

Indian Economy: Post Globalisation Scenario

By Dr Narendra Jadhav

Speech delivered by Dr Narendra Jadhav, Principal Adviser, Department of Economic Analysis and Policy , Reserve Bank of India at Brihan Maharashtra College of Commerce , Pune on the Occasion of Principal Dr T M Joshi Memorial Lecture .

About BMCC

It is indeed a great pleasure as well as an honour to be here before this learned audience. I am particularly delighted to be here at the Deccan Education Society's BMCC, which represents the best traditions of Indian enlightenment - from Lokmanya Tilak, Gopal Ganesh Agarkar, Gopal Krishna Gokhale, Maharshi Dhondo Keshav Karve and so on. This college, I was told, was set up sixty years ago to provide leadership and trained manpower in the field of commerce and business and this is the Diamond Jubilee Year - an excellence they have established in the best traditions.

About In-house Journals

I just had the privilege of releasing three of the latest outstanding products - Vanijya Vichar, ArthaVichar and the Think Track - which bears testimony to the excellence has been achieved. As Principal Aniruddha Deshpande has rightly pointed out, people always mistake the word 'Tank' this is not a Tank but a Track. Well, I think that all these three represent the Think Tank, which this institution is creating on an ongoing basis . I want to congratulate all the Student Editors, contributors and the faculty members, who have been instrumental in guiding the students to achieve this excellence.

About Principal Dr T M Joshi

Two or three things which stand right in my mind about Principal Joshi's personality are - that at a time when everyone in India was going to the United Kingdom for Ph.D., he was one of the earliest ones to think positively of going to the United States for his Ph.D. He studied under the guidance of well-known legendary Dr. Simon Kuznets. I had the opportunity to complete my Doctorate under the guidance of his son. Dr T. M. Joshi was not only a great scholar but a great teacher and was a very popular personality among the students. What strikes me most is that he was a great institution builder. During the years of principalship of this great Institution, the foundations that he has laid have I think, given this institution a headstart that was needed in an early stage. I think we all should be grateful to him for his contribution and I feel greatly honoured for being invited to deliver a lecture in his honour. I thought it would be a fitting tribute to this great soul that I will be discussing the challenges of globalisation - challenges of excellence in the future and therefore it is in the fitness of things that in this institution of excellence, we should be talking of challenges and excellence in future in the form of globalisation.

Historical Review of Global/Indian Economic Environment

We all know that any national story is often a tale of turning points. When a catastrophe takes place, the mindset of a nation changes and it decides the course its of destiny. If August 15, 1947 marked the Indian Independence - from political slavery to colonial power, then I think the August of 1991 could be marked as the beginning of Indian Economic Freedom.

Many of us are alive to see the historical realities of the rise and fall of nations. We realise that it is those who had the ability to innovate have always won the day. If you look at the history of human civilisation, we see that those who had the ability to innovate, may be a war horse, may

be a cannon or may be a steam engine, have won the day. In that sense, Modern Indian history, I am afraid, is a story of missed opportunities of the various waves of industrial revolution that took place in the 18th century. I think in the 17th century, it was Sir Thomas Row, who I believe said that James I was looking like a ruler of a provincial hamlet as compared to Jehangir in India and as per data now available from Madison, you will be surprised that in the year 1700 that India's share in the world production was 22.6 %. The other super power at that time was China and its share was better than India at 23.1%. The US had no prominent share in world trade. In 1880, China's share has gone up to 32.4 %, while India's share began to come down to 15.7 % while the USA emerged with a share of just 1.8 %. So India's share that time was larger than the USA and then there is a progressive deterioration in our share till 1995. The latest data, consistent with Madison is that China as account for 11 %, India is less than 5 % and USA 21 %. We had in 1700 a proportion of global production, which was larger than the USA's share of global production today. I want to impress upon your mind that this **globalisation concept is not new to India**. In fact the point I want to underscore right now is that Indian share in the world's production was as large as the USA at a time when India was a highly globalised nation. This is not an accident and this should be an eye opener to many those who have fears and apprehensions about the way we are globalising now. Note that we were at our best in the comity of nations when we were fully globalised and when we closed ourselves, where did we stand, when we had a crisis in 1991? 15 % of the world population, 7.5 % of the world's land and what was our share of contribution to the world trade? It was less than half a per cent.

Indian Economy-Post 1991

The most important thing that happened in 1991 is that we started increasingly integrating into the world economy. India certainly will be not left out in the way side in the industrial revolution of our time. Sure enough Indian is already in the forefront of Information Technology which is beginning to change our lives so dramatically.

Globalisation, of course, is as much as an opportunity as it is a challenge.

First and foremost, an opportunity of specialising in areas of comparative advantage and thus achieving the benefits of skill especially as there is now increasingly the possibility of gradual access to world's best technology determined by commercial terms of trade rather than patronising the terms of aid. Throughout 1970s/1980s, there was a debate on the appropriate transfer of technology from the West and today we have a situation that we boast of developing technology in the world - sometimes we do it here in India or sometimes in the Silicon Valley. This is the change that has taken place. In fact, I was reminded of a small incident and this is like what we have in India. *One American wanted to know the exact address of his friend in Silicon Valley which is dominated by Indians. Few Indians who were sitting in the Coffee House. One of them said that all foreigners stay at the other end of the road. In America, especially at Silicon Valley, the Americans are now foreigners. He further stated that it was our dream to turn Konkan Area into California. Now exactly the picture has changed Now California might change to Konkan. These are the changes of time and I think we should fully understand this process.*

A major **turning point** came in India in 1991 when we all recall that for the first time we had a situation where the Indian economy was almost a marginalised one. Our people had forgotten about the glories of the Indian economy, foreign exchange reserves dwindled to a level of less than one billion dollars and the nation was on the verge of bankruptcy. We were very close on the brink of default and that was the time when finally changes started taking place in a positive manner. Economic reforms started taking place in a big way. If you look at the Indian economic reforms, you can think of two distinct facets - technically we call them micro economic stabilisation and structural adjustments. Micro economic stabilisation is basically meant to stabilise the economy, whereas structural advantage essentially involved re-structuring of the

whole economy and that process is divided into three core areas - i) liberalisation ii) privatisation and iii) globalisation. These three are popularly known as LPG. Although LPG (Liquid Petroleum Gas) is explosive this LPG combination has been a welcome sign.

Now essentially what is LPG?

During the last thirty years we had adopted economic strategy of planned growth. This policy continued up to 1991 in which the State had to play a major role. Over a period of time, the whole entrepreneurial abilities of a people were tied down to the myriad of all controls with a set of regulations and licenses - so much so that the Indian economy was called a “**License Raj**”. When you want to produce something, you need a licence, to increase production you need a licence, to re-allocate your resources, you needed a licence - every decision was taken by the Babus (Bureaucrats) rather than the entrepreneurs themselves. And to these myriads of controls and regulations, the entire productive potential was tied down. Liberalisation basically meant unleashing the productive potential of people in terms of reducing the kind of constraints imposed over a period of time upon the entrepreneurs. This is the true meaning of liberalisation. Over a period of time in the 1950-60s when the private sector was not developed enough, it was only to be expected that the Government would need to come in a big way and take a lead in the industry as a producer. But in the spate of enthusiasm, I think, we overdid it so much so that by 1991 we were boasting of PSUs commanding heights in the Indian economy over the private sector. It turned out that, if you looked at the total investment made, is above Rs.4,00,000 crore in the Public Sector Undertakings, Rs.2,50,000 crores for the State level Public Sector Undertakings and what is the rate of return that the country has given on this, it is really 2.5%. So we had to face a very strange situation in 1991 where the Government was borrowing from the market at the rate of 14 % and was investing where the rate of return was only 2.5 %. But this just could not go on. This was a sure recipe for disaster and indeed it did strike us. No matter you think how special you are, you are not immune from the basic laws of economics and we were made to realise that in terms of a crisis which started in 1991. And it was from then onwards that we started changing our policies and have now come a long way.

Successes and Failures before 1991

But this does not mean that we have totally failed before 1991. We achieved a lot of things before 1991. There were successes as well as failures. On the whole however there are a few good things that we had achieved. First of all, the industrial production base was widened. We succeeded in developing a pool of technically trained manpower on a scale, which has no parallel in the world. We certainly can take pride in the opportunities availed for us for higher education which we have created in terms of IITs and IIMs. You will recall that I have heard our students in USA saying I did not get admission to the IIT, that is why I have come here. This is the kind of qualitative change that has taken place in the outlook of the people. That if we don't get admission to the IIT, at least we can get to universities abroad.

While there are very remarkable achievements in terms of foundation, I think what happened was that the economy was not able to achieve a higher level of efficiency and the Public Sector Undertakings example is very obvious. And whose money is it? It is all your money and if they are going to get a return of 2.5 %, there is no reason to pump in more money in such activities. That is why we have to come back and change and we also realised that just the Government's intervention in economic theory was justified because of the failure of the market. But we also saw that just as markets fail, there is also failure on the part of the Government. So to correct market failure, you have the Government but when the Government fails you have to bring in the market. Therefore, we have to have a combination of intervention plus free flow of market forces and I think these kind of things that are emerging.

The most striking example - is that of the **finance sector**. If you look at the finance sector after nationalisation in 1969 and 1980, there was enormous branch expansion but with this expansion,

we also needed to raise low interest loans for the Government to finance its fiscal deficit which was growing at a rapid pace and when finally we had to have a regime of administrative interest rates, a regime of directed credit and allied schemes which finally began eating into the efficiency of banking system. So we are now increasingly realising that it is not only the scale of financial system that matters, but it is also efficiency which is necessary for better economic growth.

What have we achieved in terms of reforms?

These reforms as I have said had two factors - micro economic stability and structural adjustment. Last year, the RBI produced a Report on Currency and Finance, which I strongly recommend to the students to have a deep look at it. That is the only document where we have taken comprehensive and objective assessment as to see what are our failures and what are our achievements in terms of ten years of economic reforms. To my mind, there are two very major achievements of reforms and I am going to talk about achievements as well as failures and how we will be proceeding from here onwards. The most important achievement, I think, of 12/13 years of reforms is the degree of resilience that India's economy has earned. Just look at what has happened in the last few months, the Indian economy has been subject to a series of shocks - both domestic as well as external. First and foremost, after 14 years, we have unprecedented drought - a major drought two years back and in Western Maharashtra, the drought continued for three years in a row. Our food grain production which was growing, crashed from 212 million tonnes to 183 million tonnes and this has been a major setback. This was the first shock. The second shock was the Kargil war and border tensions. The third domestic shock was sanctions imposed by others on us - post pokharan. We all remember these incidents. The external shocks were even bigger. First and foremost blow from the external side was the synchronised global slowdown. Typically, if you see after the 2nd World War the kind of pattern that was involved in the world economy. At least, one of the three big nations, *i.e.*, the US, Euro Area and Japan have taken upon themselves the responsibility of keeping the momentum of growth. If two of them fail, the third will come forward to maintain the momentum of world economy. In the last ten years, the Japanese economy has been going down the drain. So the responsibility primarily falls on the USA and the Euro Area. After the longest expansion recorded in the economic history of the USA, started slowing down in 2001/2002. Now it was the responsibility of the Euro area to keep up the momentum of the world economy but it failed. The European growth has been less than 1 %, in some areas it is even 0 % and in some, it is negative which means that we have had this unprecedented situation that all the three powers which have been keeping the momentum of growth of world economy at large, all of them went down. No matter how much you criticise the USA, you have to recognise that if US catches cold, many small countries catch pneumonia. Whether you like it or not, this is a matter of fact. When these three slow down, this should have had a major effect on all the developing countries. It did have very serious effect on all of them but it did not have any effect on India. Now this is symptomatic of the resilience that I was talking about.

Another shock is the sharp increase in prices of oil in the international market. When was last time there was crisis in the international markets that we did not have economic crisis at home? Never. In 1974, the first world oil crisis, in 1975 we had a crisis in India. The second shock was in 1979 when the oil prices shoot up, India had the crisis in 1980/81 and we had to go the IMF with a begging bowl. In 1991 due to the major Gulf War and the Iraq-Iran War situation again oil prices shot up and in 1991 we had the biggest crisis at home. Every time in the past whenever oil prices have shot up, India has had to face crisis. This time the world oil prices shot up, you and me did not even notice. This is not automatic, this is not natural.

Please understand this is symptomatic of the kind of resilience that Indian economy has earned over the years and I think that is the most important of the achievement of our reforms. Let us

look at the sectoral achievements we had achieved .in our performance ? After 30 years of independence, we started our planning economic growth in 1951. If you look at the first 30 years, 1951-1980, what is the growth rate of India ? The real GDP growth of India was at 3.5 %. Whichever way you take an average, it comes to 3.5 %, so much so that this rate of growth has been called the Indian Rate growth or the Hindu Growth Rate. So this 3.5% rate of growth has almost become an endemic with India's economic performance. Now if you are going at the rate of 3.5 %, if your population is growing at 2.2 %, it means that your per capita income is growing at the rate of just 1.3 % per year. If your rate of growth is growing at 1.3 % it would have taken 57 years for you to simply double your per capita income. In the recent past, South Korea could double its per capita income in 11 years. At the rate at which we were growing, we would have taken 57 years. So obviously that is not acceptable you have to therefore rethink about the developmental strategy. In the 1980s the growth rate tried to accelerate but that was not sustainable and led to a crisis in 1991. What has happened in the last 10 years, from 1992/2002? In these ten years, the overall real GDP growth is more than 6% and the population growth rate came down to below 2 %. which means that in the last 10 years, the average works out a little less than 6 % which means 4 % per capita growth per year , which is very remarkable by way of probable heights in the world, next only to China. So 4% growth would mean that in the last 16/17 years we could double the per capita income. This is the pace we need to maintain. So the first achievement of this reform is that we are on high growth profile.

This also means that we have made a very major dent in **poverty alleviation**. What have we achieved and where do we need to go? If you look at our performance, there are technical problems about the numbers and the debates are on one can say as a rule of thumb that before the reforms the proportion of population below poverty line was about 36 % and today that ratio has come down to 26 %. This is quite an impressive achievement at a time when the population is growing, if you can reduce the proportion of population below the poverty line by as much as 10 %, it is indeed a remarkable contribution. In absolute terms it means that more than 100 million people have been pushed above the poverty line. Now this is certainly an achievement that we should be proud of. But there is certainly no room for complacency because the flip side of this argument is that even today we have more than 26 % of our population, which is below the poverty line and what does that mean It translate into numbers will be mind boggling. About 260 million people are below the poverty line in India. By the way, the word poverty line was defined in Pune itself by veteran economist and Prof. V M Dandekar and Prof. Neelkanth Rath. According to them, 2250 calories was the minimum necessary. But with the old definition it would mean that we have still about 260 million people below the poverty line and therefore we still have the dubious distinction of housing the largest number of poor people in the world and this is not certainly a thing to be proud of. This is something which is symptomatic a kind of challenge we are going to face.

Some of you will undoubtedly recall that in the late 1960s when we had actual shortage of food grains, they were saying that India is living from ship to mouth and not hand to mouth as whether we get our food or not was dependent on the shipload of food grains coming from USA under PL 480 programme and whether the ship reaches the Bombay port or not. In the 1970s we able to achieve self-sufficiency in India and then we did not look back. Our food grains have nearly scaling a new peak every year. In fact after the last year drought, this year we are talking of 212 millions tonnes plus again. The food grain stocks are growing very rapidly. We used to have acute shortages every year, now we have just the opposite problem, we have too much of food stocks. This is also very costly as you have to maintain these stocks and incur fiscal cost. This situation is changed now because during the last year in drought situation the food grain stock was used effectively as a tool of supply management and therefore it did not have any effect on inflation - the inflation which was at the rate of 3.7 % before the drought shot up to 6.5 % and

then it has subsequently come down. Earlier, we used to have for every drought, a double-digit inflation. But our inflation rate has recently come down and we could use these food stocks as a tool of effective supply management.

The most striking feature is, of course, the **foreign exchange reserves**. Foreign exchange as you know, as I have mentioned to you earlier, had dwindled to a level of less than one billion dollar in July 1991 and over the years, now they are growing at a rapid pace and today we have 108 billion dollars of foreign exchange reserves. So we have come a long way. In fact India today is the 7th largest holder of foreign exchange reserves in the world.

We have demonstrated that we had acquired the high amount of foreign exchange reserves at a time when our external debt has actually gone down as a proportion of GDP. In fact, the ratio of our external debt to the GDP is as low as it is now and the World Bank, for your kind information, has re-classified India. Earlier we were told, India is a highly indebted country in the first twelve years and now there is a positive change and now we are among the least indebted countries in the world. So you cannot say that the reserves, you have acquired or accumulated are reserve because you have borrowed. So that argument falls flat. Then there was the argument about arbitrage that a large number of people are bringing money, this is hot money and it will go back at any time. Look at the numbers. Our policy has been to encourage non-debt creating flows and the cleverest thing that we have done is that the short term debt as a ratio to the total debt has been systematically brought down so that the roll-over problem did not arise. We learned this well before others did. Our short-term debt as a ratio to the total debt today is 4%. Thailand and South Korea did not understand this and so therefore in 1997 there was a major crisis in East Asia and these countries went down very fast because a large number of their debt were short term so the moment creditors decided not to allow roll-over, these countries were in trouble. We did not face that kind of vulnerability. It is a matter of a conscious policy decisions; we have systematically brought down the ratio of short-term debt to the total debt.

So the new argument which has been made is that what is the **use of all this Foreign Exchange Reserves?** There is a lot of debate going on. One view is that they are only for the rich people. Nonsense! First of all they say these are not being used. You know nothing can be far from the truth. It is like this. It is like an insurance. You would not argue that it is better to die in order to get the benefit of the insurance. But this is a cost that you have to incur and that is the cost we are incurring. You see, the opportunity costs. Just think what would have happened if we would not have such a large foreign exchange reserve - then an attack on our currency would have been common and we would not have been able to defend. The fact that you have such a large reserve and it means that nobody can dare attack on Indian currency. It is no wonder that Indian currency has been so remarkably stable. So we were paying the cost of our insurance. We are glad we have come out of this with benefits. India and China are the only two countries which came out relatively unscathed from the Asian crisis and it is because this kind of policy to maintain the reserve. We should not forget that fact. The other argument is that how it is the RBI is sitting over all these reserves and not using it for the benefit of the country. Now please understand that when the RBI absorbs foreign exchange, we put out the liquidity in the system, which can be used for consumption, or investment or what you have. So there is no question of fresh use of this. You know, this is an accounting thing that you have to understand that when entries received in our books, when the foreign exchange accrues to our country, we simultaneously put out in Rupee counterpart which are there in the system. That is why the system is flush with funds today.

In the early 1970s, remember there was a debate in India and other countries as to whether we should go for export promotion or import substitution. All the Asian countries opted for export promotion while we opted for import substitution and I think that was a very costly mistake we had committed. I can certainly say, because in the name of protecting the domestic industry, we

created a whole range of controls, all kinds of restrictions, barriers to trade to protect the Indian consumer. We were really and actually protecting the big producers because they did not have to face any competition, they did not have to perform so it was not for the ultimate consumer. This was a very clever strategy. If you had some connections with the Government, what would you do if you are a cement producer and have a capacity for producing two million tonnes and you want to earn money. The easiest way was not to produce more but to apply and get a new licence not for producing more but preventing others from producing and thus creating an artificial shortage to get higher prices for the same quantity and quality produced. So you get all kinds of money. So this is what had happened in the Soviet Union and other countries and therefore the cause of production processes of private enterprises was killed. We came out of that and now we are ready to take on the world.

The lesson that we learned is that **controls** do not really work. When we had the severest of the controls, please understand, a lot of money was going out. You close the doors, then it will go out through the window. If you open the doors, the money will come in and will stay in. This is a strangely ironical thing but it is a fact. If you close the doors, the money, which was got to go out, will be going any way. Every year five billion dollars worth of money was going abroad through the *hawaala* routes. Now we have opened it in a very calibrated, gradual and well thought out manner. The result is, there is so much confidence now, that the same money that was going out stays in because we kept the options open, and besides, money is coming in and is choosing to stay in. In 1991, the dream was to have ten billion dollar worth of foreign exchange, now every year we add 20/25 billion dollars to our reserve.

Our real challenge is now to cope with this flood of money that is coming in. **Opulence** also creates problems and they are all kinds of them. This large amount of money, for example, has a bearing on the monetary policy of the RBI. When we take large amount of foreign exchange, we have to put Indian liquidity and have to suck it back because if we did not do that, inflation will go out of hand and everybody, especially the poor, will be hurt. In fact, inflation is the most vigorous form of taxation, which hurts the poor most. We understand this and what we did is that that we sucked back liquidity the so called sterilisation process - though there are serious problems, limits to sterilisation right now in India.

So that is where we are now and we have remarkable strides in globalisation. If you look at the share of exports and imports and the ratio to the GDP in 1991/2 it was less than one-fifth. Today it is something like a two fifth of GDP. This is a remarkable penetration that we have achieved. Similar is the case of services. If you look at exports of goods from India in the last 10 years, - the decadal figures like minerals by 230%, leather goods (112%), chemicals (634%), agriculture and allied sectors (146%), engineering (326%), garment and textiles (245%), other manufacturing (167%). Regarding Two wheelers automobiles, last year alone 55 % exports of automobiles. In 2003 we exported - could we have imagined that we would be exporting cars ? 72,000 cars, which represent a growth of 69 % in one year and if all goes well, next year we would be exporting something, like 1,50,000 cars per year . This is something, which is positive is happening. Two wheelers last year we exported to the tune of 1,63,000 which represents a of growth 50 %. There is similar growth not only in automobiles but spectacular growth in auto-components too.

Everybody knows about the IT services. Now we have almost reached soft ware exports target to 7.6 billion dollars in 2001/2 It is growing at an average rate of 46 % per year.

We all know of call centres, data base production , financial accounting , foreign connectivity in the field of insurance, medical transcription, database production, financial accounting *etc.* There is a whole range of services where India is making very major breakthrough. There was a talk that while China is becoming a manufacturing hub; India is nothing but a hub for services. It is not true, India is not lagging behind in manufacturing and the examples that I had narrated

shows that we are doing exceedingly well and we will continue to offer the services. I want to give you some examples of services where India is being used as a venue for services production at the Global level. At the global level in banking, we have a number of foreign banks coming to India, *e.g.*, HSBC, CitiBank, Standard Chartered, ABN-Amro; in Insurance, GE, AIG, Alliance, Aviva, Metlife, in IT, Yahoo, Sun Micro Systems, Oracle, Amazon; in communications, ATT; in Engineering Ford, Bechtel, Beck, Cemens, GE, in business services, airlines like Swissair, British Air, American Express. The World Bank has the second largest office, outside USA, in India. Do we know we are coming also a “preferred back office”. We are also emerging as a “preferred destination” for global investment because of our strong growth outlook. We have new co-relation with global perspectives, we are therefore providing ideal opportunity for diversification. We have very sophisticated security infra structure in equities, equity-derivatives, debt-instruments. We have sound law accounting firms and all this augurs very well for our future and a lot of companies abroad, multi nationals have increased their R & D facilities in India. For example, GE’s 1600 staff, of which I am happy to say that 31 are Ph.Ds and 44 are masters. There is a major change taking place in front of our eyes into the private and public sector partnerships with Telecom, Roads, Ports, all these sectors are doing extremely well and what is happening there augurs very well for the future. Remember for the first time of the Indian history, the President and the Prime Minister started talking about, India becoming a super power. Never before.

Conclusion

Reforms started in India in 1991. If you look at these changes that are taking place. for the first time the President and the Prime Minister of India say India becoming a super power, which is also not an accident. A major firm - Goldman Sachs - has come out with a report in which it states that by 2050 India will be the 3rd largest country in the world. This is not stated by our people but is stated by a foreign firm. We in the RBI took a close look at this report, analysed it threadbare and discussed it and judged that we need not have to wait till 2050 but it can happen well before the year 2030 or 2025. There are many reasons, some of them are mentioned to you by me but there is a very **unusual strange reason**, I want to highlight to you. This is coming as a gift of God, you can say because this is some thing of a demographic transition through which our country is going right now. Let me explain this argument. For any country at the beginning, there is a large proportion of young people and when these get matured, the proportion of old people becomes largest. Between these two extremes, there is a time when the proportion of productive population to the total population is the maximum. So this is a **Bell shaped graph**. So at the beginning the proportion of young people to the total is very large, after maturity the proportion of old people to the total will be the maximum, somewhere in between the productive population between the age group 18 to 60 would be maximum. All countries of the world - especially industrial countries have reached their peak and they are down. East Asian tigers have reached their peak and are down. Only two important countries who have not reached their peak, and you need not offer any cigars for getting me right -those countries are India and China. This means that India is expected to reach its peak of productive population to the total population being maximum in 2018 whereas China is expected to reach its peak one year later *i.e.* in 2019. This means that your proportion of productive population to the total is at the peak and that is the time when your saving rate is maximum. Your productivity as a nation is maximum and therefore this is time when you are best suited to achieve the highest possible growth rate. This by all means is not automatic. **What does this mean for India?** It means that as we go towards 2018 where we have God smiling at us because productive population of young can be maximum, savings of the country could be maximum, which can easily be translated into an unprecedented increasing growth rate, if we have a right kind of policy, mixed with

implemented at that particular period. It is an enabling provision, these things do not happen automatically but that would be an opportunity for us to realise our potential. Remember as I told you that many years we were stuck to the low-level equilibrium trap and we could not think to achieve a growth rate of higher than 3.5 %. In 1993/94/95, for the first time in our history, we have 7 % growth in a row. 3 years in a row, 7 % plus growth rate, the first time in our history that was the time when we opened our eyes and we realised. Actually we can think of a much higher growth rate. We can think higher in terms of doing better. Earlier, having a target of 8 % growth rate was unbelievable, and we are routinely assuming that we will be having under the 10th Plan, a growth rate of 8 %. This is what is the difference. This is what is going to guide us from now on till 2018. This is a time when our productivity will be maximum, productive population can be maximum, saving can be maximum and we can have highest possible growth and give a serious dent to the poverty situation. This is what we should be. We have one more advantage, particularly *vis-a-vis* China after we reach the peak we will go down slowly but there will be 4/5 years before 2018 and another 4 and 5 years after 2018. So these eight years period is the most fertile period in terms of productivity. Whereas in China's case, it will reach its peak *i.e.*, one year after us, their curve suddenly crashes because of their "one child" policy that was adopted by China some 30 years ago. This is not going to haunt us. We can achieve highest possible growth rate and solve our problems and emerge as an economic super power, as all our dreams are playing a role in the comity of nations that we will be able to do it in 20 years if we could stay on course and develop policy combination, which would help rather than impede. If we do not take advantage of all these opportunities, then we would mean to be most unfortunate.

Thank you very much!