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INDIA TRANSFORMED: 25 YEARS OF ECONOMIC REFORMS

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P R O C E E D I N G S

MR. AHAMED: Hello, so welcome everyone. We are here to celebrate the publication of a book entitled "India Transformed: 25 Years of the Economic Reforms" and edited by Rakesh Mohan. The book consists of 32 essays by various observers and some of the key participants as well, including Rakesh on the Economic Reform Program that was initiated in 1991 in India. And Rakesh was actually one of the key architects at the time. The economic reforms in India that began in '91 consisted of a lot of things. The most -- the biggest change was in trade policy where tariffs were reduced gradually over a 20-year period from over 110 percent on average to currently about 10 to 15 percent. Opening up the economy to foreign investment and deregulation. So that's going to be the topic. We're going to have a Strobe is going to make a few remarks about a Brookings, India, and the genesis of the book. Then Rakesh will speak for about 10 minutes on the whole program and then we'll have a panel discussion thereafter for about 40 minutes and then we'll open up to questions from the audience. Thank you. I should have introduced myself my name.

MR. TALBOTT: I'll introduce you.

MR. AHAMED: Okay, great.

MR. TALBOTT: Among other things, I'm Strobe Talbott in the Foreign Policy program here. I was introduced to Rakesh at your house some years ago and you have been a wonderful, wonderful friend to him and to me and to a lot of people in this room and terrific trustee of the Brookings Institution. I want to just give a little bit of a backstory in here.

A couple of years ago, Vikrum Mehta who I assume a lot a number of you know and you probably also know that he is the chairman of Brookings India. And he asked Rakesh to come up with a substantive way of noting the 25th anniversary of the

beginning of the Indian reform process. I had the honor of being on the Clinton administration and State Department around the time when this was going on. And I went to India quite often, including early in the 1990s when India was opening up its economy for its own good and for the world.

I had several opportunities to meet with Prime Minister Raul and his Finance Minister, Mohammed's Mohan -- sorry, Manmohan Singh. These were two statesmen who were genuinely a visionary. And I think it's part of the discussion today to make it clear that weather the ups and downs is -- isn't true, is true in all countries, their vision has really come to be a very important and very solid. Last year, the book that you are hearing about today was launched by a Mr. Singh and the finance minister, Arum Jatley, co-presiding. And I'm glad to see that the world's largest democracy still finds opportunities for bipartisanship. Rakesh will tell you a little bit more about the constellation of contributors of the book. And we're also going to have a lively conversation, an edifying conversation and I'm now going to turn the proceedings over to Rakesh.

MR. MOHAN: First, let me thank Brookings, Strobe Talbott, Homi Kharas, the whole Brookings team for putting this event together. I know how much of an effort it has been since I've organized those things in the past. Just starting off where Strobe left off. It was in 2015 after I had spent three years at the IMF that I went back to India for, what, eight months before coming back to this country to teach at Yale when I was filling in the gap at Brookings, India. And so I sort of had to do something to show that I was actually doing something. And this opportunity came along and as Strobe said, we can actually do this and I reflected in that, that 25 years had gone by since 1991. Basically, anyone under the age of 40 in 1996 wouldn't have really any idea what India had been like before 1991 and how dramatically it has changed over this period. And

therefore, it was a very good idea to launch this project of really covering the whole economy and covering how changes took place in almost every area. And then the question was, how does one do this? Should I write the whole thing? That seemed like too daunting a task. So I thought I should get 30 others to join me in this. And it was a -- I've seen in the book, it's a combination of prima donnas, both sort of from the policy side, people like Montik and others who are actually doing the policy change. Montik and all the others, along with business leaders in some sense who both responded to the reforms that have taken place from a competitive period before '91 when they were restrained by a lot of government policy and what they could do and in some sense the people who both responded and benefited the most. And that includes people like vocation money. I had succeeded in getting Ratan Tata to also agree to write a chapter, but other things took over during that period. So I couldn't get him to do that. But then I have very good contributors Deepak Barack. Sudiamatel and others. I can't name all the authors because there are 31 of them actually. So, I don't mean any disrespect to the ones that I don't name. Also some major commentators like Tienine and again others, and also thought there should be something on foreign policies. So Shifshun Carmen who's also, I guess a distinguished fellow at Brookings who's contributed a chapter in foreign policy. A trade -- I should mention Harsha, where are you? Harsha Singh, right to the back. He was at -- when the book was launched in India, he was, in fact, the executive director of Brookings and he has written, I think the longest chapter in the book, which is on trade and quite appropriately because trade has indeed been among the big success stories early (inaudible) had mentioned.

So the idea essentially of the book is to bring together people, both policy types, commentator types, business types to bring their own experiences into giving an idea of what has happened in India in the last 25 years. There's a couple of

chapters from the business side also, which document how the composition of the top business companies or, top business houses has changed completely from 1991 to now which again, attests to the success of the reforms in that it did shake up the whole system. One of the feature of the book, which is not quite stated explicitly in the book, but I think it comes through is I think what the most remarkable things in our reform process is that over this 25 year period we've had, I think this is the seventh prime minister during this period and as many finance ministers and during this period, the parties in power have been of all colors including the Communist Party when there was also a member coalition in the late 1990s.

So they will all colors and yet the reform process has continued really without much of a break. Obviously, there have been ups and downs, sometimes from processing faster, sometimes somewhat slower. They're very few reversals except a couple of them recently. So in that sense, it's quite a remarkable tale that in a country that is argumentative and disputative, if that's the correct word, that this has happened and you wouldn't get a sense of any time during this 25 years that there was actually a consensus in the country on these kinds of economic reforms taking place. But looking at the out, looking at the consequences of the reforms you can see that there was some kind of a basic democratic consensus for this to continue with such a long period of time.

Now, in terms of the actual consequences we've had a growth rate in excess of 7 percent, on average during this whole period since the early 1990s. In fact, actually it's an excess 6.5 percent real growth rate average since the early 1980s with very little appreciated. So it's a long period of high growth. Of course, it's not the same as China's 10 percent and cumulatively over 30 year, the different 10 percent is huge. And that's the difference in China and India today. One other point I would like to make, is that the initiation of the reforms was done by a three, people collectively, who neither of

-- none of whom were what you might call charismatic. That is Narsi Moral was a prime minister, Manmohan Singh as the finance minister, and the third who's very little known was the principal's secretary, Prime Minister Ian Varma administrative in charge. And since I had the fortune to watch this very closely, so Narsi Moral brought the absolute political cover in terms of he had to do all the negotiation -- political negotiation across the aisle to get all these things done. Manmohan Singh provided the intellectual framework and cover and Ian Varma actually had to bang all the bureaucratic heads and I've seen those has been banged, which he -- Ian Varma who is a principal secretary to the prime minister, Narsi Moral, he held a meeting every Thursday over lunch for five years whenever they were in town to actually dig through all the reforms. So the reason of mentioning this is an unusual case of reforms where there wasn't some kind of a charismatic leader bringing out a whole change in economic policy in our country. It was a bunch of colorless individuals who had a very nice sort of agreement in terms of what each of their roles were. And it's fascinating to watch. And again, that is kind of continued overtime in India.

Other feature, which Strobe mentioned is the cooperation across the aisle which has happened over the 25 years. An interesting part of that is that all the larger reforms were brought about by government, which did not -- where the leading party, does not have an absolute majority in parliament. And so they had to negotiate both within the government, within the coalition and across the aisle as well to get things passed. And one example of this continuous reforms, which have had a bipartisan consensus even though at any given time, you don't think there's a consensus is the example I can give the most recent big reform that is the introduction of the goods and services tax, otherwise in other countries known as VAT. So the first time that the country is economically unified through a countrywide VAT, value added tax, what we call

the goods and services tax, bringing good answer with the tax net and a consistency across all the states and the central government.

So the original design of that was started the first design that was started for the central value added tax in the late 1990. So late 1990 under (inaudible) the finance minister. And this has gone on. Then the, then the VAT was introduced for the states under Minister Chidambaram as finance minister. And final, the unified VAT has come under Mr. Jaitley (inaudible) the finance minister. And this is getting cooperation across 29 states. Can you imagine Strobe in the US, 50 states cooperating to do a unified tax system? You can't even imagine it actually, even though I'm told that the IMF recommends every year in their Article IV reports to the US Treasury.

So I think that -- what I've tried to do is to put together in this book these articles on different aspects of a macro policy, digital policy, infrastructure, the business articles. There are -- there is, however, one area where we've just not done enough and that is the area which probably constrained our growth in the coming years and that has helped key areas of health and education. So we also have chapters of health education, documenting how we filled in those areas and there still isn't really a good program forward how that's going to happen. So what we hope to do from this book is, one, of course, is the document, what has happened to document successes, also as failures, but also to demonstrate that it is possible through policy -- to policy, so intentional policy to transform a country, how a country works, how an economy works and hopefully, it will inspire the next 25 years. If we achieved seven percent or plus for 25 years, why can't we do better the next 25 years? Hopefully, future policymakers will take some inspiration from this. Look, it's possible to do these things even as fractious and argumentative country as India. Thank you very much again, for all for coming. And there are lots of people to thank that perhaps that would take too much time, but I do want to say that I

was really the cooperation that I've got from all the 31 authors and I said each of them was a prima donna, so it was a real struggle to get them to do the articles, but they did and it was a real struggle to send backdrops with him at least three times each for them to do the corrections and improvements. So I -- and all this happened just because of friendship. So I do acknowledge the sort of friendship that the (inaudible)friendship that they contributed to this volume. Thank you. (Applause)

MR. AHAMED: Great. So let's get started. Let me introduce the panelists. On my -- oh, which button? This one? Yeah. Okay. Thank you. so let me introduce the panelists on my immediate right is Anne Krueger who was the first deputy managing director at the IMF from 2011 to 2006 and prior to that she taught at Stanford and Duke. Next to her is Rakesh, then a next to him is Ajay Chhibber who's the chief economic advisor to the Federation of the Indian Chambers of Commerce and as a distinguished visiting professor at the National Institute of Public Finance and Policy. And to the far right is Alyssa Ayres who's the senior fellow for India, Pakistan and South Asia at the Council on Foreign Relations. And before that she was the deputy assistant secretary of state for South Asia.

So first we're going to start by me directing one question -- one big question to each one of the panelists and then we'll take it from there. I should mention that the book is on sale at the back of the room, so when you leave, be sure to buy a copy.

So let me direct the first question to Anne. We asked to -- Anne has had long experience with programs of economic reform and she's been involved with economic reform across a range of countries. I think Rakesh did a great job of outlining quite how dramatic the change in India was. So Anne, talk a little bit about the scale of the change in India's economic reform, particularly on trade and then make an

assessment of did they go too slowly, too fast; how could they have done things differently.

MS. AYRES: Okay, which is it? Okay, thank you. Thank you very much. And thank you for the invitation to be here. The first thing to be said that is that everything they've said about the book is right only not praised enough. It's very, very good. I think as it will be the reference work for a long time to come on the Indian reforms. There are a lot of other people writing individual documents which are very good, their own experience. But this one I think covers the waterfront and covers it very well.

As we already said, my focus is going to be on trade, which was all important in terms of the reforms. Quite aside from whatever else ailed the Indian economy in the early 1990s and that was a lot. The trade regime was choking everything and it choked it big time and I thought I might give you just a couple of minutes of a feel for how badly it was choking because people here can't even imagine it and I -- and as Rakesh, I think, hinted even young Indians I don't think know just what life was like in India before 1990.

As it happened, I was there in the -- early in the late 1960s and early 1970, trying to do -- get some feel for how costly the import substitution regime and what went with it was and decided I was going to do a case study of the auto ancillary industry which was chose in part because they were producing the parts for cars which could not be imported, of course. Neither the parts nor the cars could be imported and I can get information from both the buyers and the sellers, which was, of course, was much better than taking all the information from one side. Three shorts or for, I guess, short stories. One interesting thing was that the producers basically felt the problem was with the regime and did not recognize that their own costs were high.

I remember in particular one pharmaceutical plant in as it then was Madras where two British managers were busy telling me how their costs of materials in India were above the sales price of the product in England, which was true. But that night when I went home, I looked at the sales price, which was three times the price of India, so that while the cost of the components had been twice that the cost of other things had been four times that, namely, the domestic things were even more important and they didn't even know it. They told me with great pride, how they were very efficient and all that, but they couldn't understand what that took.

Second story, as I was touring India, as I was that winter for a long time, going from place to place, I was fortunate to have the hospitality of the auto assemblers, which was very helpful and in that process saw a lot of factories in the ancillary industry and related things.

And what was interesting was after about the fifth or sixth place I'd gone by or factory I'd gone by, all kinds of partially assembled things were stacked up in everybody's -- around the factory. They weren't in the factory, it was clear that bicycles were missing parts; all kinds of things were missing parts. Why? Turned out, there was one critical strike of one firm in India. And because of the regulations and the way they had been organized, the economy was so fragile that that one strike held everybody back. So they were keeping on producing and just stacking things up until finally the strike would end and they could finally get the final parts they needed for the things. That was second.

Third thing -- there was a joke at the time, which you may not think was funny, but at the time people thought it was very funny, which had to do with a very sad fellow who looked so down. Saw his friend and his friend asked why, why are you so sad? Well, he had to have surgery. Well, first the friend thought that had to be very serious. And so he said, well, what kind it has to be something awful for my fellow to be

this unhappy. And he was asked, well, it's the skin lesion they're going to take off. Well, why are you so sad? That's not a serious operation, but I have to have a local. And at that time, anything local had that bad a name. If it wasn't important, it was no good. And producers knew it because they didn't have to make it good to make it sell because there was no alternative. I visited actually the job shed port truck factory in -- along the way. And the first thing I saw as I was coming in, was there's a big fire pit in front in the ground and glass was being delivered to the factory and workers were busy having a glass to break it into pieces so that they could re-forge it and get the imperfections out because as they showed me, you couldn't see through the glass, which would not have worked very well on oven screens unless you somehow redid the glass. I could go on, I mean the stories where myriad, but it was everywhere. It was not one thing. It was not two things that everybody could legitimately blame everybody else. It was a mess. There was lots of (inaudible)about it, but I won't go over that.

The two papers on trade are both very good. Martin Wolf has a paper in there. It's fairly short. He gives some policy conclusions and so on with a great deal of analysis. I think it will be one that's read and appreciated by many. The other paper is, I think we're good in that regard, but also in documenting what, in fact, went on over the course of the things and (inaudible)office Singh, basically has gone ahead and done an excellent job, I think, of documenting a lot of what I recommended to you. Not only now, but when you want to look back on things and have questions about them, it's a fairly complete description and I think a fairly good one.

But I'm going to focus here in a couple of things where I think I can knit pick a bit and disagree. So I'll simply -- because I think that makes it more interesting and the last question is where do we go from here? And part of the answer is it depends in part on where you at. And so let me say something about -- one of the things he has

an almost as an aside, is that there's still some continued protection and that's in order to protect Indian companies against foreign competition, which shook me up because I thought one of the valuable purposes of trade was to give competition. And I suspect to protecting companies from competition is not the way to go. And I think that was very, very true in the earlier days of import substitution when nobody had any competition, everybody was a little monopolist, quality among other things, went to a negativity disordered delivery dates. So did everything else.

Secondly, I do not think the reforms are anywhere nearly complete. The big disappointment in terms of trade, which has not been in disappointment overall in, in terms of trade itself. The big problem is that there's -- India has never developed a successful unskilled labor-intensive manufacturing sector at all. That intern his bottled up about 70 percent of the population in rural areas. Those four slabs have nowhere to go, so they stay on the farm. They're out of it. There are lots of reasons for this, but many in India say that, well, because of the IT software revolution and because of what happened with Infosys and other firms, India has skipped that stage. I respectfully disagree. I think India still has to go through it and there still needs to be something done to get a lot of that wonderful labor force out of the rural areas where they're busy doing almost nothing and into more productive activities in other areas are.

There are a lot of reasons for it. Let me just tick off a few. First off, is just the problem that basically there is very little that anybody can do to get into the formal sector of the economy. I have a friend, or I had a friend, I haven't seen him in several years who came back to India, decided to do an economic consulting firm and when he had 25 economists working for him, he decided to he ought to make an affordable sector enterprise. And so he began the business of getting the formality approved so he could be in the formal sector of the economy. When I last saw him was

about three years after that and he was still working at the process. He put two people on it full time and could not get it done within three years. And I don't think that was unusual in any regard.

Things took forever to do, the formal sector employment as last I saw was 17 percent of total employment. That is a shockingly low number and more than half of that is in the public sector. Private sector has very little formal input. You can't be formal unless you're big and you can't get big if you're small because you can't do it. And so there's sort of a Catch 22 in the whole thing that's very hard. On top of that, the Industrial Relations Act is far too much power to unions. Employers were geared out, as they say, or locked in their offices because they wouldn't give appropriate change in compensation or whatever it was that workers had to work that day. One union would go on strike one day, somebody else would organize another union the next. The industrial production after the reforms tripled between then and about 2005 with no increase employment in industrial industries, done. Three times the output. You know, therefore, that some capital went into capital saving techniques which could have been used for more employment had there been a different regime. I could go on, on that. I feel strongly that is really a crime against humanity for those poor Indians who were stuck outside.

There's also, by the way, a land bottleneck. If you haven't seen an excellent book that Ari Suri wrote some years ago called Governance. One of his early chapters described when he was first Minister for Disinvestment, which at the time was a polite word for privatization. And he describes how the first thing he wanted to do was privatize some hotels. The only problem is it couldn't be done because the government of India couldn't find titles to the land. The government could not find titles to the land. Think about that for a minute. If the government couldn't get titles to the land, think what

a private sector entrepreneur wanting to do something and go through. As you know, Tatas had the proposals for the Nano. It may or may not have been good on other grounds, but they couldn't do it because they could never break loose the land to do what were they wanted to in that particular case. I could go on, but no time.

Now, we have a Prime Minister Modi saying he wants "made in India," There's nothing wrong with that. I want things made in India too. I want more of them. I want more productivity and more people outside the informal sector in more productive work. But what he's proposing is not the right way to do it. He wasn't -- you need to do it, you need to get a level playing field and you induce more efficiency and more competition and more ability to sell at reasonable prices and compete with foreigners and so on. You cannot do it. I -- there's -- nobody's done it yet by imposing tariffs and protecting and subsidizing individual companies and individual industries at different rates. And without sufficient exports, who's going to go into the export business in that circumstance? Everything is too unpredictable and that's been proven over and over again. The Modi Government, I think just last week or week before raised tariffs on imports of about \$19 billion of goods, which is eight percent of the total on the grounds that they were not essential and it was supposed to help correct the trade imbalance. Trade, not goods and services, trade. And, of course, India's exports or services is what's just trade, but nonetheless, to do that, that's what they said. And yet, as every economist has taught forever in Econ I or even in high school Econ, you cannot correct the trade balance by imposing tariffs. It doesn't work and it won't work, nonetheless, that's what the prime minister is doing now. So I would argue that at the moment, we are seeing a bit, and I hope it's only a bit of backsliding, but backsliding it is.

Last set of comments I want to make quickly, agriculture where I think I have more disagreements. There's just a study out by Gulati Foradi, a Jew which

estimates that if you take the subsidies to agriculture, which are about 8 percent of GDP, or about \$170 million crores of rupees, if I have my digits right in crores, I can ever do it right, but at an event and the minimum support prices, which the government of India imposes, which are below market and export prices, the net protection to agriculture, which does vary by crop on average, is about -6 percent of GDP. Agriculture, he says as average tourist of 54 percent on imports, but that's a funny number because it doesn't include all these other things, the subsidies that go to some and, of course, the minimum support prices and so on and so forth. It also, as far as I can tell, doesn't include in rega (phonetic 0:34:16), which of course in a way has very big distortion to affect sunlight and agricultural labor and other things. But I couldn't tell whether that was included or not. If you were -- but the (inaudible) at all study does conclude that the return to the poor in the rural sectors on spending money for public money for investment is much higher than that. I'm passing money to them directly and if you took that subsidy money, which was as I said, 8 percent of agricultural gross receipts and since they spend money is much more than that of net income and instead took those subsidies and put it into investments in that would increase agricultural output. It would already raise -- on my back of the envelope, the estimate is probably average per capita income and farming about 20 percent with a bias toward helping the poor.

So it would be fiscally valid, good. It would be equity good and it will be productivity good. It will be all three and yet somehow it hasn't happened. So my conclusion and I'm going to quickly, is reforms have done much, but there's a long way to go. India started down the track and boy, they needed to do some things and they did them in those first things have had a big payoff. Like Rakesh, I hope that that seems to be the case that goes into the second step and then everybody learns that that worked before and does it again. India in the 1970s and 1980s, everybody said, well, we can't do

the reforms, we can't trade in the world economy because the competition is too stiff.

There's too much protection in the world and so on and so forth.

Some other countries at that time ignored the protection and went ahead and did very well. I think India could learn from that to do the same thing now despite the fact that the world environment is not quite as good as you were, I would like. Thank you.

MR. AHAMED: Thank you. And I think we'll come back to the manufacturing versus services issue, because it's one of the most intriguing aspects of India as a country. So next set of questions is directed to Ajay and as Rakesh said, the self-admitted shortcoming in the whole economic transformation was in the areas of health and education. So can India grow with the sort of abysmal indices that it has in human development?

MR. CHHIBBER: Yeah. Thank you, Liaquat. Let me just say that just before I get to a health and education, let me say that I've been part of Rakesh's lunch group in Washington and Delhi for many years and I knew he was up to something, but poker faced as he is, he wouldn't reveal what he was up to. He would keep asking these questions about various topics to everybody and take it all in and now, I realize how big a project he was undertaking and I must commend him for it and Brookings and everybody involved with it. As we were discussing earlier, not many people buy an edited book, but this is one worth having. So please do buy the book when you leave today.

Coming to your question, Liaquat, let me say that -- let me also just say one more thing which is, and I think you are beginning to bring it out Rakesh, which is a while there was an IMF program and a World Bank program, these were genuinely homegrown reforms and having, I mean Kamal is here and I was not associated with the Indian reform, but I was associated with him on the Turkish reform after the 2000 crisis and that was another very good example of a homegrown reform. So I mean, those are

very important because IMF and World Bank programs work well in certain places, but don't work well in many places. And I think the key is whether the reforms were homegrown or not, and the Indian case clearly brings it out because it took a long while as Montik's paper and the book brings out to get all of it actually done. And that could only have happened if they were genuinely homegrown reforms. But coming to your question, Liaquat, you're absolutely right. There are many things that were missing and the book brings them out, but the most -- one of the most glaring is the health and education. But I would add to that also more importantly from the work that we know now, a WSH, water, sanitation, hygiene. And although there's no chapter in the book on WSH I think that is a big, big missing element in addition to health and education. On health and education, I mean, we've known for a while that we -- India was way behind. I mean the UNDP's Human Development Index, where India is 130 out of 189, shows that very clearly more recently Amratian and John Drees have shown how Bangladesh has been doing better than India and nobody wanted to actually accept that. And now, with the World Bank's latest human capital index that was unveiled in Bali where India's score is 117 out of 157 countries and Lourdes and Nepal, Bangladesh and Sri Lanka, and certainly Lourdes and Putan, Putan was in that index. It's only here doing slightly better than Pakistan, which is no great achievement.

India is, of course, disputed the index itself and maybe there are quibbles with the index, but I think the weight of the evidence is that it's a glaring, missing item in the reform. And part of it I think is -- that it's a broader issue of public finances that India has never shifted despite all these reforms. It's public finances to what would be required for a genuinely developmental state. So we are underfunding in health hugely. India as health expenditures -- public health expenditures less than 1 percent of GDP. Underspending hugely in education. It also understanding for a long while on

infrastructure and the fact that we have a huge banking sector problem today is partly because we haven't opened up the space for -- in our public finances for these genuine expenditures in, in these areas. So there's a broader public finance, a shift that is required if you really want to move faster on the growth rates. And I think that, that plus now with this whole issue of water sanitation and hygiene is a big, big glaring problem that India will have to address in addition to all the others that -- and some of which Anne mentioned like labor market reforms and others, et cetera. Thank you.

MR. AHAMED: Thank you. So Alyssa, I think one of the most fascinating things that Rakesh pointed out was the fact that there was this remarkable degree of continuity across different governments in the reform process. Now, there has been a similar transformation in Indian foreign policy, particularly towards the in relation to the US. Was that the same degree of continuity in foreign policy? What explains this degree of continuity, either in economic policy or foreign policy?

MS. AYRES: Thank you for that great question. Let me also joined the other panelists in commending this volume. This volume has chapters on almost every aspect or sector you can think about and how the importance of economic reforms shaped those sectors. There are several chapters on reforms and Indian foreign policy and so for people who are focused on foreign policy, those are very rewarding sections. I would encourage everybody to make sure to pick up a copy on your way out after the end of this panel. So Rakesh asked a question about continuity. Continuity and thinking about economic reforms and continuity and thinking about India's foreign policy evolution. Let me say first, I think that these are related questions. I think that as some of the chapters in the volume point to the beginning of India's economic reforms took place right alongside with the end of the cold war. So India was beginning to become a more open market right at the time that for a lot of us, certainly for many of us in the United States, it

seemed as if the end of history was here and that markets had indeed won and that was the future of the whole world.

Of course, now this is being called into question in a variety of ways, but I still believe that the reform process in particular, India's economic reform has unleashed the economy in ways that we couldn't have imagined before 1991. The continuity in the sense of India's economic reforms, I think it's true to say that there has been a continuity in believing in the importance of reforms, but it has not always been the case that governments, whether coalition or single party majority have been able to effectively implement everything that some parts of the government would like to see implemented, and that is where you have a real challenge in India and I expect this to continue because it isn't the case that everybody always agrees on what exactly needs to be done next. You can even take a look at what's happened with the Modi government since 2014. A government that actually ran a campaign focused on reform and governance and found itself stymied on some of the really tough reforms. Reforms like as Professor Kruger mentioned, land -- land reform. This is very difficult to take care of in India. The Industrial Disputes Act, the labor reforms that could help unleash a manufacturing sector in India and help India move to the kind of economic growth at the bottom of the pyramid that countries across East Asia have already experienced. Those are reforms that remain very difficult to convince publics of their merits and so you have a continuity in the idea of reform and what it can do for the country, but not a consensus on some of the really, really tough politically divisive kinds of questions.

And so in foreign policy, what I think has happened, and I take a look at this in my own book, I think that the growth of the Indian economy and India's economic heft on the world stage has helped added to India's rise to global power. India had for decades, particularly during the narrative years seen itself as a foreign power of moral

leadership. Economic growth has helped move India into the world of being a desirable market where businesses around the world want to be there, want to compete in and so you see the rise of the intersection of business and foreign policy. And I think that's actually been quite important for India. It's been important for the way India sees its own interests internationally. You now see business lobbies in India that have their own ideas about what Indian foreign policy should be pursuing around the world. Chief among them are issues related to India services sector. It's very important for India to talk about a movement of persons, for example, mode for in trade negotiations. India is kind of a world leader on that front and you see the way that businesses around the world in prioritizing having access to a level playing field in India has also raised India's visibility on the world stage in foreign policy.

So you have a continuity in that sense, but you also have some differences. Let me talk about another aspect of the geopolitical change that's taken place, that has been unfolding sort of simultaneously to India's ongoing economic reforms. And that is, India is slow transition from the world of non-alignment to thinking about strategic autonomy to now, currently having a focus on multi-alignment or the world as a family. The world is a family. We can see that that India has been focused in its foreign policy, geo-politically first in not formally participating in any of the camps of the Cold War. As the Cold War ended and markets became more important than as India's own economic reforms became an important part of its domestic as well as its international priorities. We saw non-alignment starts to fade in its importance. It didn't completely disappear. It's not completely gone. But we did see a transition in India to a theory of strategic autonomy were non-alignment, wasn't the kind of lodestar for foreign policy, but the idea that India should not be formally aligned with countries in a manner that could preclude any future foreign policy decisions that became an important

component of the way India thinks about its foreign policy. And I think you see that in some of India's international economic negotiating behavior. I think you see that in a desire to try to establish relationships economically with different powers, with different countries in a desire not to have agreements that will prevent taking fresh decisions at any particular time, even though at very often the purpose of an agreement is actually to help create a smooth pathway that can enhance both countries, even though all options will not be on the table anymore.

And I think the importance of this idea of transferring India's focus from not alignments to having a kind of strategic autonomy to the way the Modi government discusses having the world as a family; having equal and appropriate relationships with as many countries as could be possible to help assist India's domestic transformation; its rise to power on the world stage. I see these as part of a very similar process.

For me, just one last comment. It will be interesting to see what future Indian governments might decide to do. The Modi government has really stopped using the framework of strategic autonomy, although in many ways seeing the world as a family is very similar to that concept of strategic autonomy. So it will be interesting to see how future governments do or do not frame this idea of how close to be to any particular countries, at any particular time and whether those decisions do or do not help assist India's rise to power.

MR. AHAMED: Thank you. So let's circle back to one of the most intriguing questions. And I'm going to direct this initially Rakesh, which is the manufacturing versus services. Because I don't think that there's a lot of disagreement, you know, there are, I think Professor Krueger expressed the opinion that you couldn't really grow by being a service only economy. There are others who say that the era of labor-intensive manufacturing is over and actually India is going to leapfrog over that

stage. And so how should we think about the excessive or the high dependence of India on services?

MR. MOHAN: Thank you Liaquat. That indeed is that, I think, one of the most important questions going forward that if I do believe that if India is to accelerate growth and not be content with 6.5 to 7 percent for the next 25 years and just put that in perspective that even if India grows at 7 percent per capita for the next 20 years, our per capita income level 20 years from now wouldn't be very different from what Thailand is today. So that gives a little bit -- it won't be much higher than what Thailand is today. Twenty years from now, even if the Indian per capita income grows by 7 percent a year for the next 20 years. So there is no -- there's no time for complacency and just pure arithmetic will tell you, right, apart from policy and everything else, that's (inaudible) will tell you that that can't happen. You can't grow at 7 percent per capita year, which means 8 percent plus a GDP unless manufacturing grows at more than 8 percent a year, near 10 percent, because agriculture will never grow it more than 4 percent a year. You'll never achieve 4 percent. So this first pure arithmetic. So those people who argue that we can grow by leapfrogging for this, just look at arithmetic. Second, that again, if you -- that -- the issue of employment as mentioned by Anne, by Ajay, a one simple a statistic that I think it was a month or two ago that the Indian railways announced vacancies for I think 70,000 lowest level jobs. Twenty million people applied; 20 million. God knows how they'll select and how they'll process 20 million applications. But that is an indicator of, in some sense, answers the crime that we have done in not encouraging a labor intensive manufacturing. That's the background.

So it is -- it remains that when we did these reforms when you were designing the reforms in the early 1990s when one of our expectations was that as we correct incentive structure to trade reform, tax reform, et cetera, and you level the playing

field in some sense, then automatically India's comparative advantage of labor intensive manufacturer will come out and we start manufacturing labor intensive goods. That hasn't happened and I, for one, really do not understand. And I mean, I obviously understand a number of issues that Anne has mentioned that is a labor reform is not being done. Some land landform is not being done. But nonetheless, I would still have expect to have some more action, not as much as you would get with labor reform. That's another puzzle in the sense that I'm the most reforms in the country have been done when they've been coalition governments. And I think the reason for that is that they have to work harder to achieve consensus, the times when we've had absolute majority's, that is (inaudible)got this time and now Mr. Modi's time, you have much less reform because there's much less incentive to reach across the aisle also and to even show your achievement because you have a full majority. So I think that that's not up to question, but it is the case that Mr. Modi's government has not done or not been able to do the labor reforms, the land reforms, et cetera. And when you sort of thing that, if you can do demonetization which inconveniences each and every person in the country, it's very difficult to imagine any action, by any government anywhere in the world when you can do something that includes everyone in the country, not that there are some winners, some losers. If you can do that, why can't they do some other things that are supposed to be popular? So yes, I have -- and to your question that it seems to be that we will have real problems if we don't focus on manufacturing. And this is a very good time because as Chinese wages are going up, there's a huge move is already started and it will accelerate. And India during large enough country that actually would take that if we really go -- become active and second, and just in the same connection that if the -- that if you do projections of growth in demand for goods over the next 20 years, so just Asia, which means China, all of here, all of South Asia, that is more than 3 billion people. Most

projections suggest that this whole region will grow at a least 5 percent a year real the next 20 years. So there's no shortage of demand for goods, including good physical labor intensive in production, even if there's some impact of new technology, et cetera. So I didn't buy the new technology issue. Of course, the labor intensity for the same good, it's less than before, but there's no shortage of demand. So the sort of fable that people put on you that we have missed the bus is not true.

MR. AHAMED: Anne.

MS. AYRES: I, of course, agree with Rakesh on that one. Simply to add that the arguments about technology, et cetera, in India were the same arguments in the 1970s and the 1980s, I mean this is nothing new. The Indians have always sort of said, oh, the rest of the world, we just missed the bus, missed the bus. So now we won't miss the bus again is what I think of it as, but a couple of other points just reinforce what you said. The first one, is yes, India's been very successful in software where in some related things. Software does not hire unskilled labor. It really does not. And yes, of course, there's what, 3 or 4 million people employed in that industry. India has a labor force of on the order of 400 million. And even if you think of software going very rapidly, that is not going to bring people out of agriculture and out of the rural sector at anything like the kind of rate at which they could be brought under alternative policies.

The second kind of comment is the land reform, which is essential to this has to happen anyway. Even if you say we won't do anything on unskilled labor we'll sit on that. The land mess has to be straightened out in my view. If India is even to sustain the 6 or 6.5 or 7 percent growth or whatever it is. And finally, just to say that the Vietnamese are very happy to see the Indians doing what they're doing and the unskilled labor stuff is shifting already to particularly Vietnam, but it looks as if Indonesia will start getting into the act too and with all of that India is once again, just sitting there and letting

it happen.

MR. AHAMED: Thank you. So I'm going to ask a question about something we haven't yet talked about, which is crony capitalism. One of the books and the shortlist for the FT book prize this year is the billionaire Raj by James Crabtree. And the book makes the point that if you take India, adjusted for the size of the economy. It has an unusually high concentration of billionaires. It's a wonderful book by the way, so a full of gossip about what billionaires do with all that money. So let me start with Ajay and then we can open it up because you're the chief economic advisor to the premiere Indian --

MR. CHHIBBER: To the crony capitalists?

MR. AHAMED: So does India have a crony capitalism problem? Is it a problem?

MR. CHHIBBER: Well, let me just say that they don't always listen to me, but anyway. So the -- yes, (laughter) the thing is that you can go even much further back. I've just written a paper for a book being edited by Meghna, Desai and Sanjay Baru on something which you may never have heard of called the Bombay plan. The Bombay plan was a plan put together by India's top industrialists in 1943. In that once India got independence, what direction should India take? So you would expect business people at that time, (inaudible)all of them were in war to have said looked at around the world and looked at Japan and Korea. I mean, what the Japanese did; what the Koreans did the tables and zygotes et cetera and got together and made a plan in which they would be the center of the future of the economic progress of India. When you read the Bombay plan, I was shocked at how much the business community of that time ceded control of the economy to the public sector.

Don't focus on this for a moment. I'll just come to this. And what's

amazing is that they said we needed, you know, it was almost like they wrote the -- what came the five-year plans that we had. The whole socialist planning system is all laid out in the Bombay plan. And the Bombay plan was not made by planners. It was made written by business people. So, I mean, this idea of crony capitalism is the word Crabtree uses, but you know, we have another word that's been used in India called stigmatized capitalism. That is this idea that, you know, capitalism is grubby, making money is bad. And this is not for India and you know, you would even have industrialists and business people with that viewpoint. Now, it's very interesting, the chapters that you see here in the book by -- Rakesh's book. Of course, you have some of the most dynamic of the ones that are there and whether they, some of them have to rely on cronyism or not is another story, but of course, the most crony of them are not in this book. But what it does show is that there is still, even the ones that are here are still heavily reliant on the government to get ahead. And that tells you that there has been huge reforms as documented in the book and a lot of decontrol and a lot of the growth, of course, in the last 25 years has come from the private sector. But yet, the government's control at critical points remains huge and heavy.

Just to give you an example, take the regulatory system, we have now 36 regulators in India and a few years back writing something, I looked at who's heading these regulatory bodies. Twenty-five of the 36 regulatory bodies in India were headed by ex-bureaucrats who have no link to that industry. No particular knowledge of that industry. They're just there because they are senior bureaucrats. Once they retire in Japan, you have the Amakudari System. Once you retire, you go and join a private business in India. Once you retire, you become the head of a regulatory body and then your attitude is, how can I control this industry, not let it grow? So you have this sort of very dual mixed relationship between business and government and government is still

looked at more. Modi started his reforms to some extent in the beginning, and then Rahul Gandhi, the head of the congress party in the opposition referred to his government as (inaudible) that in English it means the suited and booted government, meaning you are now beholden to the suited and booted business and industrial people. And as a businessman who I will not name, a member of (inaudible) said to me, yeah, we do wear the suits, but we also get the boot. (Laughter)

So suddenly with this jive Mr. Modi changed course and for several years then didn't want to be seen with business people, didn't want to be known by business people, et cetera. So I do feel very strongly that there are, of course, bad pennies everywhere, but that the form has not deepened enough and not been liberal enough so far. And that's where we need to go. And I think that comes to my slide because now what you have is with the US, with its tariff war and many countries now resorting to this, there's now a licensed being given back to many people in India to lobby for higher and higher tariffs. And a pay-for-play on tariffs is underway. We have elections coming in a few months. It's very easy to go to government and say, here's the reasons why you need to give me more tariff controls on these, these items. And by the way, I will be contributing to your political fund as well. Going back to your point about cronyism. So there is a very strong risk and several people have written about it that we could slide back to what my old professor Raj Krishna used to call the Hindu growth rate. The Hindu growth rate was the growth rate of India for about 40 years before all these reforms that Rakesh has documented started. And you know, we've been growing pretty slowly. So if you look at that possibility and the fact that if we don't fix our public finances and get more spending on infrastructure and health and education, et cetera, you have these for the next 20, 25 years. You have these scenarios where you have, going back to the sort of the 4 percent growth rate, a muddle through scenario and then, of course, if we do

have a very strong reform scenario with a much more liberal market oriented economy, the differences are stark in where we will end up by 2030, you can see already that you could double --

MR. AHAMED: So let me ask each of the panelists before we turn it to the audience. You have to pick one of those. And I think I know the answer. They're the onset of the oral going to be optimistic, but what do you think? So Alyssa, let me start with you. Because your book is very optimistic about the future and you say something like the next 25 years could be even more transformative than the next. I'm assuming you, you are going to pick the 9 percent.

MS. AYRES: Well, yeah. I am optimistic about India's rise to power on the world stage. That doesn't mean that I think that India will solve all of its problems. Not today, not tomorrow, not perhaps in 10, 20 years. India has many problems. I think we all know what they are. They are on the front pages of the news every day and it's not a secret. So I do think that we are seeing India reach out; become more confident on the world stage; demand more from the international system of governance and we are seeing more of a push within India to enact some of these reforms that will help it get to that stage. But it isn't easy and many of these reforms continue to be politically, difficult to enact.

So I would say we are likely to see a muddle through local highway, though I would love to see a golden turnpike. I just think that the political dynamic is such that you end up not often seeing the golden turnpike.

MR. AHAMED: Okay.

SPEAKER: I mean, I'm very watered that we have sliding. I'm very worried that at the -- at this point I'm very worried that we're sliding back towards the dirt road. Anne already told us all about the tariffs that are being raised. And maybe the

GST that you mentioned will help increase public finances by 3, 4 percent of GDP and hopefully, all that will go into the health and education. But you know, I'm very worried -- we're probably likely to be in the muddle through, but I'm still very worried that we could slide easily into a dirt road, especially if the next election does not show very -- despite what you said about coalition government, if the next election doesn't show very clear results, then we could have a slight back taking place.

MR. AHAMED: Okay.

SPEAKER: I'm glad to find a location of disagree. (Laughter) Because there's been too much of agreement around here. I disagree with you, Ajay, that -- no, I'm sorry. I agree with you that we're likely to go in the muddle part, otherwise known the middle path. I disagree with you that we will not go back to the dirt road. I'm certain of that. And third, I think it's very feasible to go on the turnpike.

SPEAKER: On like, 30 percent probability? Put a number.

SPEAKER: It'd be difficult to put a number on feasibility.

SPEAKER: Okay.

SPEAKER: Right, feasibility is something that can happen. Right? But what my point on that is, that it is not a pie in the sky, right? What I mean by the feasibility is that, look, if you take certain decisions and certain steps, you can clearly do it. I do think that it will only happen if you don't have an absolute majority in the government, whoever -- whichever party at maybe regardless of party.

SPEAKER: And you get to primal thing. Are you an optimist or a --

MS. AYRES: I'm in between a lot of things in the sense that I think if it's muddled through that the growth rate cannot stay 6.5 or 7, I think it will fall somewhat. I think that much of the gains from what -- things were terrible and there were a lot of big, big gains and rightly so from the (inaudible) were made, but lots needs still to be done.

And if things more or less stay where they are now, then I don't think you get that 6 or 7 percent. I think you'd get back to 4.5 or 5.5, somewhere like that. Now, you mentioned, of course, what some of the reforms -- I think the bankruptcy reform, if it works, could also be very important in doing the second industry thing in India has been huge as a drag on things and that could be corrected to some extent to some extent even better enforcement is something of the right things, not all things in India that could make a difference, I think there can be fall back, I was a little bit discouraged of some of the things I read. Our pronouncements by people whom I thought, believed the reforms who nonetheless think that there are ways of going back, you know, we could do this, we can do that. The rhetoric has not changed as much as the economy has changed and I take that to mean the thinking has not changed as much as the economy. And that gives me more concern about fallback.

SPEAKER: Thank you.

MR. AHAMED: Okay, we opened it up to questions here.

MS. AYRES: You've got one over here.

MR. AHAMED: Come on up.

SPEAKER: Just two, the mic is (inaudible 1:11:21). The first point is on the labor intensive manufacturing. I do believe this is absolutely a key given the numbers and I don't think we -- any of us fully understands how the new technologies are going to affect production. So I don't want to take a position there, but I want to say that it's going to be extremely important and probably should be looked at together with the education sector because the labor substitution that's happening is dramatic. And so, this is a strategic point that I think one has to look into because you need that labor-intensive manufacturing, but what kind of technology policy that goes with it, I think it's very important. The other quick -- it's not really -- I wished somebody wrote a comparison

between India and the European Union because really, I mean one of the key factors of success that India has achieved over the decades is something the European union is unable to achieve. And I just want to make that comparison because in many ways India and the European Union are comparable in terms of different languages, religions, different sides of countries and so on. So I think it is a very interesting point, which maybe hopefully one day I'll have some time where somebody will have some time, but it's a fantastic point. I mean, the fact that 1.3 billion Indians have been held together in a democracy with the tax rate now being equalized partially across states and all that. It's something really remarkable.

MR. AHAMED: Thank you. So (inaudible)and then we'll go to the back.

SPEAKER: I'm just going to build on Kamal's point. Okay. So let's start with first about human capital development. If you just look at the university rankings that just came out, in the top 200 universities, India doesn't have a single university, right? The US has 60, China has seven, India has zero. The second issue that I think is that we need a much more efficient legal system, which the common man can really rely on employment generation in India is going to be almost impossible without having a fantastic expansion of the middle stand in the small scale industry, okay, and for that you need in a sort of a capital list democracy, a legal system that can adjudicate contracts efficiently and quickly.

Third thing is that, as Kamal said, with the digital revolution, which we're sort of at the early end, it's going to be much more difficult to create employment and what we are seeing around the world is that to grow in this sort of so called transformative economy, there's going to be a much, much healthier relationship between the private sector and the state. Okay. We're increasingly dealing with information issues with dealing with data and there it has to be a partnership between the public and

private sector because the lines between private and public and becoming more and more diffuse. And so unless the state develops the capacity to actually becoming a partner in, say, fundamental research in creating the universities, it's going to be very, very hard to see that golden turnpike result materialize and not have time to do some kind of muddled through.

MR. AHAMED: Great, thank you for those two comments and we're going to point you Henri panelists, but from now on everyone has to ask a question at the back. As I see a hand up. I'd like to congratulate Rakesh and his group that had written this book because I think we have a huge amount of information, questions which need to be answered and I think it will provoke the kind of debate which will be productive. I found one fascinating lacuna in terms of coverage and I'd like to ask why Rakesh why this was left out because I think it could make a huge difference to economic development in India and that's defense production. Was this looked at and now the small stumbling steps to bring the private sector into it and so on. But this, to my mind, when you look at what President Trump says, you know, his main foreign policy decisions are based on defense production. Why is this not being looked at in India?

MR. MOHAN: I have good answer to that. I didn't think about it to be quite frank.

MR. AHAMED: I did see that India is the largest buyer of the world.

MS. AYRES: But that's not having (inaudible 1:16:52)

MR. MOHAN: Yeah, it is -- it is a bit of, it is actually very interesting. We talked with the private sector production of in defense of that, whereas, we never allowed private sector production of defense. Obviously, all the arms that we buy except for Russia are from private sector companies abroad. There is one issue though that does come up which actually is coming up right now in terms of debate in the country, that

defense production implies that really leads to crowning capitalism just because there's one buyer that is the government and because defense equipment prices at (inaudible) are non-transparent and so there's a real governance problem in terms of defense. Of course it comes, the issue comes even from foreign companies, so -- but to think of the kind of governance you would need to have a good "private sector defense production" is something to be thought about. So to answer the question is that, look, I didn't think about this issue partly because it's not a resident in the sense that wasn't private sector production. But yes, it is an important issue on that given the kind of -- given the size of the country and as Alyssa has been saying, that it's the position in the world that you will need to have a upgradation of Indian defense equipment and so what do we do? How it should go about defense equipment?

MR. AHAMED: Just on this end, one or two other issues just to say that I think it's a very good question because now that I'm working with the Chamber of Industry and Commerce, this isn't the way of the lowest hanging fruit because as you said, Rakesh, India is now the world's largest importer of weapons. And if you cannot even produce a kind of a Kalashnikov rifle, I mean, if you can send rocketry to the moon and it's amazing that you can do that and you have private industry now that is quite capable of at least starting at the low end of this not necessarily at the highest end. And I think there are creative governance solutions to the problem that you have raised, Rakesh that's possible with the parliamentary committee that can be multiparty, that can look at it and et cetera. So I think this is an important area just to say to Kamal on the EU, I mean, I've often thought about this issue okay, because we have, you know, differences between the parts of India just like you, if you go in from Norway to two all the way to Greece or somewhere else, but the big differences, of course, that we have fiscal unity that we have, you know, no, it's not partial. It's very well I mean, there is a partial

and it's becoming less and more and more sort of a combined. But we do have a fiscal sort of debt system that has some rules and regulations that states have to follow, et cetera. So I think that's a big, huge difference between us. Now, of course, I wish India could be at the level of development as the European Union, but we have a lot to learn from them. But on this issue, I think the history is quite different between the two -- how the two came together. And so that's a big difference. And I think on your point on governance is very important because the -- that's fairly well documented in the book, but more than judicial reform, there's police reform and then there is very basic administrative reform.

People forget that if you look at China or Malaysia or some of these countries, they put equal importance to economic reforms as they did to administrative reform. Premier, Tru Wong G carried out a major administrative reform in China 15 years after Deng Xiaoping started the economic reform. In India, we did think about it. An Administrative Reforms Commission was set up. And there was the possibility that in the second UPA government, after 2008, 2009, some of that would be carried out by Dr. Manmohan Singh, but maybe it was the global economic crisis or whatever the reason, that just stalled over there and has remained stall. And In fact, I think Mr. Modi probably likes the way that things are because he likes to use the existing administrative system to implement whatever he needs to implement. I mean, he looks upon it as the -- that the IAS system that sits in India and the regulatory system where you know, the prime minister can control everything through these bureaucrats. In fact, people say that he even bypasses his own ministers and works directly with the bureaucracy, so he actually likes the system sort of top down command and control type approach and therefore, is unlikely to therefore, carry out in a major administrative reform. But it's badly needed.

MR. AHAMED: Vanessa?

SPEAKER: I just wanted to add a note on the defense question because I think it's very important when you do the revision of this volume 35 years of economic reforms in 10 years. I think the defense sector would probably be one that's included because that is a sector that's developing as we speak. We've seen how important India's own defense requirements are for its own security and it's immediate region and beyond. India's ambition to be the power of primacy across the Indian ocean. India needs a lot and so developing that defense sector has been an important component of India's diplomacy with the united. You can see the defense trade and technology initiative has been an aspect of US-India relations that is consistently deepened over the course of the past eight years. I think it is likely to continue deepening and you can see this as a piece of India's diplomacy with its other partners with which India has very deep defense ties as well.

MR. AHAMED: Great. Any for any questions? Oh, wow. Suddenly everyone comes out. So that -- I see a lady in white hair.

SPEAKER: Good. Hi, I'm Meg Lungsinger and I worked with a Rakesh on the IMF board, which was a pleasure. But my question is, what's the role of foreign investment in trying to bring about this reform path? I expected to hear more of that frankly from each one of you. I mean, there were tangential, I think touching on it and a lot of the reforms you've talked about I think have a big influence on foreign investment, but what's the scope for that to get you to that, that high road in terms of the growth rates over the next few years. Thank you.

MR. AHAMED: Great. So who wants to take that?

MS. AYRES: Yeah, well first off, I think foreign investment is most productive when the framework free private economic activity within the country is appropriate and in those circumstances, it can play a nice complimentary role if the

country wants it. We have had countries however, such as Japan and Korea, which have developed a very satisfactorily without direct foreign investment. They haven't wanted enough of it and they haven't taken it and it's perfectly okay. So I see the economic policy framework is central and if then, FDI is encouraged and forthcoming, fine, but I do not see it as a key to development or anything like that.

MR. MOHAN: One comment on that, Meg, is that the fact that we haven't mentioned it, is itself a comment, which is that it's become so accepted and normal that if I was speaking here like in the '90s, I would have really talked about how India is opening up to foreign investment. It was a big deal at that time. Now, it's kind of normal and it's part of total investment, this domestic private sector investment is foreign investment. So you don't even think that it's a big deal and in terms of numbers, it's kind of normalizing it around two percent of GDP, net FDI flows into the country, that in addition, portfolio and flows, et cetera. To put on a macro framework that it can't be much more than that because if you that the net capital inflow in terms of absorption gone to be larger, the current account deficit, of course, there could be more if you're putting stuff into reserves, et cetera. So given that India's GDP is around 2 trillion or thereabouts, a 2 percent means around 40 billion or so, that if you thought, look, can we have a hundred billion a year, foreign investment if that were 5 percent DDB current account deficit to absorb this stuff. So in that sense, I think to three percent of GDP, 40, 50, 60, 70 billion as the economy grows is about appropriate. It is very important in the sense of being connected to the world. What has not happened in FDI in India, which was very important in China is what everything we've been talking about. That is, we have not had almost any FDI into labor-intensive manufacturing. That's why India is not connected in the global supply chain and that is extremely important and now what we need to do is get the Chinese to be investing and we have to be actively going out,

grabbing them and bringing them to India and that, of course, is not happening.

MR. AHAMED: Okay. We've got a couple -- time for a couple of questions. This second row.

SPEAKER: I was wondering if the panel had read Noel Carney's Rebooting India, which is about why spent 10 years developing The Billionaire Person, A Digital Identity because he then goes on to use it to say about 20 reforms that can be made in government. And I would never think my scenarios would be maybe 9 percent of you're reformed government. Naught percent if you don't.

MR. MOHAN: So I think yeah, so I was actually in the government when he was doing it and so I had a chance to meet him quite often. And it's a very, very critical reform, but there are issues with it. It has helped in many ways in reducing leakages and all kinds of things. The potential is huge, but there's also severe criticism of the fact that it is also now leading to some exclusion of particularly very poor people who cannot easily get these cards and get themselves registered, et cetera properly. And the costs of it are also high. So it's an ongoing debate at this point in time, but I think India is clearly moving in the direction of having a universal card. And there's also a huge confusion in India. Nilekani himself when you talk with him, he says this is not a this is not a card to verify your nationality, but that is often the way it is also sometimes being used. He thinks of it as just a simple ID card, but that can be helpful to get. So there are lots of issues with it at the moment, but it's sort of creeping along. And I think the weight of the evidences that now there are, what, 800 million, 900, million -- almost a billion. More than a billion people have already gotten onto it, so there are glitches with it now. There's also now, this whole issue of data privacy that has come up, but that's a broader issue than just, I think the other card, but the digitalization itself, if it can be made to work, can be of huge benefit to India in many ways. And in fact, India would be quite

advanced in this, in the developing world.

MR. AHAMED: Time for one question.

SPEAKER: Just this one. I had actually asked him for a chapter. He was too busy to write it.

MR. AHAMED: So the second row, this lady.

SPEAKER: Oh, thank you for this great talk. My question is, what is the impact of the rate of population growth, positive or negative on the economic reforms and transformation? And I have grown up in India in the '50s, '60s, '70s, '80s. So I know what it was like the difficulties before.

MR. MOHAN: So we're already at 1.3 billion and this -- all the projections are that we will peak at 1.6. No, it may be that it will come down to 1.5 in the end. I don't know, somewhere in that range, but we'll certainly be the largest country in the world. The more interesting issue is there's a huge divergence in the growth rate of population between different parts of the country. So the southern states which have developed first and fastest are actually growing. Population is growing much more slowly, and the big issue will be when we, the issue has already come up. Our Finance Commission is working right now under encasing and his team and one of the big controversies there is how will you allocate resources because you know, you get this resource allocation through the Finance Commission based on -- partly based on population and the southern states and some of the northeast states and also West Bengal are arguing that because they have done well under development and therefore, have reduced the population growth rate, why should they now be penalized in the allocation of resources? Because some of the northern sort of so called the cow belt as it were, the UPB, where development has been much less and therefore, population growth is much higher will end up with a much larger population. So this is one minefield that

Mr. Encasing will have to -- and I'm sure he's adroit enough to deal with it, but I'm just raising it. A bigger problem is going to come in 2026 when the allocation of seats in parliament will be -- have to be a revised and then, of course, the southern states who are already clamoring some of them for we should succeed, et cetera. That will become a huge issue at that point in time and I'm sure there are creative solutions like in the US, you have Vermont and small Idaho gives to senators and California and New York have to senators. I mean, there are solutions that are possible, but these other issues that the population dynamics, among other things are going to throw up in the coming years as well.

MS. AYRES: Very, very quickly. There is a second issue which I think is probably some subordinate to what you said, but then so difficult demographic dividend is happening in that, the note fraction people within the working age group is rising relative to both deal, especially relative to the young, but right now. But that's going to be a temporary thing and as that group goes through, if there hasn't been something done on the labor front by that time, it's big trouble for whole variety of political and economic reasons.

MR. AHAMED: Great.

SPEAKER: If we could just --

MR. AHAMED: Okay, we're about to draw to an end. Maybe you can take it offline.

SPEAKER: Yeah, sure. Okay.

MR. AHAMED: Well, I want -- can we give a big hand panelists?

(Applause) Particularly, the editor.

MR. MOHAN: Thank you very much. Thank you. Thank you for coming in.

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