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Address

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Mr. Nani A. Palkhivala*

...In view of the great importance of the topic, I have, departing from my normal practice, set out in writing what I propose to say.

There are quite a few facts of the subject you have assembled to discuss, 'The Changing Investment Climate in India'; and they admit of both flattering and critical perceptions. One thing I promise you — I shall 'nothing extenuate, nor set down aught in malice.' If perchance I conclude a few moments before my allotted time, I hope you will, tactfully, conceal your sense of relief.

India is engaged in the greatest experiment ever undertaken in the art of democratic governance. Never before in history, and nowhere else in the world today, has one-sixth of the human race banded itself into a single free nation. If the Indian democracy has been badly governed for 44 years, it should not be any cause for astonishment. The surprising thing is that it has been possible to govern the country at all.

In order to appreciate the recent changes in the investment climate in India, it is necessary to look at this picture and that — the earlier one which has been gathered to the past, and the present one. A look at the picture before the change will give you an idea of the magnitude of the change.

For four decades socialism as practised in India was a fraud. Our brand of socialism did not result in transfer of wealth from the rich to the poor, but only from the honest rich to the dishonest rich. We built up State-owned enterprises, called the Public Sector, which I call bureaucratic imperialism. The sleeping sickness of socialism is now universally acknowledged, though not officially admitted in India. No less than 233 public sector enterprises are run by the Union Government and 754 by the State governments. These public sector enterprises are the black holes, the money guzzlers, and they have been extracting an exorbitant price for our doctrinaire socialism. There is a tidal wave of privatization sweeping across the world from Thailand to Turkey and from Bangla Desh to Brazil, but it has turned aside in its course and passed India by. The nationalized banks and State-owned financial institutions have enormous investments in the private sector: the private sector still remains to be privatized.

Successive governments imposed mindless socialism on the nation, which held in thrall the people's endeavour and enterprise. They respected the shells of socialism — State control and State ownership — while the kernel, the spirit of social justice, was left no chance of coming to life. Enterprising Indians enriched a hundred foreign countries but were not allowed to enrich their own. Perceptive observers in those countries where Indians worked and prospered were baffled by one question — how did India, with its incredible human

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potential and natural resources, manage to remain poor? The answer was that we were not poor by nature but poor by policy. You would not have been far wrong if you had called India, till last year, the world's leading expert in the art of perpetuating poverty.

The pace of India's economic growth was sluggish if not glacial. We had more than 15 per cent of the world's population but less than 1.5 per cent of the world's income. In the 42 years since we became a republic our per capita income in real terms did not even double but increased only 92 per cent. Today we are still the twentieth poorest nation on earth.

If Indians had such insuperable difficulties in expanding and developing their own economy, it is not surprising that foreigners were treated even more harshly when they had the impertinence to seek to invest in India. The result was a foregone conclusion. The most telling statistic is that the annual investment in communist China by foreign corporations exceeds the total investment in free India in the last 42 years.

The era of change began six years ago. 'Man will do the rational thing,' said Lord Keynes, 'but only after exploring all other alternatives.' After "all other alternatives" had failed dismally, India, under its young Prime Minister the late Rajiv Gandhi, initiated in 1985 a policy of lowering taxes and dismantling controls. He had the right ideas but chose the wrong people to surround him. Many of his sensible beliefs were never translated into action.

The biggest metamorphosis — qualitative and not merely quantitative — in the economic climate, both investment and otherwise, came with the enunciation of the New Industrial Policy in July 1991. Mr. P. V. Narasimha Rao, the Prime Minister, and ministers like Dr. Manmohan Singh the Finance Minister, Mr. P. Chidambaram the Commerce Minister, and Mr. Rameshwar Thakur the Minister of State for Finance, are sincere persons totally committed to ushering in an age of economic rationalism in place of economic theology. They mean well and are determined to prepare and equip India for a place in the "Prosperity League" in the unfolding future. They genuinely intend to ensure that hereafter the government would no longer be the power above the people to be lobbied, petitioned and propitiated for favours. This — the sincerity of the Cabinet — is the single biggest asset on the credit side of India's balance sheet.

There are other factors also which go to make India very attractive to foreign investors.

When you invest in India, you invest in democracy. The survival of democracy ought to be a matter of the most vital concern to the free world. It would be philanthropy, plus 20 per cent! To our foreign friends I say — we have opened doors with hope: you can ensure that we do not close them with despair. **This is a critical moment in our history: you can make it harbinger of good times to come.** The dynamic and far-seeing section in our society is determined to make India the Mexico of Asia.

Our domestic market is enormous. Almost all manufacturing units in India with foreign collaboration have garnered golden grain.

A few years ago, a World Bank report mentioned the two very favourable factors in India — an abundance of capital available for new projects and an unlimited reservoir of talented and skilled labour. We have 5000 years of civilization behind us — a civilization which reached 'the summit of human thought' in the words of Ralph Waldo Emerson. We inherited great skills and a many-splendoured intelligence, since the genes had evolved over five luminous millenia. The trader's instinct is innate in Indian genes. An Indian can buy from a Jew and sell to a Scot, and yet make a profit!

Again, the high appreciation of most foreign currencies against the Indian rupee, offers an excellent opportunity of using India as a manufacturing base.

Giant multinational companies are engaged in worldwide competition for the most scarce resource of all — talent. India has never been charged with an inadequate supply of this resource.

And now, the debit side of the balance sheet. You would be justified in thinking that the New Industrial Policy does not go far enough and that the government has measured out liberalization with coffee spoons; and secondly, several promises made have yet to be implemented. The Indian governmental machinery may be likened to some prehistoric monster, incapable of intelligently controlling itself. This is not because the government lacks intelligent and capable officials but because it is so organized that managerial direction on an all-India outlook is extremely difficult. The general impression, not very wrong, is that India has the most obdurate and inflexible bureaucracy the free world has ever known. But a strong and skilful rider can control an unruly horse.

The changing investment climate has already encountered formidable opposition from three quarters.

- (A) Some influential politicians in the ruling party still want to cling to socialism as the official policy of India. Since they regard India as the sole depository of all human wisdom, any suggestions made by the World Bank and the International Monetary Fund are, by definition, either foolish or dangerous. Of such sub-standard politicians it can be truly said that if ignorance is bliss, they ought to be the happiest men alive. The Prime Minister should bluntly tell them what Attlee said in 1945 to the left-wing Professor, Laski, 'A period of silence from you would be welcome.'
- (B) Several bureaucrats seem determined to resist the New Industrial Policy. There are two classes of civil servants in India. In the first class are outstanding men of vision and knowledge who realize that an economic policy is not an exercise in populism but it should be

a powerful instrument of economic growth. To call them bureaucrats would be an insult to such perceptive individuals. However, there is another class of civil servants who are such that *not* to call them bureaucrats would be an affront to the English language. These bureaucrats believe that they are 'the steel frame of the Indian government', as they were known during the British days, and they continue to remain as rigid, unthinking and unbending as steel. They live in a 'thought-free zone'. Their participation in national policy-making can seriously damage the health of the Indian economy.

- (C) Quite a few Indian businessmen themselves are much more interested in their own personal prosperity than in the future of the country. They resist, secretly and insidiously, the liberalization of the national economy. The non-competitive environment created by the permit-livence-quota *raj* suited them admirably. They have neither the vision nor the patriotism to realize that any economic policy which on ideological grounds prevents the full development of the nation's potential constitutes a crime against the nation.

On balance, an objective overview would justify confidence in the long-term future of the country. India is no longer in a state of 'suspenseful indecision'. We have left behind the terminal stage of our forty-year affair with shabby-state socialism. I am making a prediction, and not expressing a hope, when I say that doctrinaire socialism will soon be dust on the shelf of Indian history. As in the rest of the world, liberalization has come to stay and there can be no retracing of steps. We have fortunately stopped sleep-walking through history.

The vitality of India is remarkable. The country does not have a powerful economy, but has all the raw materials to build one. It would not be an exaggeration to say that the Indian economy is like a sleeping giant who, if awakened, could make a powerful impact on the global economy. It would not be mere chauvinism to say that India is a giant with a bad cold, not a pygmy with cancer.

The heart of the nation is sound and the human raw material is excellent. To a western mind, India's inner strength and capacity for patient endurance are almost unbelievable. Hundreds of millions who have no standard of living, still have a standard of life. Ambassador J. K. Galbraith remarked that while he had seen poverty in many countries of the world, he found an uncommon attribute among the poor of India — a richness in their poverty. They do not count their wealth in money alone. A nation's worth is not measured merely by its national product, any more than an individual's worth is measured by his bank account.