section of your fraternity which continues to base its investment decisions on short-term sentiments, and not on the long-term opportunities that our country offers.

Let me cite the example of the FDI proposals approved by the successive governments since 1991. The approvals amount to US\$ 52.67 billion. As against this, the total FDI inflow has been only US\$ 13.41 billion—that is, only 25 percent of the approvals. I accept that policy issues and clearance problems are partly the reason for this

dichotomy. However, it is also known that short-term vision has delayed investment plans of many project promoters.

I, therefore, urge FICCI and other business associations to make vigorous efforts to create an atmosphere that focuses domestic and foreign investors' attention on the Big Indian Opportunity waiting to be reaped once the cycle of recovery and high growth sets in.

The Big Indian Opportunity can be realized only if business, industry, and the Government work with one mind and for one purpose—strengthen the economy at the earliest.

As far as the Government is concerned, I have already said that we assert our commitment to this goal not through words, but speedy action. Friends, you will see an accelerated and firm pace of action in the economic sphere in the coming months. I am, indeed, happy to announce some of them today.

Restoration of vibrancy to our capital market is an important component of Government's strategy to reinvigorate the economy. Towards this objective, we shall initiate the following measures that should improve sentiments significantly.

- 1) We propose to permit companies to Buy Back shares within the prudential guidelines set by SEBI in order to enhance the value to investors.
- 2) The Government proposes to abolish the existing provision requiring its prior approval for inter-

corporate investments by one Indian company in another Indian company.

- 3) Companies will be permitted to enhance acquisition limits in accordance with the recommendations of the Justice Bhagwati Committee on take-over regulations.
- 4) Structural improvements will be undertaken for accelerating demat trading and settlements. This would bring great efficiency, transparency, and lower cost and thus serve the interest of small investors.
- 5) Restructuring of PSUs and a credible disinvestment program is critical for improving the productivity of our economy. It is also a centre-piece of our fiscal management strategy. Past efforts in this direction have not yielded desired results. We propose to revise this process and set up a more transparent mechanism, so that the pace of restructuring and disinvestment is commensurate with the urgency of the problem. The action to achieve these objectives will be in place within thirty days.
- 6) The Government has already initiated measures to open the insurance business to the Indian private sector. This is a major step in mobilizing long-term resources for funding long-gestation infrastructure projects. The Government is presently examining the proposal to permit an appropriate level of minority foreign equity in the insurance sector.
- 7) Steps will be taken to speed up the passage of a new Companies Act and FEMA. Views of trade and industry will be invited before finalizing the Money Laundering Act.

8) I know that developments relating to UTI's US-64 scheme have caused understandable concern among unit holders and the financial community. I wish to assure them that the Government will support the UTI fully in honoring its obligations.

The Government is alive to the need to further strengthen the financial sector with a view to making it more resilient to shocks. Although, we have succeeded in immunizing our economy against the South East Asian crisis, we cannot be complacent to the "contagion effect". This crisis began by serious weaknesses and over-extension by the banks and financial institutions.

Steps to improve the portfolio of Financial Institutions, deal with the problem of Non-Performing Assets, and to improve the efficiency of Financial Institutions for making finance available at affordable costs is a high priority for my Government.

I am confident that these and other measures will improve market sentiments significantly, especially since the fundamentals of the Indian economy are strong.

There is a valid concern widely shared in political and business circles that Government spending in infrastructure sectors has significantly come down after the start of economic reforms. My Government will remove this damaging imbalance.

The Government will start, within this year and from twenty different places across the country, work on a major 7,000-kilometer road project. It envisages a six-lane North-South corridor connecting Kashmir to Kanyakumari

and a similar East-West corridor connecting Silchar to Saurashtra. The project, which is expected to cost Rs. 28,000 crore, will have the scope for maximum private sector and foreign participation. This project also has the potential to create as many as three crore man-years of employment, which will be a major contribution to the realization of the national goal of "Berozgari Hatao".

Cement concrete pavement will be the preferred technology in this, as well as other ongoing projects for four-laning of our national highways. We expect the move to give a big boost to our cement industry, which is facing the problem of excess capacity, and, also, to the construction industry.

Telecommunications is a critical infrastructure for every area of the economy. There are a number of knotty problems in this sector, which are a difficult legacy that we are carrying from the past. However difficult, we have the political will to untie all the knots in the most transparent and consultative manner.

A new Telecom Policy will be formulated within the next three months to provide a state-of-the-art nationwide telecommunication network, speed up rural telephone services, and to meet the new challenges of the convergence of telecom, IT, media, and consumer electronics.

In addition, within the next fifteen days, the following actions will be taken:

- All the outstanding issues between the Department of Telecommunications and the TRAI will be resolved to strengthen the latter's regulatory role. A suitable



out-of-court settlement will be found for the pending legal dispute. Hereafter, we will ensure that two wings of the Executive do not go to court, for this amounts to an abdication of political responsibility.

- The new Internet policy will be announced and licenses issued to private Internet Service Providers.
- The Iridium project for global satellite telephone service will be launched, as scheduled, on November 1. The necessary approval for grant of license for this project was given by the Department of Telecommunications yesterday.
- I have mandated the National Task Force on Information Technology under the chairmanship of Shri Jaswant Singh to prepare a report suggesting a resolution of the outstanding issues in the telecommunications sector, including the license fee structure for basic and cellular telephone operators. The Task Force will submit its recommendations before November 30, and the Government will take appropriate action before the end of the year.

In the oil exploration sector, the Government will offer deep acreages with high potential for bidding and bids will be invited within the next two months.

The Government will identify five cities for the construction of world-class international airports with a maximum of 100 percent foreign equity investment.

Housing is a priority for my Government. The National Agenda for Governance has set the ambitious target of

construction of twenty lakh additional housing units each year. Besides giving a fillip to many industries, this will also generate large-scale employment. In order to accelerate activity in the housing sector, the Government has taken initial steps towards the repeal of the Urban Land Ceiling Act.

The Ministry of Environment will prepare a list of all industrial and developmental projects above Rs. 25 crore, in which environmental clearance is pending for over six months. Consistent with our commitment to harmony between development and environmental protection, these will be duly examined and all deserving projects will be cleared by the Ministry within the next three to six months.

Friends, these are difficult times for trade and industry. These are also trying times for the Government. Yet, aware as I am of the ingenuity of Indian business to always emerge stronger from crises, I look forward to a more active partnership with you to achieve faster and sustained economic growth.

When the going gets tough, India must get going with greater determination and self-confidence.

The challenge is yours in industry and business, for you have to refocus and restructure quickly. However, the challenge is also ours in Government, for we too have to redouble our efforts to speed up action—real, visible, creative action.

Together, let us confidently meet this challenge—and meet for the same occasion next year with more smiles on our faces and more contentment in our hearts.

Thank you.