

Keynote Address

India FDI Forum 2011, Singapore

- Kaushal Kumar Sharma¹

Good Morning,

Ladies and Gentlemen

1. Let me take this opportunity to compliment International Financial Law Review for institutionalizing India Foreign Direct Investment Forum, second annual event of which is today. Further, I am extremely thankful to IFLR for inviting me here as it gives me a sense of pride to be a part of India's success story.
2. At the stroke of midnight, on the intervening night of August 14 and 15, 1947, India gained freedom. It was a freedom to the teeming millions to decide their own destiny – free from foreign forces. The night following today, as the sun sets on this beautiful city nation, will be no different. As I speak to you here, we are barely fifteen hours away from another important milestone of freedom for India. It is a total freedom from anti-competitive practices and forces.
3. The first freedom had to do with the foreign forces which had come to occupy our land and started deciding our fate. The second freedom has more to do with the fears, from within, of being dominated by the foreign forces once again, the scars of the subjugation being still raw. These fears had led to a slew of protectionist measures which kept the Indian economy in its own insulated glory- of slow growth. All that changed with the economic reforms of 1991.

¹ Advisor (Combination Division) and former Director General, Competition Commission of India. The views expressed are personal and not of the Commission.

4. With the unshackling of forces of competition in their total splendor, India is declaring to the world that she has come of age and is beyond the fears of being swamped by foreign competitors. To that extent, it is an important date with history. So, from tomorrow, June 1, India joins the exclusive club of the countries having a fully functional competition regime -including merger control.
5. This competition regime is based on a modern economics based principles and close to state-of-the-art legislation. I am not saying it. This has been stated by World Trade Organization and OECD respectively. So, this is an important step towards a fully functional economic freedom.
6. What are the implications of this move? Whenever you study FDI, one of the very important factors determining FDI inflows is stated to be 'Regulatory Certainty'. It is the regulatory certainty which gives comfort to the investing class. Naturally so. If I were to take a flight to Singapore, I would prefer the one which would take me to the destination for sure and does not have a track record of frequent flight disruptions on account of strike and or any other factors. Who does not want certainty in life? It is a different matter that howsoever you try, you may get more certainty but not absolute certainty, as the life itself is not certain.
7. Talking about regulatory certainty, I recall the comments made by foreign investors, in the earlier times, that in India the traffic light for investment always remains yellow - never red or green. So, to borrow the phrase from the first man on the Moon, Neil Armstrong "June 1, 2011 may be a small step for the Competition Law in India but is a big leap for the Indian economy". The real import of which will only unfold with time.
8. India, the biggest democracy in the world, is also experimenting with another concept called a unique identity

number for all the residents of India called 'aadhaar'. Loosely translated, 'aadhaar' means foundation. This project being handled by UIDAI began in 2009 and, by 2013 we expect a huge part of the population to be given this number. This, inter alia, is an extremely big step towards inclusive economy. This unique ID will be acceptable to the banks as a basis for opening a bank account. Once allotted, it is not to change with change in residence of the holder. Imagine the impact of the economy when such micro savings find their way into the organized banking system.

9. To understand the implication, let us know that not having access to the magic thing called 'proof of residence', for many reasons, the extremely poor are outside the banking system. This makes their meager savings vulnerable to the mercy of the local goons. This is not just the loss to these extremely poor sections of the society but economy too as this segment of population is substantially outside the banking economy.
10. While we are at unique ID, I can also briefly mention that what got Muhammad Yunus and his Grameen Bank from Bangla Desh Nobel Prize in 2006 for micro banking is very much alive and kicking in India. It is making silent forays into nooks and corners of the country. Once, while out to buy some fruits, in Mumbai, I was surprised to see the fruit vendor being interrupted in his sweet sales talk to me by a notebook wielding gentleman. I let this new interruption take precedence so that after he is gone, I can unravel the mystery. He took some money and gave a signature on a notebook. My inquiries revealed that the gentleman was a banker at the door step of the vendor who could not find time to visit the bank in its banking hours. I was impressed.
11. We, in India, have been practicing inclusive polity for quite some time-now it is time for an inclusive economy.

These are the type of changes happening on the ground which will have a long term impact of the economy- for the better. Making it a still hotter destination for investment.

12. What else is being done by the Government for promoting FDI in India? Gradually, from the days of a massive restriction on FDI, today the list of sectors where 100% FDI is allowed is long and growing by the day. These are Auto, Gaming, Current Affairs Channels, TV Broadcasting & Films, Power, Road & Highways, Petroleum and Gas, Steel, Mining, IT, Pharmaceuticals, Real Estate, Retail-Cash& Carry.
13. The Government has been reviewing and relaxing FDI policy norms on a six monthly basis since Dec 2010. The present government, in its last budget, has identified FDI as the single most stable source of foreign investment into the country, and has pledged ways of relaxing norms in most sectors that still need further liberalization.
14. In response to certain commentators comparing the present pace of economic growth in India with that of 'gilded age' in the USA, Arvind Panagariya, wrote an article in Economic Times of 18.5.2011. 'Gilded age' is a reference to the time of rapid economic growth of USA towards the end of 19th century. This term was first coined in a joint novel by Mark Twain and Charles Dudley Warner in 1873. This was the age of industrialization, economic progress and all other associated activities which made USA what it was until a few years ago. May be, it still is. Perhaps, nobody knows about the future.
15. The interesting thesis of Arvind was that although , on the face of them, comparisons look plausible but after real comparison of the time frame of occurrence of these two events and the obtaining socio-economic realities in both the countries shows that what happened in USA during around

that time is no match to the time and circumstances, and therefore, the quality of growth of Indian economy which is more golden than the 'gilded age'.

16. Unlike in the 'gilded age' where there was virtually no effective regulatory labor or social legislation, India has a mature democracy having adopted adult suffrage. There is an effective regulatory framework in almost all the sectors. Despite private sector having gained size, public sector is giving it a good competition. There are enough avenues for welfare of industry workers, equality before law is very well entrenched, and economy is not dominated by a few trusts but is well represented across the entire spectrum of society.
17. The beauty of Indian democracy is that every year you hear success stories of some boy/girl from an orphanage having made to the elite civil service examination or somebody who had to engage himself in popular magic shows to support his studies becoming an entrepreneur and the biggest exporter of magic kits to the world from India. Instances of entrepreneurs making an empire and killing out of such mundane tasks such as getting your sports shoes cleaned and delivered at your home are galore. These are the entrepreneurs who are thinking out of box. No doubt, you do see big enterprises but how old are even these big enterprises?
18. You look at the Reliance which is one of big enterprises by global standards. It was nowhere in 1950s. Infosys did not exist in 1981. Many of the big names today were, practically, nowhere sometime back. The names which are in the process of becoming big today, you will hear after 5, 10, 15, 20 and 30 years. Many such enterprises are in incubation or in infancy. May be when 9th or 10th India FDI Forum is being organized by IFLR, you will hear

about many such big enterprises and conglomerates which are in the economic nursery called India.

19. What makes India so different? Why there is a long chain of enterprises having arrived, enterprises in the making, enterprises trying to cross the glass ceiling and enterprises in big dreams of young men and women? The rich, in India, are not just flaunting their families' inheritance but are also enjoying the fruits of their own sweat and blood. The reference being to a large percentage of first generation entrepreneurs. The growth in India is not lop-sided but is very well represented across the entire social spectrum
20. What makes me optimistic about the entrepreneurs and enterprises in the making? As many of you might have already known that the global average age of population is 28.6 years. When we compare with the average age of other countries, we notice that the average age of population in Japan is 44.20 years, in USA 36.87 years, in China 34.11 years. As against this, the average age of population in India is 25.30 years.
21. It is a young population full of dreams, aspirations and a zest to do something in life. A fire in the belly. It is a part of the population which is trying to break free and become the next generation Infosys, Reliance, Wipro or whichever name you prefer.
22. Where were these people who now are having dreams to do something big in industry and services? These people were earlier engaged or not engaged but subsisted on agrarian economy. These are the people who are shaping economic landscape in secondary and tertiary sectors. In 1970-71 the percentage of population engaged in agriculture, industry and services was at 44%, 22% and 34% respectively. In 2010-11, the percentage in these three

sectors was 18%, 28% and 56%. Thus, India is an economy and society in transition.

23. No transition can happen without its share of trials and tribulations. India or her economy is no exception. Such a scenario has its own dynamics of stress and strain on society and economy. All economies had to undergo this pain while in transition. The period of late 19th century in which USA grew very rapidly is of special relevance. Deployment of questionable means to accumulate wealth earned the title “robber barons” to the industrialists of that period. However, democracy and time are great levelers. They lead to transparency and probity over a period of time.
24. It is the strains of transitions which are reflected in wrong perceptions about India. When we are such a law abiding society wanting to ensure rule of law in such a way that nobody is punished unheard even if at a great cost to the national economy, we should not be accused of slackness when we allow our institutional procedures to be followed even when we penalize the corrupt. However, the overall socio-economic, political fabric is evolving self correcting institutions.
25. Despite having the second largest road network in the world, a 7500 kms long coastal line dotted with numerous major and minor ports, the extensive rail network, a tele-communication network, ranking amongst top 10 countries in the world and abundant supply of raw material, the country as a whole is hungry for further development and will certainly satiate its hunger.
26. Thus, we have a huge consumer class, a whole lot of young population bubbling with ideas and keen desire to cash on these ideas, a nation needing massive infrastructure and abundant supply of natural resources. The only thing which can take it still further is investment. This is the

investment, which will provide wings to the ideas of these young men and women who are future entrepreneurs and very healthy returns to the investors.

27. Having set the theme for the deliberations, I hope that during the course of the day in different panel discussion you would get to hear more and understand better about the investment opportunities in specific sectors in India to enable you to benefit from the opportunities that are awaiting you with open arms.
28. Thank you, very much.