



Administrative Staff College of India Bella Vista: Hyderabad  
**ASCI Foundation Lecture**

**Globalisation and Its Implications For  
Indian Industry**

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It is indeed a privilege and an honor to have been invited to deliver the Foundation Day Lecture at the Administrative Staff College of India.

The Administrative Staff College has earned for itself an excellent reputation in the field of management education. Also, I am conscious of the distinguished individuals who have delivered these lectures in the past.

To me, therefore, it is really a privilege and an honor to have been invited to speak to you on this occasion and I have accepted to do so with utmost humility.

During the 50th year of India's Independence, I look back on our achievements and at the future, both with hope and trepidation. A great deal has been achieved during the last 50 years. That we are a democracy is in itself no mean achievement. But, unfortunately, this has been also a period of lost opportunities. Much more could have been achieved in the fields of family planning, health, education and agricultural and industrial development.

I have great hopes for India and the Indian people during the next 20 years. However, based on our past track record, these are hopes, not necessarily expectations.

Indian industry had, without exception, welcomed the GOI's moves to liberalise the Indian economy from middle of 1991.

Since then there is a new spirit in Indian industry, a spirit of entrepreneurship, a vision of becoming a global player.

But six years after the liberalisation process started, one hears rumblings about the take-over of Indian companies by MNCs, about Indian industry, both large and small, getting hurt by unfair foreign competition, about Indian industry not receiving the required support from GOI, etc.

In a matter like this, there are at least two sides of the picture. Those who support an open economy, saying this is in the interests of the consumer and who also point out that in today's global World, under WTO's regulations, India has no other choice.

Those who disagree maintain that consumer interest can be adequately protected by ruthless internal competition. They also maintain that we should decide what is good for India, the Indian people and Indian industry without confusing the issue by bringing in WTO and the pressures from the developed World. This side maintains that once we decide what is good for us, then, to the extent this is contrary to the views of WTO and the developed World, we should strongly and persuasively argue our case so that we can protect our legitimate interests.

In my view, we need to have a balanced approach. Liberalisation, which started in mid 1991, should have started during the '70s. Due to this delay, a large number of Asian and Latin American countries overtook us during the '70s and the '80s in terms of economic and industrial development.

We need much more liberalisation and deregulation of the Indian economy. No sensible Indian businessman disagrees with this. We need partnerships and we need to network with the rest of the World in today's 'knowledge' society. Otherwise, we shall get left behind.

It is only in the area of competition from MNCs that there is some difference of opinion.

Indian industry is not against imports as far as the import duty rates are such that domestic industry is "not put to a disadvantage. Other than consumer goods, imports are already permitted. Even consumer goods are likely to be permitted without any quantitative restrictions by the year 2003.

One anomaly that exists is the fact that many items reserved for the small scale sector can be freely imported from MNCs abroad while domestic companies, which are not in the small scale sector, are not allowed to manufacture the same.

Foreign capital and technology are welcome. For technology, in fact, I do not know any Indian businessman who objects to its import. In fact, I do not understand why even today industry needs government's approval to import technology which costs more than US \$2 million.

In today's 'intelligent' world, in this networking society, technology and people are very important.

India has the people but we need technology. And, in my view, we can get technology without necessarily and so easily giving away our ownership and control. We want growth, we want more employment, we want poverty reduction. I believe, these do not need to be sacrificed for retaining ownership and control of most of our large companies.

As far as foreign capital is concerned, we should recognise that in the long run, capital inflows will have to be repaid by increased net exports. Hence, in all likelihood, the exchange rate will have to depreciate in real terms to service the capital inflows. There are obvious benefits of capital inflows for a country like India. If, however, we are to avoid the kind of problems faced by Mexico and recently some East Asian economies, we need to have the right mix of policies to promote exports and direct investment in industries which have export potential rather than in areas like 'services and real estate which do not earn foreign exchange.

There are obvious areas where we need such capital. Especially for certain infrastructure sectors and other industries that require very large investments, which Indian entrepreneurs may not be able to raise, we have no alternative but to rely on foreign capital. Similarly, there are some technologies that are in the hands of just a few companies abroad. These companies will not part with their

technology unless they are given majority or even 100% control in the Indian company. In such cases again, we should welcome even majority foreign control if we need such technologies. However, today majority foreign equity is being permitted in almost every Indian industry. A few exceptions include Civil Aviation, Telecommunications and Broadcasting.

Supporters of foreign capital argue that any industry in India is Indian irrespective of whether it is owned and controlled by Indians or foreigners. I am amongst those who believe that this is a simplistic view. This view is naturally supported by the developed World because it suits them. It is they who are coming and controlling our companies and not we who will go in equally large numbers to their countries to control their companies. There are large American, Japanese or European companies who have the wherewithal and the finances to take control of almost any Indian private sector company, if its shares are available on the stock exchange. There is no Indian company which has the financial strength, leave alone the technological and managerial strength, to take over a large company in the developed World.

Every nation, to some extent, supports its domestic industries. While preaching Free Trade, even developed nations care for, if not protect, their domestic corporations. Daewoo's aborted attempt to acquire a division of a French company is one recent example. The recent uproar in EC over Boeing McDonnell Douglas merger proposal is another case in point to protect the interests of Airbus Industrie. The developed countries need to do it much less than us as their companies are already large and strong. There is every reason to believe that even the US will not welcome the take-over of a GM, IBM or Microsoft by companies from Asia and Africa.

If we were living in a World with only one country, ownership would not be an issue. However, there are about 200 countries in the World today and I believe we should not ignore our national interests, our national pride, and unduly favour foreign corporations, by waving the red-herring of "customer interest".

I want atleast a 100 Indian multinationals by the year 2020. This will need a great deal of effort. Also, we cannot achieve this objective without a partnership with our

government. Hence, in addition to our efforts, we need government policies which promote Indian multinationals.

There are some who think that globalisation marks the end of the era of the role of government in the economic field. I believe, this is a fallacy. Globalisation cannot mean the end of government's role in economic activities because then we would have a situation where everyone will be for himself and we shall find ourselves in a position which is worse than the wild capitalism of the 19th century.

I believe globalisation requires a new role of government in economic activities. This role does not mean government itself should be involved in economic activities. Instead, government should create a conducive environment for economic activities. We do not any longer need an industrial policy, as in the past, but a comprehensive "competition" policy as we have to strengthen our economy and our corporations to successfully face the challenges created by globalisation. Such a competition policy will need to cover many aspects including trade, fiscal and monetary policies and policies with respect to education and research and development. Without such a competition policy, our corporations will not be able to successfully play their role in today's World.

Solutions to the challenges we are facing today cannot, and will not, come from anyone segment of our society. We need our political, business and intellectual leaders to come together, think together and agree on the policies and steps we need to take so that India and Indian corporations can successfully meet the challenges, and grab the tremendous opportunities, thrown up by the process of globalisation.

We do not need old fashioned protection. We have had enough of that. However, we should keep both customer interest and national interests in mind.

We must, therefore, decide what is in our interest. Will we be happy and proud if a large percentage of our big companies are subsidiaries of foreign corporations? If we believe that we do not want most of our large companies over the next 20 years or so to become foreign owned and controlled, and that we would like India to have its own MNCs, we have, in my opinion, no alternative but to make a list of industries in which we would henceforth not allow foreign equity in excess of a certain

percentage, say, 26% or 40%. These industries, for example, Steel, Paper, Cement, Sugar, Textiles, Automobiles, Soft Drinks, etc., are such that we can get all the technology we need without giving majority ownership to foreign companies, once it is clear that this is the policy of the GOL. Till there is a hope that a foreign company can get majority equity, foreign companies will naturally insist on the same.

Once we are clear this is the right policy for us for, say, the next 10 years, we should implement the same and explain our stand politely but very clearly to our friends abroad including the WTO. We need the World perhaps more than the World needs us. But, one billion people should not be pushed around. China. is not.

A large number of people in the World today question the supreme wisdom of Adam Smith's invisible hand. We have to find the middle way between economic protection and complete openness.

We have to learn from other successful countries and, based on this learning, have to formulate policies suitable for our conditions and circumstances. We have to resist the notion that, when it comes to new economic models, one size fits all. It does not!

Other than foreign direct investment, our main problem is the slow pace of reforms. While the speed of liberalisation was very good between June 91 and middle of 1994, very little progress was made during the last 3 years.

We are happy with the rate of inflation which is less than 4% and the last budget has given us almost everything we wanted in the area of direct taxation.

However, our fiscal deficit is still too high and subsidies are both high and reach very often those who are not the intended target. Demand for industrial goods remains subdued and due to various reasons exports have been poor.

Further reforms, however, seem to have run into some stumbling blocks.

Unfortunately, there is a political consensus not to privatise and disinvest government equity below 50% in public sector companies, there is political consensus that there should be no significant amendments to labour legislation

making it more flexible and there is political consensus that further deregulation of the financial sector including Insurance sector should take place very slowly.

Bureaucratic red-tape continues to delay decision making and gives rise to the possibility of corruption. There is need for less discretion and more transparency in decision making.

**Infrastructure including education remains in an abysmal condition.**

Education is no longer something that is imparted during one stage of an individual's life. We need to continuously undergo education from the cradle to the grave. It is the quality and level of education and training which will, in the coming decades, separate the successful countries and companies from those that will be left behind.

Reforms in these areas are supported by every businessman and industrialist whether he is Indian or foreign. Only some political parties and unions, due to their vested interests, are preventing progress in these areas.

We are concerned with the developed countries raising issues of environment, human rights, labour standards including child labour, to restrict imports from India and other developing countries.

We are also concerned with the developed World taking increasing recourse to anti-dumping methods which are not always justified. Developed World preaches free trade. But, to the extent it does not suit them, does not even practice fair trade.

According to Prof. Klaus Schwab and Mr. Claude Smadja, President and Managing Director respectively of the World Economic Forum, during the last few years, technological changes have eliminated more jobs than they have created. Also, the gap between those able to ride the wave of globalisation and those left behind is getting wider at the national, corporate and individual levels. Hence, the globalised economy must not become synonymous with "free market on the rampage", a brake-less train wreaking havoc. The social responsibilities of governments remain as important as ever.

Moral consideration apart, sustainable growth is unlikely without the public at least seeing itself as the major stake holder in the successful functioning of the economy.

We are already the 5th largest economy in the World on the basis of purchasing power parity. This is as a consequence of the fact that we are a nation of one billion people. It is expected that this ranking will improve to the 4th or even the 3rd position by the year 2020. Though this is good and important, it is not enough.

What we need is substantial improvement in terms of percapita - whether it is per-capita income or per-capita consumption of various goods and services. And, of course, in terms of facilities for education and health care, to levels which are second to none in the World. Today, 50% of our population live with an income of less than \$1 per day.

With our many strengths and resources, both human and otherwise, there is every reason to believe that by 2020 India can become a great economic power. And, also, for Indians to have a per-capita income, on the basis of purchasing power parity, which is among the top 10 nations in the World. This in my view would be a really ambitious but achievable goal.

We in India know **what** we need to do to progress. Our problem is a lack of work ethic, our inability to work as a team and a lack of will to **implement** what we know needs to be done.

To realise our goals and aspirations, we need outstanding leadership in every field and at every level.

Leadership is not just charisma, not public relations, not showmanship. Leadership is performance, consistent behaviour and trustworthiness.

With the right leadership, all of us will be motivated to do our best for the progress of our country and our fellow citizens.

In business one should neither be too sentimental nor too logical. Though we are not as yet one World, we are,

economically, though not politically, moving in that direction. Globalisation is inevitable. There is no better alternative. However,

we should decide, not some one else, how and at what pace we should go about globalising the Indian economy. I have no objection to goods of well-known foreign makes, being manufactured and sold in India. However,

. at least I, as an Indian, specially during the 50th year of our Independence, will be much happier, will be much more proud, when I see excellent products with well-known Indian brand names being manufactured and sold in India and abroad. We need many more such products and many such domestic companies so that India can with pride hold its head high as one amongst the most industrialised nations of the World.