

**54th Convocation Address to the Students of Maharaja Sayajirao University of
Baroda, on October 8, 2005**

by Montek S. Ahluwalia

Madam Chancellor, Dr. Mrunalinidevi Puar, Vice-Chancellor Dr. Manoj Soni, Distinguished Members of the Senate and Syndicate, Deans and Members of the Faculties, Ms. Lata Mangeshkar, who has brought music and therefore joy into the lives of hundreds of millions of people, other distinguished guests, graduating students, ladies and gentlemen,

I consider it a privilege to be invited to deliver the convocation address at the 54th Convocation of Maharaja Sayajirao University of Baroda. Maharaja Sayajirao Gaekwad was one of the most enlightened rulers of what used to be called the Princely States in pre-independence India. He supported the development of education in his State in many ways in the years before independence. He also had the ambition to set up a full fledged university. We are indeed fortunate that his efforts in this direction bore fruit with the establishment of M.S. University in 1949. Over the years, this institution has distinguished itself as one of the widely respected seats of higher learning in the country. Its history is embellished by association with such luminaries as Dr. S. Radhakrishnan, Babasaheb Ambedkar, Sri Aurobindo Ghose and many others. The late Dr. I. G. Patel, one of our most distinguished economists and policy makers, whom I had the privilege of knowing personally, also taught at this University.

I would like to begin by offering my congratulations to the students graduating today and also the proud parents present. I also know that I speak for everyone here in saying that we applaud and rejoice in the conferment of a D.Litt. degree on Ms. Lata Mangeshkar. This University grown out of the Baroda College of Music which was established earlier. In honouring Lataji you are honouring music personified.

The graduating students have come to the end of a very special period when you have enjoyed the joys, and also experienced the hard work, involved in higher education, all from behind the protective walls of a University. Some of you may go in for further study, but I imagine that most will now enter a new phase, going out into the real world, with all its challenges and excitements and, I should also add, its occasional frustrations. This is an important moment of transition listening to the convocation address is the last discipline forced upon you by the University before you go forth as new graduates. I would like to use this opportunity to share with you some perceptions of the kind of world your generation is likely to face, and what it might imply for you.

First, let me say that I envy your generation for beginning your working life at a time when India's economic prospects are more favourable than they have ever been. This is not just something we feel in India. It is now widely seen to be so by independent outside observers.

When I was at your stage, our economy was seen as lagging behind in the competition among developing countries to achieve rapid growth. Our growth rate of GDP was only around 3.5%, lower than that of East Asia, Latin America and even Africa. The situation has changed dramatically today. India's growth performance began to improve in the 1980s and the trend continued in the 1990s. The economy today enjoys an underlying growth rate somewhere between 6 and 7 per cent. This makes it the second fastest growing developing country after China. What is more, most observers believe that we have the capacity to transit to 8 per cent growth if we can build on our strengths and tackle some of the policy constraints that are evidently holding us back.

The Prime Minister recently summarized the situation facing us when he said that the constraints to India's growth are no longer external but internal. It is clearly up to us to overcome them.

What does an 8 per cent growth rate of GDP per year mean? With population likely to grow at around 1.5% or so, it means income per capita could grow at around 6.5% in real terms. This implies that real per capita incomes, can be expected to double in 10 to 11 years. This will certainly not make us as rich as the industrialized countries. But it will make a big

difference in many ways over the next 20 years or so, you will see the transformation of India into a middle income country in per capita income terms. Poverty, as we have traditionally defined it, will be reduced to negligible levels. Of course our definition of poverty will change because the minimum standard which we would want every citizen to be assured of should rise with growing income levels. Therefore, there will still be need to pay special attention to the problems of the bottom 20 to 30 per cent of the population, but their problems will not be what they are today, when they have to battle with inadequate food intake and lack of absolutely basic amenities in terms of education and health.

Even though we will be only a middle income country in terms of per capita income, the absolute size of our economy will put us well on our way to becoming a much more significant player in the world. If our GDP grows at 8% per year, we are likely to be the third largest economy in the world by the time the students graduating today reach the peak of their professional career, in their early fifties. India's GDP will then be ahead of all the other industrialized countries except the United States. The US will still be number one, China second and India third.

Our position in the world will be much more important than it is today, but I should emphasise that this is not just because of the size of the GDP. It is also because the increase in our aggregate economic size will take place in an environment where India's economy will be much more open making us much more relevant to the rest of the world. This process of opening up the economy has already been underway for sometime, and has already brought about substantial change. The share of trade in India's GDP has more than doubled over the past 15 years. Foreign Direct Investment, to take another indicator, was negligible in 1991. It is now about 1 per cent of GDP. However, in both areas, performance is below potential. Our share in world trade has increased but is still below 1%. It should be raised to at least 2% which it was in 1950. China gets FDI of 4% of its GDP. India can certainly do better than 1%. I expect you will see significant improvement in these areas in the next twenty years accelerating the process of integrating India with the rest of the world.

This increased international integration, which is sometimes called globalization, represents the second dimension where your generation will experience a very different world than we did. Globalization is not just a one way street where we open out markets to foreign goods and allow foreign investment to come into our country. It is a two way process where our goods and our investors will find niches in world markets. Indian culture, including music, dance and of course films are also potential candidates for global expansion and this process will be strengthened by the growth of the economy.

Yesterday my wife and I were privileged to watch a Garbha on the University premises. It was a wonderful event with spontaneous participation of several thousands of young people. This is an easily globalizable event. The world would be better off for knowing about garbhas in Gujarat and watching than on television.

In the economic sphere, openness means a constant pressure of international competition adding to domestic competition which is always present. This is sometimes viewed as a cause of concern, but our recent experience shows that India can compete with imports in domestic markets and also succeed in penetrating world markets. Fears that our domestic markets would be swamped by cheap imports have proved to be misplaced. There are imports, but Indian producers have demonstrated the ability to produce good quality products which can compete successfully. In exports too we have done well in many areas. Software and IT enabled services are the best known examples, but these are not the only areas where we are doing well. Our producers are doing very well in several other fields such as auto-components, pharmaceuticals, and biotechnology, and also in certain areas of textiles and garments, though here we have much more ground to cover.

Foreign Direct Investment trends also show that globalization is a two way street. While multi-national firms are looking at India as an investment destination much more than they did before, Indian industry is also turning outwards and exploring investment opportunities abroad. Indian companies are acquiring businesses in the US and Europe, in order to operate more freely in those markets. Many are also investing in China thus acquiring first

hand knowledge of conditions. I was recently in Australia and was very pleased to find that an India based company in that country had taken over a coal mine that had closed down, and had revived it successfully. These examples will multiply. This has important implications for the graduating class of today. It used to be the case that working in a multinational company had some extra glamour associated with it because of its global connotations. I am pleased to say that you will have the advantages of choosing whether to work for foreign multinationals or Indian multinationals.

Globalization is not only a matter of expanding trade in goods and services and increasing flows of foreign investment, leaving other things unchanged. In fact it is a powerful force that will change institutional structures to meet the needs of a globalizing economy. Some of this institutional change occurs because of conscious adoption of treaty obligations, as in the case of the WTO, which leads to consequential changes in import tariffs or even domestic laws, as in the case of patents. This aspect of globalization often attracts criticism because such actions are seen as limiting national sovereignty. This is not strictly correct since action taken consequent to a voluntarily accepted treaty obligation should not be viewed as an interference in sovereignty. Countries often enter into treaties because the balance of rights and obligations that result from them is beneficial. The important thing is to ensure that this balance is indeed favourable.

What is more interesting however is that globalization also brings about purely voluntary alignment of domestic standards with international best practice. There are many examples of such voluntary acts of alignment. Take banking for example. There is no treaty obligation to align the prudential norms and risk management practices in our banks with what the Basel committee recommends. Yet banking regulators all over the world voluntarily align their norms because such alignment is necessary to establish the credibility of banks and their acceptability in international banking. Similarly, securities regulators have to benchmark their norms and procedures with international best practice if they want to encourage FII's and other international equity investors to invest in the stock market. In fact, even tax authorities are subtly pushed towards voluntary harmonization of tax treatment because international business tends to disfavour locations where tax treatment is out of line with international standards. Indeed, in a world of mobile capital, taxation of capital income cannot be too far from general international practice because domestic investors may otherwise be encouraged to engage in capital flight.

All these features are likely to condition the world that will unfold before you in the next phase of your lives. Whether you work abroad or in India, you will face a world where competition will be a driving force to a much greater extent than before and the parameters of the work environment will be far more aligned with global norms. It is a world in which skills and ability will be rewarded more than in the past.

A third factor that will affect your lives far more than was the case for my generation is the pace of technological change. It is generally believed that this pace has quickened in the past two decades, largely because of the explosion of IT based technologies and also the new avenues being explored in the life sciences. The faster pace of technological change will affect industrial structures and business processes everywhere, but this will be much more so in India, where in many areas we are still locked into technologies that are decades out of date and there is considerable catching up to be done. Competitive pressure in an open economy will mean much more rapid change in technology in the next twenty years than in the previous twenty.

Every new technology will not necessarily be optimal for Indian conditions, but the choice of technology will have to be made in a competitive environment by producers seeking an edge over each other and also trying to compete with imports embodying new technology. I have no doubt that the new environment will lead to adoption of new technologies at a faster pace in many areas. This is not only true of manufacturing, but also in construction, transport and logistics, where the technologies in use today are decades behind the current frontiers.

A world of rapidly changing technology will pose new challenges, rewards and also risks for those managing businesses and also for those working in them. The wrong choice either in

terms of making a change which proves uneconomic, or at the other end of the spectrum, failing to make a technology choice when necessary, will carry penalties in the market place. Firms, and decision makers in firms, will have to be technologically alert and also nimble to stay ahead of the competition. Those of you who enter industry or business in one capacity or another, or indeed a whole range of services in media, journalism, entertainment etc., will all experience a work environment very different from that facing earlier generations of entrepreneurs, managers and professionals. I venture to suggest that experience and seniority will be less important than innovativeness, the ability to think out of the box, and the ability to take risks.

I have said that the future for India looks very bright provided we do what is needed internally to overcome constraints on growth. I have not addressed the issue of what these constraints are, but they have been much discussed in the public debates in recent months and will be further discussed in the year ahead as we produce the strategy for the 11th Plan. Some elements are clear. We need to address weaknesses in agriculture and rural areas generally to ensure that the growth we are aiming for is inclusive. We are working on a new strategy for agriculture, which, together with the implementation of Bharat Nirman and the Rural Employment Guarantee Scheme, will provide a new deal for rural areas. We need a major effort at strengthening our infrastructure, with greater reliance on public private partnership to bring private funding into this area. This is currently a principal focus of government policy. We need a major effort in the social sectors too – health and education – to provide all our people with the basic requirements for having adequate opportunities for participating fully in economic growth.

All these areas are currently drawing the fullest attention of the Central Government. We in the Planning Commission are also communicating the message to the State Governments as well. Success will require dedicated effort by those in public administration and the public sector entrusted with these tasks, and also the many individuals involved in NGOs who play a vital role in making public policy more participative and transparent. Much of the rest that needs to be done will depend upon the spirit of entrepreneurship of those in the private sector, and on the speed with which we can change past mindsets, business strategies and practices, in order to extract the maximum benefit from the opportunities before us.

The students graduating today will no doubt enter into one or other of these different fields, some in the public sector, and in the non-government sector and others in the private sector, some as employees and others as entrepreneurs. I would like to extend to all of you my very best wishes as you take on the task of building the India of the future. It is a difficult task but I believe you have a sound foundation on which to work.

Thank you.