

PANEL ADDRESSES INDIA'S PLACE IN THE GLOBAL ECONOMY, MARCH 2004

Leach kicked off the panel discussion addressing the emergence of India as a world economy and some pressing issues such as the current debate over outsourcing.

The first panelist to speak was T.N. Srinivasan, professor of economics at Yale University, and author of numerous papers on India's economic reforms. He presented a historical overview of Indian macroeconomic and international trade policies, starting from post-independence in 1947 till today, highlighting 1991 as the turnaround year for Indian developmental strategy. He punctuated his claims with statistics on India's trade volumes, exports as a percentage of GDP, per capita income, and ranking compared to other world economies, particularly China.

Next to speak was Joydeep Mukherji, director of the Sovereign Ratings Group at Standard and Poor's. He began with a disclaimer that served to separate his views from that of his employer (S&P has already assigned a credit rating for India), and went on to talk realistically, though mostly positively, about India's prospects. He stressed the need for privatization as a vehicle towards sustained growth.

The third speaker, Ashok Tomar, was the deputy consul general at the Consulate General of India in New York. Along with recapping some statistics presented earlier, he discussed India's shift in 1991 from a closed socialist era to a more open market. He spoke specifically about the deregulation of the telecommunications sector and the advent of the BPO (Business Process Outsourcing) sector that helped make India the fourth largest economy after the United States, China and Japan (in terms of GDP).

Last to speak was Rajiv Khanna from Greenberg Traurig LLP, also president of the India-America Chamber of Commerce. He talked mainly about outsourcing, its effects, and whether American companies should continue to outsource to India.

Srinivasan attempted to depict an accurate, realistic and non-inflated picture of the Indian economy. According to him, India was largely insulated from world trade after it acquired independence, pursuing an inward-oriented developmental strategy for the next four decades. The strategy centered upon imports substitution, with the state playing the dominant role in the economy. He brought special attention to India's GDP growth rate from 1950 through 1980, a mere 3.5 percent, termed as the 'Hindu rate of growth.'

Following a flurry of statistics on Indian debt was a brief recap of economic events, such as the devaluation of the Indian rupee and a near exhaustion of foreign exchange reserves. The year 1991 was the start of India's liberalization. The economic reforms of that year were designed to aid the removal of controls on industrial investment and imports, to reduce import tariffs and to create a less unfavorable environment for attracting foreign investment.

When India first started liberalizing, however, the first effect was an increase in job loss. Several industries saw shut downs, for example, automobiles, electronics and engineering.

The positive result of these reforms, however, is most clearly seen through India's rising GDP growth, particularly since 1999. In the quarter ending Dec. 11, 2003, India achieved an unprecedented growth of 8.9 percent. Exports have jumped, particularly those of pharmaceuticals, which expanded by 250 percent from the last decade. Between 2001 and 2002, software exports reached \$7.6 billion.

"India is reaping the investment that it made in democracy a long time ago, remarked Mukherji. He did, however, address the problems within infrastructure and privatization, saying that while privatization is on the increase, it is "in jumps," and that the public sector has yet to provide the minimum of services, for example, in sanitization.

Nevertheless, other speakers praised India's infrastructure, citing a competitive private sector, a sound law and accounting architecture, low-risk factors given a stable government, and sophisticated securities in equity and derivatives. Tomar said, "India has become a preferred destination for portfolio investment."

This infrastructure, in addition to the low-paid English-speaking population, is the reason for India's outsourcing sector attracting companies in varying fields such as banking, insurance, technology, telecommunications and engineering. Khanna called outsourcing "providing world class services with enviable cost advantages." He then went on to answer the question he earlier posed to the audience: "Should American companies take advantage of the opportunities in India?"

Four hundred thousand U.S. jobs have been outsourced to India and 200,000 will get outsourced every year if there are no barriers introduced, stated Khanna. He added that the jobs lost to outsourcing, however, are nothing compared to those lost due to layoffs and other economic reasons. He said that the U.S. economy actually receives \$1.12 for each \$1 outsourced to India, while India retains a mere 33 cents. This is because while India exported its services to the U.S., it also bought high-tech equipment from them to set itself up. Thus, Khanna proposed, that the question for the United States should not be whether or not to outsource, but how the windfall from outsourcing should be distributed amongst the consumers, workers, investors, etc.

Following the panelists' presentations was a question and answer round, open to all participants in the audience. One of the questions to Khanna was how globalization and the entry of foreign accounting firms in India would affect its domestic accounting firms. He answered, "In globalization, there are winners and losers: Indian accounting firms did go down and the U.S. firms are thriving. It is a fact of globalization."