LA FORZA or THE FORCE:
SWOTING INDIA IN A GLOBAL CONTEXT

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Explanatory Note

The present essay is based on various talks that I was called upon to deliver recently. Economics Department of M.S. University, Baroda organized a National Seminar on Stability and Growth in the Post reform Period in India where I delivered a Key Note Address. Then I was invited to speak at an International Symposium with the theme LA FORZA held at Bologna, Italy (hence some specific references to Indo-Italian trade, although much of it carries over generally to other countries). Lala Lajpatrai Institute of Management held a Seminar of Innovations in Rural Marketing where I delivered the Valedictory Talk. IMC organized a high powered economic convention on the topic of Indian economic growth where I was invited to be a panelist for the theme of Center State relations. Thus, the essay reflects thinking on the current Indian situation as talked about by me at these various forums.

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Preamble:

The theme of this essay is ‘the Force or Strength’. Obviously given the size and age of the population, the type of polity, the diversity of her social fabric and the strength of the economy, Indian nation clearly is a potent force in the current global context. However, force by itself is a double edged sword, on one hand, it can become an instrument of transformation, positively influencing lives of millions and on the other hand it can be divisive force that tears the nation apart *a la* a storm with its destructive power. The challenge hence is to support this force with a sense of purpose and channel it into productive avenues through wise strategy – both in terms of conceptualization and delivery/implementation. It also crucially requires commitment on the part of all the stake holders.

India thus is at the cross roads, on the one hand her time has surely and truly come on the other the internal tensions can rip apart the socio-economic and political fabric and set her back. Inheriting the age old heritage of culture, it has been built upon by freedom fighters with their enduring values and seeking unity within diversity. India has had the luxury of being blessed with relative macro-stability in terms of crucial macro-economic variables. There has been a remarkable continuity in her policies be they domestic or foreign. It is well to remember that India is essentially an *idea* and realizing it is a continuous process and we can ill afford to let our guard down – and take things for granted – even momentarily.

The fact that we have been able to transform an economy with low literacy, life expectancy and incomes into one at a higher plane within a mere generation is in itself quite noteworthy. In the recent past, Indian Economy has been experiencing a tumultuous passage of time, at once challenging as well as one filled with many possibilities. One of the special features of the current past has been the fact of growth at around 9 percent. All the macro level economic variables (real $ growth, exports, FDI, Investment/Savings et al) seem to be headed in the right direction. The recent global financial melt down and the consequent recession will undoubtedly cast its shadow on India, but I believe that it will not be too significant in relative terms. Indeed I feel that if we play our cards right, India will emerge ever stronger and attain a place of importance in the comity of nations. The Goldman Sachs paper (BRICs Report) predicts that India will, between 2015 and 2050 surpass all major countries in terms of growth rate. I will unabashedly argue that this break from the Hindu rate of growth is a good thing, and for all its accompanying faults – that I will refer to – I love it and let no one try to persuade me otherwise. The consequences and analysis of this feature will be the recurrent theme of my talk today.

What I attempt here is to begin by dwelling on the defining parametric environment that I believe, must be borne in mind whilst discussing ‘contemporary Indian scene’. The fact of globalization and the fractured India polity define the parametric environment for the Indian policy makers in their pursuit of the reform agenda. Governance, Decentralization and further opening up form an important subtext of the main theme. In what follows I go on to look at the growth process severally. First I look at the temporal macro picture to discern any ‘phases’ that may be evident. I then comment on some of the sectors as well as State wise growth experience in the post reform period to see if there is any obvious sign of exclusionary character attached to the growth process. I then comment on the related aspects of livelihoods, employment and poverty. Finally I suggest some of the policy measures that – in my opinion – need to be taken so as to transform the challenges into possibilities.

The Indian Political Space:

The Indian freedom struggle is too well known for me to dwell upon it. I will however point to one of its off shoots, viz., emergence of the 'congress system'. The Indian National Congress was never meant to be a political party – indeed the great Mahatma had called for its dissolution – but it did emerge as a dominant force for many a decades post independence. Although India has a federal structure albeit not in the classical sense it is essentially a Union with a strong centripetal bias with the constitution ensuring an overwhelming and overriding power to the central government. The political scenario in recent times has been such that more and more ground has had to be yielded to the states. The days of single party domination are long past and coalitional politics are here to stay. The regional parties have been gaining ground for some time now. A more recent trend has been emergence of strong local leaders even within the National Parties. The continued fractured mandate (as far party political strength is concerned) means that the situation is full of potential issues. More than ever before the 'political feasibility' in a fractured and heterogeneous domain of Indian polity will present a biting reality. **However, as an aside we may mention in the context of decentralization effort, that such a situation could be turned on its head to bring more progress – *rather than less* – on the front of empowerment of local bodies.** This belief is supported by a couple of rather hazy propositions about the link between political structure and decentralization. One, that the ceterus paribus, ***Central government is far more pro-decentralization (including financial devolution) that the State level government.*** The reason for this is simply the threat perception resulting out of the decentralization by the governments at the two levels. Since the disutility arising out of sharing resources (economic and political) with others is independent (it is a matter of indifference) whether the sharing takes place with one or more sub-national governments. Whereas for the State government it matters how much it actually devolves lower. Second the 'distance' and 'level' considerations also lead us to believe that decentralization threat is perceived to a much greater extent and immediacy at the State as compared to the Central level. Two, ***regional parties would – ceterus paribus – be more inclined to decentralization. More specifically, political parties which derive their strength from regional agenda (which are necessarily people-touching and participatory) and generally parties that are cadre based are more positive about decentralization.*** This is because the party structure continues to be prominent whether the party is in office or out of it, thus official/ elected positions do not grant sufficient powers to provide a threat to higher level functionaries (in office as well as the party). Finally, coalitional government at the central level – especially with one national and others essentially with regional identification – will present sufficient checks and balances and hence slow down and restrict the process of reforms to more conservative proportions and at the same time augur well for an effective big push towards effective decentralization. *There is an important caveat that must be added and that is:* ***we can do altogether better if our political parties exhibit greater maturity in discussion and passage of bills in a bi/multi partisan mode.***

India Growth Story and Exclusionary Subplot:

That recently India has shown remarkable growth, as mentioned earlier. This has many consequences both positive and negative. In recent times, the upswing in the secular rate of growth of the Indian economy to around 8+%, wherein it has managed to significantly break away from the 'Hindu rate' (3.5%) has had positive impact on the way in which India is perceived the world over. This feat is especially noteworthy because it has been achieved by a country whose democracy has been often characterized as a *functioning anarchy*. The current growth experience and its impact on the macro-level fiscal and income variables – in terms of the positive growth dividend – must finally put to rest all the anti-growth rhetoric. ***It is amply clear (in the context of growth scenario) that all the good things – in social sphere, in terms of inclusion – can now be realistically afforded by the Indian policy maker, perhaps for the first time!***

There has been tremendous buoyancy in the revenues accruing to the governments so that they can do many welfare enhancing activities. However the buoyancies have been skewed in that the Central government has been a beneficiary to a much greater extent than the States, not to talk of the local bodies. This has led to encouraging the '***centripetal mendacity***'. The discretionary subspace with the States has been shrinking and the preponderance of Centrally Sponsored Schemes with their conditions and matching demands have left the States fuming. This is especially important since most of the social sectors fall within the purview of the States. The ratio of Central to State budgets which was 1: 1.6 has come down to 1: 1.2 which given the current political reality is fraught with possibility of dangerous tension. Further the growth by nature being non-homothetic has meant that there is an unmistakable exclusionary subplot to the growth story.

Inclusion then has to be at the epicenter of all our policy strategizing. It is important to understand that our insistence of inclusion as an embedded part of the strategy is not dictated by ethico-moral considerations (although these are not bad reasons either). It is a pragmatic position born out of considerations of feasibility and sustainability of the much needed growth phenomenon, within the Indian socio-political milieu. This has two implications, one, for purposes of satisfying the very important tenet of inclusion, greater weight needs to be to be given to social sectors in a targeted and performance based manner. Two, it is crucial that the growth (even when somewhat exclusionary in character) has to be sustained, with the further implication that the design of **any policy strategy must have incentive compatibility meaningfully as its cornerstone.** Having taken care that the growth rate regime is not jeopardized, the essential step will be to concentrate on the 'inclusive' aspect of growth. Growth is after all only an instrument that strategically will ensure that development takes place. Inclusive effects are intrinsic to the process of development – properly understood – and surely require focused attention. I believe that not only does this make good economic sense but happily makes good political sense too. Inclusion then is at the very heart of the matter. Much ingenuity will have to exercised and much will have to be drawn from the Indian experience is working out a strategy that will dovetail it with the forces at play (policy induced as well as autonomous) within the Indian socio-political economic milieu. Inclusiveness may be said to have two dimensions, one in terms of sectors of economy and two in terms of groups/ persons who have been by passed by the growth process. Inclusive growth is a complicated phenomenon involving coordinated role of actors such as Local Bodies, State and Central Government, and NGOs (SHGs) amongst others on one hand and the vision of a new architecture of rural credit on the other. Supply led and (non-clinical) extension based innovation in credit delivery has to be learnt afresh by the banking community at large. The mistakes in the interest rate policy that led banks to hold SLR securities thereby crowding out priority sector lending (including agriculture), leading to disenfranchisement of rural borrowers, under the wrong characterization of it leading to NPAs, must not be repeated. *In the Indian context a macro view of credit risk needs to be developed that so that the dual role of growth enhancement and risk mitigation are fulfilled in the case of agriculture and allied activities. Changing risk profile as well as risk perception of the bankers must be an explicit and sharply defined policy objective of credit policy, with the capability to translate potential demand into viable risk projects*. What we are recommending – to be sure – is not a return to the old ways, but rather a move to a more enlightened – Mark II if you like – market theology. **In the newer context this calls for a new/ redefined role of the State which simultaneously lets go and work more intensively on narrowly defined objectives.** There are two important strands of argument to be made in this context, and at length, in the context of decentralization. One, it will be abundantly clear that one of the things we must do is to consolidate schemes and make them flexible so that sub-national governments have greater resources at there disposal to address their priorities. We believe that the first such effort has to be concentrated on three areas, Water, Education and Roads. The importance of these is easily demonstrable and is indeed self evident. **There is evidence to show that the political empowerment of women have also thrown up such schemes as perceived priorities so that acceptability will not be an issue**. The externality of such reorganization will be that that the utilization will improve and through impetus to the rural hubs initiative, livelihoods will be created, which alone is the surest way of empowerment. Here, one has to recognize that there are two other elements viz., Health and Power (energy security) that are we have left out that are generally recognized as terribly important. The reason is that whilst some elements (extension) can be incorporated, prioritization requires that things be kept at manageable levels and also that there are indications (from experience elsewhere) that given the skill demands of both these sectors and the prevailing situation these are not sector that lend themselves to easy and successful decentralization and hence will have to be tackled at the Central level. The second strand of the argument here is that consolidation and transferring the funds to sub-national governments will lead to possibilities of financial market access. This is a theme that I have treated elsewhere. Thus, while we cannot do without growth, equally crucial is the inclusive strategy since without it the very integrity of India will be threatened. Much ingenuity will be called for in threading the path which balances equity and inclusion on one hand and incentive compatibility on the other.

Macro-Temporal Phases:

The phases that I want to briefly touch upon have nothing to do with purely statistical breaks. There are two ways that we shall look at this. One is plan wise and other is as suggested by Arivind Pangariya. First of all, let us get the matter about the beginning of ‘reform’ out of the way. There is fair amount of consensus that reforms in India did not start in 1991 as is commonly assumed. They started somewhere in the mid-80s with the onset of liberalization and the laying down of the Long Term Fiscal Policy by V.P. Singh. It is a different matter that although these marginal and micro level reforms did yield some significant increase in factor productivity, the impulse was not sustainable because it was piggy ridding unsustainable levels of foreign borrowings and fiscal deficit.

Turning to the temporal phases, if one looks at them through the lenses of the plans, then leaving aside the annual plans (which were non-starters) the three discernable phases are those of the first to the fourth plan, the fifth to the seventh plan and finally the seventh to current plan. The real growth rates in the three phases were 3.5%, 5.2% and 6.6% respectively. We need to look at the real rather than nominal terms since there were some inflationary episodes especially in the first and second phases. The wars and oils shocks and indeed emergency were significant episodes in the story that are only too well known. Not only is there a monotonic increase in the average rate of real growth but significantly but also successively more and more (in the temporal sense) was being passed on in terms of per-capita growth, thereby rendering growth more meaningful.

The other way to look at the phases is a four phase schema (with the conjecture about India entering the fifth phase). The four phases are 1951 to 1964, 1965 to 1980, 1981 to 1987 and 1988 to the present. These phases reflect an average rate of growths that are 4.1%, 3.2%, 4.8% and 6.3% respectively. He characterizes these phases in summary labels as Phase I: Take off and liberal regime, Phase II: Socialism Strikes with a Vengeance; Phase III: Liberalization by Stealth and Phase IV: Triumph of Liberalization. The fleshing out the underlying story is rather easy and I will not go into it. India has now firmly broken away from the traditional low growth equilibrium and is ready to launch herself into a high growth regime. Let us now turn to the performance of the States (the second tier of government) which has not been uniform.

Performance of the States: ***Another dimension of exclusion***

The performance of States in the post reform period has not been uniform. It is indeed necessary that we do something here especially given that the 'poorer' states have continued to remain 'poorer' through this growth episode, adding another dimension to the exclusionary sub-plot to this growth story. Undoubtedly all of the States have done well in terms of growth over the reform period but the leading States have consolidated their position and further pulled away. The poorer States on an average were displaying significantly lower growth rates in the early reform period as compared to the leading States (4% as compared to 7%), whereas the in the later period this has become (5.6% for poorer States as against 8.5% for leaders). All this is in real terms and against the national average of 6 and 7.7% respectively for the relevant periods. This flies in the face of diminishing returns argument. All this is despite the fact that thanks to 'equity' argument the poorer sates have been getting greater percentages of central devolution. Let me dwell for a bit on Center State relations.

The basic reason for revisiting the issue of Center Sate relations is that the vertical imbalance between the two levels is monotonically increasing. The nature of taxes and their division is such that the buoyancies accrue mainly to the Center by way of a growth dividend. The fact that States do not fully exploit the potential at their disposal is of course another matter. This is especially true when it comes to agricultural / land taxes. The fall out is that the States in their turn usurp the taxes that are meant to be levied at local levels such as the professional tax and indeed do not (or are not able to) give the local bodies their due. On the other hand they (States) depend heavily on the devolution and grants from the Finance Commission. The over dependence on the criterion related to 'need' or 'equity' considerations as against efficiency considerations lead to a perception of unfairness, further leading to tension between the Center and the States and between the States themselves. As an aside one may mention that the way ‘need’ and ‘efficiency’ have been traditionally measured by the Finance Commissions in their formulae have been patently flawed and need to be rectified. This does not portend well for the integrity of the Indian nation. The way to go is to recognize the principle of ‘origin of revenues’ or even better hand over the revenue handles directly to the States.

Another area of concern has to do with the debt situation. The debt that has been piled up by the States and the structure there of leads to a situation wherein large proportioned of revenues are committed to servicing. Indeed the Salaries and Pensions apart from establishment costs and debt servicing constitute an overwhelming proportion of the own revenues of the States. If we term the residual left when these expenditure commitments are taken away from the own revenue as the discretionary fiscal space, then it is a worrying sign that the DFS is small and shrinking over time. Even if it is granted that better expenditure management could help, it cannot be denied that the Center has no business charging unjustifiably large markups on the loans that the States take (or are forced to take) from the Center. The ‘time’ associated with the debt obligations means that the States are caught in a ‘no exit’ situation and in turn are not able to approach the international agencies for soft loans for infrastructure provision.

The Constitution of India assigns most of the social sector public goods provisioning with the States. Given that the DFS with the States is diminishing, it makes it well neigh impossible for the States to do the job. To add to it, the FRBMA constraint related to revenue deficit implies that there is precious little left with the States to operate and maintain the assets created in the social sector (especially education, water and roads). Since the assets are in disrepair the matter of raising resources through rationalization of user charges is rendered vacuous. This has lead to a strange situation where because the Central Government has reaped the benefit of growth dividend in terms of augmentation of revenues, it has taken big steps in initiating the Centrally Sponsored Schemes. The CSS has not only infringed (by definition) on matter that are in the purview of the States, it has also led to a situation where States are sitting on large sums of monies that they cannot use on the basis of their prioritization as per their wish.

All of this has to be contextualized within the current fractured polity with the consequence of State specific aspirations. There is another worrisome feature in this and that has to do with the fact that demographics, the fertility rates are significantly different for northern and southern States. When the delimitation exercise is carried out in 2025 there is potential for a shift in the distribution of parliamentary seats and consequently the balance of power. The underlying threat of Balkanization has to be recognized and remedied for the sake of national unity and integrity.

Financial Sector:

Amongst all the sectors in the Indian economy, financial sector has been at the forefront of the reform process. The financial sector has a peculiar asymmetry about it that has been long recognized. Existence of efficiently functioning, thick and deep financial markets with a good regulatory framework is *necessary* but not a sufficient condition for the real economy to perform. However, any catastrophe in the financial sector affects/ ramifies through the real economy with probability one.

In 1969 the then P.M. Mrs. Indira Gandhi nationalized Banks more for political reasons than economic ones. The social banking era undoubtedly did have its share of positives as well as negatives. The government used the prudential norms for banking system as instruments for obtaining cheap public finance. The usual story of non-performance, so familiar with the command and control public sector institutions was repeated here and it was only with major reform initiatives that the system was cleansed. The fact that in the process of liberalization and opening up, financial sector was at the fore front was for obvious reasons. It was manned by relatively few and sophisticated persons and was relatively modern. Also, the changes here left a lot of people unaffected and hence the changes did not meet with too much of political resistance. Indeed, in case of the financial sector a supply side leap frogging strategy was adopted. This has meant that the financial architecture in place is ahead of the indigenous demand driven requirements. This has been largely geared towards the sophisticated clients and international players. For domestic viability considerations, and in the context of 'inclusion' as a necessity, it is important that the financial sector opens itself up and caters to then large mass of small clients. The commodity futures must be used as important information inputs for the small farmers that they make their cropping decisions. This will also mean having in place micro-credit delivery protocols in place. Through the support of Self Help Groups (SHGs) this is already happening within the realm of informal sector, what I am urging for is that such protocols be an integral part of the 'formal' set up.

India has been often criticized – both within and outside – for dragging its feet in implementing the reform agenda even in the financial sector. Our conservative attitude and the messy path dictated by our peculiar democratic characteristics have to a great extent saved us the blushes during the current crisis. I suggest that India must give up its defensive posture and aggressively sell the good parts of its financial mechanisms to the world. I believe that some of what we have been doing and putting in place may well serve as prototype elements when – in the wake of current global meltdown – a new international financial architecture is put in place.

Agriculture:

We have done disservice to this sector by characterizing Agriculture as a way of life. It is ironical that we continue to talk about and ‘celebrate’ the one episode (the so called Green Revolution) with a narrow impact (in space and on food type) ignoring the fact that there has been no follow up. The characterization mentioned above has meant that we have not addressed our agricultural sector performance to hard headed scientific analysis. The data on agro-climatic zones and by implication the optimal cropping pattern is missing. This has meant that the preponderant dependence of non-viably large proportion of our population continues on agriculture (and what is more over 90% are net buyers of food grains). It is a travesty that in terms of productivity and production per capita, of several items notably oil seeds and pulses we not only lag behind the world but even compared to our past performance we appear to have slipped. Serious investment in called for in rural infrastructure. It is well to realize that non-price variables are often times important in propelling agriculture ahead. Non viable nature of our agriculture (where it exists) needs to be pointed out and non-farm opportunities have to be provided. For this to happen meaningfully the skills and capabilities of people have to be addressed. It is incomprehensible that in a country where agriculture is put on the pedestal, there appears to be a lack of comprehensive agricultural policy, leave alone strategic time paths. There is an urgent need to create possibility for informed decisions at the macro as well as micro level when it comes to decisions regarding cropping pattern. Institutional services in terms of insurance as well as ‘futures’ is clearly not beyond the possibility of a country that does not miss talking about it s IT prowess. With minimal inputs we are seeing great progress in wineries and other fruit related exports. In general we are seeing some of the effects of technology in our agro-processing sector – especially in cash crops – which has huge potential for further growth. Italy has a prominent presence here and there is a need to strengthen the relations for mutual benefit. Rhetoric and partisan/ populist politics apart, the challenge here lies in displaying bold statesmanship in transforming our agriculture into a viable sector and linking our fields to the world markets.

Education:

This is an arena where the problems are pretty much understood so that issues are not conceptual or epistemological. The problems are diverse and not typical. Yet, our responses continue to be uniform. The spectrum to be covered ranges from literacy to elementary education to higher education and technical education, not to forget vocational education. So much has been written about it that there is a genuine problem of ability to say anything new. Much resources have been devoted to this area (all the components) but some basic issues still remain that call for non-standard responses. For example the coverage of the elementary sector is besought with adequacy issues. The professional sector suffers from the fact that the products lack in soft skills and are generally unemployable. In technology/ engineering sub-sector, Indo-Italian initiatives have made significant progress although much more can be done. The literacy sector being tackled through Centrally Sponsored Scheme (CSS) viz., the Sarva Siksha Abhyyan (SSA) has the usual problem with utilization capacity and leakages (efficient delivery). As far as the vocational sector (the importance of which was recognized as early as in Kothari Commission 1964) is concerned there is a lack of technical institutes and those that exist suffer acceptability problems at the social level. The sum and substance of all this leads me to believe that whilst financial resources are important, governance is the key.

The regulatory structure needs a complete overhaul and has to be freed from the clutches of bureaucratic/ political mandarins. The need is to allow civil society to enter with their out of box thinking (as reflected by the work by PRATHAM) and their work needs to be granted legitimacy. The teacher training must reorient and refresh the teachers so that they themselves imbibe soft skills that could be transferred onwards. In case of higher Education it is well known that the political posturing leads to perverse incentives in terms of quality and flexibility parameters and have to be faced head on. The private sector needs to be involved in a big way in a PPP mode. There is much to be learnt about the spirit of PPP by all concerned and the distinction between interference and oversight from a distance clearly understood. Enabling regulatory reforms are required that will facilitate in a cautious way not completely overshadowed by suspicion. Regimentation and over regulation has to be avoided and closure and quick implementation is the key (the tussle between the National Knowledge Commission and Ministry of Human Resource Development that is being witnessed today has to be avoided). The latter seem to focus only on quantity expansion with scarce regard to quality. Indeed some will argue that the agencies and agents involved have little expertise and qualification in the sphere of higher education.

There is obvious scope for much international cooperation – on a much higher scale – in this arena. This is possible and unless we take concrete steps in this sector, all the talk about India emerging as a dominant world player in tomorrow's knowledge society will remain an empty rhetoric. The key here is decidedly to do with governance.

Employment and Poverty:

One of the important objectives of development (integral constituents) is removal of poverty. While there are many short term palliatives – by way of poverty alleviation schemes – the only empowering solution has to be found in creating employment (which presupposes employability). Capacity building efforts especially in the educational sector (as outlined earlier) assume importance. That alone will help us attain inclusiveness which has to be the soul of our policy.

The employment has been increasing over the reform period and the poverty has been declining, this much is established (although there is debate about the exact figures). The quality of employment is another matter and so are the correlates of poverty (such as under and malnourishment). Of course one can never be satisfied and much more needs to be done. There is need to create an optimal mix (a convex combination if you like) of 'capacity building' and 'safety net' approaches. The un-aimed opulence cannot be allowed to continue and well directed efforts have to directly address the quality of growth.

The distribution of incomes have not changed through the period of increasing incomes clearly implying reduction in poverty but also underlining increase in inequality. This will clearly not be acceptable on socio-political terms. There has been an increase in informal employment which stands at a staggering 92%. Fund creation for alternative livelihoods is an urgent necessity. This has to be supplemented with credit enhancement in informal as well as rural sectors (I have hinted at this earlier). In the meantime National Rural Employment Guarantee Scheme (NREGS) has to be extended in a mission mode to all the districts on a purely temporary basis. We must hope and try to ensure that the employment here leads to creation of some productive capital assets. In the longer term greater flexibility of labour laws have to be legislated along with setting up welfare enhancing boards that will ensure proper wage contracts and humane working conditions. In this context better health care insurance is a huge security enhancing measure that will make informalization more acceptable.

Culture and Arts:

India is peculiarly positioned to cash in on her many millennia old rich heritage when it comes to matters of culture and arts. We are here talking about an ancient civilization that has had its indigenous culture and arts influenced and enriched by 'winds' from all corners of the world. Modern India is a receptacle of the very essence of human existence. Thanks to the largeness of its population and economic exploits in the recent past it is finally being recognized internationally. Despite its domestic problems with poverty and backwardness in parts, it is also in many respects ready to match up to the best that the world has to offer.

With over a billion people, 1650 languages and almost all known religions present within its borders, India represents a living paradox and puzzle that waits to be discovered. The traditional arts both performing and visual need to be packaged (giving fillip to tourism on a much grander scale) in the modern idiom. The sheer beauty and vibrancy of the existence of her people is ready to be exploited as tourist hotspots for the world to savor. India has had the most 'free' media functioning anywhere. Its theatre and films (Bollywood) are attaining popularity the world over. Literature apart, the classical musical traditions in vocal as well as dance forms can enthrall the most discerning connoisseurs. The diversity of 'local' realizations in the aforementioned spheres presents a veritable bouquet of offerings. Commodities and Services apart, these avenues represent the future partnerships between India and other countries.

These things must appeal to the Italians, who in the world not been inspired by Dante or Leonardo or Michelangelo or indeed Pavarotti, da Sica and Fellini. The trick here lies in avoiding the *museum mentality* and presenting these artifacts as functioning and living icons as basis of strong mutually beneficial partnerships in trade and commerce.

The Emerging Challenges and Response:

This is an election time (back in India) so that prudence and hard decisions in policy may go for a toss. Further the global meltdown cannot but have a negative impact on Indian economy. Fortunately, there are two things in India's favor. One, India is a large economy so that external impulses although significant are marginal. This is despite the fact that in the recent times India's exposure to world economy has gone up from around 15 to about 30% of its GDP. The hit that India will take will yet be such that we will be able to maintain a growth rate at around 7% through the period. Indeed, given that the West is seriously reeling as a result of the financial meltdown, and China too with its large exposure is affected greatly, my argument is that *if we play our cards right,* India will be able to jettison for herself a position of strength with the community of nations. We could do this by smart strategizing of our policy, and I have given hints about the lines of action called for in what I have said earlier. We need to undertake a fiscal stimulus in a Keynesian mode, creating the basic social and physical infrastructure, thereby creating livelihoods, capabilities and skills in a great proportion of our citizens still dependent on the rural economy.

Specifically turning to Indo-Italian trade and commerce, while it is true that the CARG witnessed in the last 8 years is impressive around 8%, I believe that it is not fully exploiting the potential that exists. We are two nations that are colorful and passionate about culture arts and food amongst other things. We in India are trying to loose our shackles awakening the large and lethargic elephant. We have been opening up and trying to make trade and commerce easier and freer. Although Italy is amongst the top 20 in terms of FDI in India, clearly it is not enough. Its FDI pegged at around 250 million USD does not compare well with US or UK whose FDIs are around 5000 USD. Indian economic growth has empowered large consumer market the size of which is more than the size of some of the entire economies of Europe. Whether it is food or shoes or automotives or indeed science and technology and arts, we rank Italy very highly. Closer home and at a personal level I may add that we have at my University had a fruitful relation wherein our students of engineering come to your great country and learn and work here. We also have an Italian professor whose classes are very popular. We want to in the near future to build on it and have full fledges diploma and degree courses. A few months ago we celebrated the Piazza Week on my campus that aroused much enthusiasm and response. There have been many MoUs signed between India and Italy, its time we earnestly set to concretely work on them and expand their actual scope. India at cross roads presents a possibility for both India herself as well as Italian interest. We must not lose this opportunity to forge a strong symbiotic relation.

In Conclusion:

Now I have had my say. It is clear from what I have said that every point of strength is potentially a destructive weakness. The challenging times are also times of possibilities. Some of the *learnings* we must take away from the recently ushered in LPG process are, one, we must learn to pay for our lunch, two, we have to learn to let go (zero-based thinking) and three, we must embed incentive compatibility in our system. Provided we are able to attain greater political maturity and get our governance right (linear contracts and closure), ***we can build on our much maligned conservative ways to jettison India into a position of strength in the new world order.*** The trick is to marry the necessity (of basic infrastructure provision) with virtue (of stimulating the economy through intervention in social sector and housing infrastructure). We thus have to get our domestic organization in order, but as important in today's world is to open up and work globally. We know that the trick is to work on the fat that trade and commerce is not a zero sum game and exploit it in a synergistic manner. We can ill afford to miss the trick, for such an opportunity comes rarely in the life of a nation.

Post Script: The interested students should make it a point to read some of the Books/ Articles that the above address derives from. There is the comprehensive macro-perspective book by Arvind Pangariya and the one by Dietmar Rothermund, not to forget the one on Inclusive growth by Dr. N.A. Mujumdar as well as the one written by Govinda Rao a couple of years ago dealing with Fiscal Policy and Poverty. The Sengupta Committee Report on

Employment related issues is comprehensive and so is the State of the Panchayati Raj Report by Y. K. Alagh (his writings in newspaper columns are always insightful). There is a paper by Kaushik Basu published in Oxford Economic Review, 2007 that is eminently readable as it is insightful. The recent India Infrastructure Reports continue to be a useful source. In case of difficulty in getting any of these references you may contact me at the following email address: ampethe@gmail.com