Union Finance Minister's Speech
USIBC FICCI Roundtable

Date: **21.09.2011** Time: **1530 hrs.** Venue: **Metropolitan Club, New York,**

Mr Terry McGraw,
Mr Harsh Mariwala,
Distinguished Participants of this Round Table,
Ladies and Gentlemen,

I am extremely pleased to be here this evening and have this opportunity to share some thoughts with investors, business leaders and industry captains of the two countries and the global community. Indeed, we seek your engagement in all aspects of economic activities in India, and likewise look for similar engagement for Indian enterprise in this land of opportunities.

2. No country has been immune to the contagion from the fallout of global financial crisis in 2008. Though the economic downturn was moderated and growth resumed in the second half of 2009 in most economies, the pace of recovery remained uneven. Advanced economies grew more slowly than before, while emerging economies like China and India led the way, with Latin America and Africa following closely. It

appeared that policy makers had learnt their lessons from history by honing and harmonising the use of macro-economic policy and keeping markets open. At the same time, countries in the developed and the developing world adopted revival strategies, in keeping with the needs of their respective contexts, though with varying degree of success.

3. Developments in recent months have been less encouraging. There is widespread apprehension that even the tepid global economic recovery that we have seen so far is stalling. Slowing global aggregate demand, unresolved Euro debt crisis, high commodity and oil prices, inflationary pressures and stressed currencies have shaved 1 to 1.5 per cent off global GDP in the past six to eight months. Growth in most advanced economies has declined in the second quarter of 2011 and emerging markets are witnessing a combination of moderation in growth and rising inflation. Uncertainties continue to persist.

4. Advanced economies, the Euro zone and the US, are seized with sovereign debt problems. This is making financial markets nervous. There are structural constraints coming in the way of advanced economies returning to their trend growth path. As a result, their fiscal position looks increasingly unsustainable. Despite the aggressive fiscal and monetary policy, unemployment continues to be at its highest in many advanced countries.

5. Emerging markets recovered quickly from global slowdown, but are facing elevated commodity prices, inflation, moderating growth and volatile capital flows all at once. Central banks have been forced to raise policy rates repeatedly, potentially compromising growth in the short-term. It is true that emerging economies are relatively better placed with regard to their public debt and fiscal deficit due to their stronger growth momentum and relatively robust banking systems. Their downside risks are on account of high oil and commodity prices and volatility in capital flows, partly due to the easy money policies in advanced countries.

6. It is against this backdrop, India as one of the largest and among the most dynamic emerging economies continues to be a key driver of global growth. After a GDP growth rate of over 9 per cent in the three years leading to the crisis, a slowdown to 6.8 per cent in the crisis year of 2008-09, followed by strong recovery of over 8 per cent in the two years following the slowdown, India has demonstrated its resilience and the capacity to overcome adversities in its development path.

7. There is a consensus among analysts that India has a remarkable stretch of growth over the next thirty years. Several reasons support growth to be sustained at a high rate of 8 to 9 per cent per annum. *First*, the savings and investment ratios have gone up in the last few years and are reminiscent of the high growth East Asian economies. *Secondly,* India's

working age population is young with over half the population is in the twenties. *Thirdly*, growing middle class incomes have led to self sustaining buoyancy in domestic demand, particularly in the rural areas. *Fourthly*, India is making rapid progress in infrastructure, both social and physical and along with better access to cutting edge technology is likely to see improvement in productivity. Although these are the primary factors for India’s dynamic growth, there are many other drivers of India’s growth story including the energy and vibrancy of our entrepreneurs, strong services sectors, emerging knowledge spheres and sunrise sectors and growing number of engineers and scientists.

8. India's economic progress is not only a key factor of stability in the global economy, but also a source of immense economic opportunity for the world. India presents a rapidly growing market with a large and growing middle class. India has a population of 1.2 billion which translates to that many numbers of potential consumers. As high growth trajectory is sustained, with a corresponding increase in the disposable incomes from expanding work force and increasing wages, India will become one of the largest consumer markets in the world by 2030. In infrastructure sector alone our investment needs over the next five years 2012-2017, which happens to be the period of India’s Twelfth Five Year Plan, stand at US$ 1 trillion. We expect 50 per cent of this investment to come from the private

sector. These developments create major opportunities for companies both domestic and foreign.

Ladies and Gentlemen,

9. We are not taking this future for granted. Indeed, in a globalised world where developments from one part of the world are being rapidly transmitted to the other, we cannot afford to do so. We are aware that we have to consciously work towards realizing our developmental goals and national aspirations. Even while pressing the accelerator for growth, our priority is to make growth inclusive and sustainable, focusing on a broad-based strategy that encompasses all three sectors – agriculture, manufacturing and services. We are working on a strategy that provides ample opportunities for people to grow and climb the ladder of productivity and knowledge towards higher incomes and well-being.

10. The economic reforms initiated during the early 1990s have borne good results for the Indian economy. We have taken steps in recent months, to take this process forward. Legislations have been introduced in the Parliament to address some issues in the financial sector including insurance, banking, and pension sectors. We have set up Financial Sector Legislative Reforms Commission to review financial sector laws with the objective of bringing them in tune with current requirements and global best practices. An apex-level Financial Stability and Development Council has

also been established to strengthen and institutionalize the mechanism for maintaining financial stability.

11. We are working to build a policy consensus on a number of pending issues such as introduction of Goods and Services Tax, a new and facilitative National Manufacturing Policy, further liberalisation of FDI, including in retail, deepening and strengthening financial markets for long term investments.

12. Our new foreign trade policy is ambitious and aims at doubling exports to $500 billion in the next three years. The policy is backed up with a range of progressive measures including facilitation of investments, simplification of administrative procedures, streamlining of clearances and customs duty systems to name a few. As the Indian export sector continues to transform from low-value added goods to capital and skill intensive and technology rich manufactured products, doubling of exports in three years is not only attainable, but is well within our reach.

13. Better infrastructure development in new townships is the focus of investment now and would be for sometime in the near future. A recent study by McKinsey estimates that by 2030, 65 cities will have a population of more than one million and would account for 600 million of India's population. The share of GDP from these cities could rise to 70 per cent. Over the next 20 years, cities would require a capital expenditure of $1.2

Trillion, opening up huge opportunities for investment for foreign investors and capital equipment manufactures. The installed power capacity is expected to increase by five times over the next two decades to maintain a growth rate of 8 to 9 per cent.

14. Sizeable portion of investment in infrastructure in the future is expected to be from the private sector and we recognize that the development of domestic long-term capital markets is critical for private sector investment in infrastructure. We have taken several measures in this context including establishment of Infrastructure Debt Fund, reduction in the withholding tax from 20 per cent to 5 per cent and exemption from income tax; permitting Indian Mutual Funds to directly attract investments from foreign investors; increase in ceiling for investments by FIIs in corporate bonds from USD 15 billion to USD 40 billion. We intend to introduce the new Direct Tax Code in the next financial year.

15. Long term investment opportunities have opened up in the Delhi Mumbai Industrial Corridor and the Delhi Mumbai Dedicated Rail Freight Corridor. Along these corridors, nine mega industrial zones each covering 200-250 square kilometres as well as three ports and six airports in six States are envisaged. A US enclave within one of the mega industrial zones would be an excellent ecosystem for ramping up manufacturing in high technology sectors that are currently emerging. New products and

designs originating from these zones could meet the demands of the domestic markets as well as other vibrant proximate markets in Asia.

16. For India, sustainable development is a necessity. Long-term perspective plan on energy and the ambitious National Action Plan on Climate Change seek to increase the share of clean and renewable energy in the energy mix and increase energy efficiency across the economy, promote development objectives while also yielding mutual benefits for addressing climate change effectively. The Government has launched a National Solar Mission and is committed to establish a strong manufacturing base in this field. In November 2009, Prime Minister Manmohan Singh and President Obama launched a Clean Energy and Climate Change Initiative to advance cooperation in clean and renewable energy, and energy efficiency. Solar and Wind energy expansion offers opportunities for green tech companies in US for building long term partnership with industry in India.

17. India USA economic relations are getting stronger and are more robust than they were a decade ago. At the core of the US India Economic and Financial Partnership launched last year is the well grounded recognition to generate common response through convergence of each other's strengths in the field of innovation and technology.

18. The US is the largest source of technical collaboration for Indian companies. There is tremendous potential for closer collaboration between educational institutions of our two countries and what is required is a jointly forged key to unlock this potential. There are at least 100,000 Indian students in US universities today. As India moves ahead with the educational reforms envisaging expansion and up gradation of the educational infrastructure, US universities can actively engage in India.

19. India's economic partnership with the United States is built on a strong framework, based on mutual benefit. Our ties are growing rapidly. Today, the US is one of our leading trade partners and a major source of investment. High growth in India would continue to deliver positive spillover effect for the US. Between 2002 and 2009, US exports to India have quadrupled and the US services tripled. Last year, US-India trade in goods witnessed a 17 per cent growth. Currently, India is only the 12th largest trading partner of the US. So, there is a long way forward in moving together for harvesting mutual benefits.

21. We have institutionalised the US India Economic and Financial Partnership with regular engagement at highest levels in Government. I have no doubt that the private business and commercial engagement will continue to be the key driver of bilateral economic cooperation even as, we, at the Government level, explore fresh areas of collaboration.