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For most of its independent existence, India has been a political giant and an economic backwater. Until the 1990s the world's biggest democracy maintained a rather closed, protected and planned economy. Democratic socialism, of a kind that Harold Laski would have approved of, produced stability but very slow development and little alleviation of poverty. Until a few years ago India never threatened to become an Asian tiger economy. Indeed economists coined a nickname of the "Hindu rate of growth" which meant slow and steady progress below the potential of the economy.

Tigers were springing up elsewhere and globalisation of the world economy was proceeding apace when India suddenly launched into a period of liberal economic reforms. Finance Minister Manmohan Singh, whom I heard give this Nehru Lecture one year ago, presided over radical changes to take India nearer to modern market economics. When the globalisation of the world economy appeared to be delivering its greatest successes to the developing world, India at last delivered steady economic growth. In the nineteen nineties the level of absolute poverty in the world was dropping faster than at any time in this century. India seemed ready to increase its economic power as a nation and prepared to reduce the grinding poverty of so much of its population.

For five years a nation of one billion people delivered steady economic growth which averaged seven per cent each year. Truly a sleeping giant was stirring again. What should be one of the biggest economies in the world was on the march at last.

I am a western democratic politician and a firm believer in liberal market economics. I was and am an admirer of economic reform in India. When I was in office I never understood fully the wariness of British and western investors in accepting the huge potential that Indian development offered.

There have been many major investments made in India over the last decade. But British and western capital always flowed on a far bigger scale into the Peoples' Republic of China and into the smaller successful economies of South East Asia.

Investment into China grew to enormous levels. It reached its peak in 1997 when over forty billion dollars poured from overseas into that country. Most British traders and investors told me that they had to establish a presence in the People's Republic. It was seen as the great growth economy of the future.

I did not entirely disagree with this. Great economic reform and an opening up to the outside world had taken place in China and were significant. But market economics co-existed there alongside a giant state owned and controlled sector of the economy that comprised at least one half of the whole. Autocratic anti-democratic Government maintained the instruments of central planning and control. Banking and financial services in China remained under-developed and almost closed to the outside world. The systems of commercial law and the provision of professional services remained rudimentary by western standards.

I often asked why India did not hold much greater appeal to British investors in particular. India has democracy and a huge respect for the rule of law. It had close historic links with Britain which, in the nineteen nineties, flourished and produced the warmest political relations that had ever

existed between India and the United Kingdom since the days of independence. But many people told me that China, Malaysia and Thailand were the places to be. At the height of optimism about globalisation, South East Asia in particular and even Vietnam was mentioned more often than India as the brightest new prospect for the future.

Many people in the business world still told me they associated India with bureaucracy, red tape and closed suspicious attitudes to the outside world. The turbulence of Indian democratic politics was even seen to present a risk compared with the predictable consistency of more autocratic systems of government.

We can now see that India did not suffer too much from the fact that it did not become the most fashionable target of western commercial interest. It reformed and it prospered at a time of unprecedented world-wide economic growth which did not pass it by nor leave it alone.

Parts of the Indian bureaucracy were quite noticeably improved. I was most impressed by the sweeping away of much of the licensing system for imports and exports which, together with the reduction of tariffs, stimulated trade and also the ability to perform in India as a manufacturer against global competition. Some of the more obvious sources of possible corruption were swept away with the licensing.

When I was Chancellor, every public figure in India told me that a new consensus on liberal market economics had swept across the political spectrum in India so that confidence in future economic growth and stability should be assured. The most remarkable example of that that I encountered came on a visit to Calcutta. The leaders of the Communist Party in power in West Bengal, with the words Marxist-Leninist in brackets in their Party's full name, assured me of the commitment to free market economics and their desire to attract foreign investment into their state. More predictable places like Bangalore seemed a model of the growth of a new high technology outward looking economy.

Since that time, we have experienced the Asian financial crisis. Shock waves are spreading across the markets of the world. Globalisation of the economy is facing a severe challenge. World economic slow down is now staring us all in the face. Government has changed in India and a quite different coalition is now in power.

Of course India was and is bound to be affected by this global slow down. But the big question now for friends of India like me is whether the appeal of open liberal economics will now fade in India. Economic reform was never completed – the performance and position of the great State owned industries, for example, always remained an unsolved problem. Will there be any drive to maintain the direction of reform? What will happen if there is not?

My views on globalisation and the world economy remain unchanged. I believe that the removal of restraints on international capital movements, investment and trade will prove over the longer term to have been a great change for the better for people in every part of the globe. The total failure of socialism and the collapse of central planned economies were very real and it will be a terrible error if any government in Russia or any other country tries to turn back in that direction.

Certainly the risks of capitalism are also clearer for everyone to see. No-one has abolished the economic cycle that all market economies have always experienced. Reckless investing and the herd mentality can create bubbles in emerging markets that Europeans were only too accustomed to during their own industrial revolution in the nineteenth century.

But this will only be a lasting disaster if we all attempt to turn back the clock to protectionism, capital controls, excessive government intervention and a new growth in the State control of industry and commerce. The international community has to strengthen its international institutions like the IMF and the World Bank. We must encourage more transparency and the provision of more accurate and timely information about the true state of national economies and the scale of exposure to risk of new flows of investment. We must learn the lessons that it is possible to have over investment in productive capacity at any given time and a sudden influx of huge amounts of capital into an emerging economy can be difficult to absorb. Perhaps new international standards of regulation are required to ensure minimum standards of care in handling other peoples' money. But it would be a disaster if this started a turning back of the clock to twenty years ago.

India is a very big test case in all this. At most of the IMF and World Bank meetings I attended, the Government of India was usually the natural leader of the governments of the under-developed and developing countries. Economically India needs to have prolonged periods of economic growth of 6% and more if it is to have any chance of raising the living standards of the mass of its rapidly increasing population.

Many of the problems of Indian society remain to be tackled by India's politicians and institutions in order to make that possible. The turbulence of Indian democracy has at times undermined the confidence of the business and financial world in recent years. Bureaucracy and corruption remain serious problems in India as, alas, they do in almost every country in Asia and Africa. The miracle of Indian democracy must continue to demonstrate that it can resolve the problems of religious and regional divisions and the Indian commitment to the rule of law must continue to deliver improvements to the good governance of the country. Political stability and strong institutions are an essential prerequisite of economic growth and success as well as essential features of a good quality of life in general. The electors and citizens of India have often shown great sophistication in demanding them over the years.

But it is that apparent consensus in India over the economic model that seemed so obvious three or four years ago that will not be put to the test. There are many vested interests and siren voices in India that may seek to check the pace of reform.

In my opinion, the fact that India never turned into the most fashionable destination for the flood of western investment at its peak may now be an advantage in the shorter term. India has been spared the worst consequences of the Asian crisis. But it will be a mistake if India thinks that it can be insulated from the global economy. It has proved not to be invulnerable to global slow down. India's balance of payments has started to move into greater deficit. This has helped to weaken the currency. This in turn has forced an increase in interest rates. The fact that the immediate consequences have not been worse than they have been so far is no argument at all for saying that modern India can turn its back on globalisation or further economic reform.

India still needs to attract vast flows of overseas direct investment into its industry, commerce and physical infrastructure if it is to have the slightest prospect of achieving the growth rates that it needs.

In my opinion, India needs to resist firmly any attempt to go back to protectionism in trade in either goods or services. The opening up of markets in India has had some noticeable effect in improving

the performance of many industries based there. That has produced benefits and will produce more benefits if it is taken further.

I am glad to say that I think I see all the signs of that political conversion to a consensus on modern social market economies still in place in India. It is not for me to be so presumptuous as to even seek to intervene or express opinions about the daily issues of Indian politics. I never have and I never will and I merely observe as a friendly observer. But I am glad to see that the debate in India about today's crises does seem to turn on how to maintain sound public finances and fiscal discipline and not whether it is necessary to do so. There is no inhibition about talk of further disinvestment by the State. Government and its opponents seem to share concern about the condition of capital markets and even the strength of the stock markets. Infrastructure projects and more up-to-date policies on telecommunications seem to be on the agenda.

As ever, the weather and its effect on important crops continues to be a dominant influence in the year by year behaviour of an Indian economy still dominated by agriculture. But bigger structural changes are the key to the future of a more modern economy which will steadily be less subject to the vagaries of nature.

All Indian Governments seem to have difficulty in getting rid of persistent fiscal deficits. Even the present Government has flirted with new tariffs. There is still plenty of scope for more reform of the legal and regulatory framework for business.

In my opinion, the State controlled sector of the economy in India remains far too large. The weak performance of the poorest parts of the nationalised economy pulls down the ability of the whole economy to deliver benefit to the Indian people. The problem is not confined to the older industries. To someone of my opinion, it comes as no surprise that the biggest threat to financial confidence is coming at the moment from concerns about the condition of a state-owned fund manager, the Unit Trust of India and its UK-64 scheme, which now has to be managed back to financial health and regulated properly in the future.

No economic liberal can sensibly expect great leaps forward anywhere in the world in the next two or three years. Globalisation and the opening up of the world economy now face the test of harder times and we all need to consolidate some of what we have achieved before we think of surging forward again. But India may yet prove to be one of the more lasting beneficiaries of the changes of the last two decades. It should be spared the excesses of the boom and bust cycle. If it retains as a nation a commitment to further economic reform over the medium and longer term it could add to its political power and influence as well as its economic might.

The recent slow-down of the Indian economy to which I have referred is down to 4 or 5%, which is a growth rate which would be the envy of most countries in the world. The contrast with the shrinking economies and the plunge into poverty of countries like Indonesia makes India the economic jewel of Asia. India needs to do better but it could still provide a model for other developing economies.

In eastern Asia, it is fashionable to discuss how today's economic crises may in the longer term affect the relative political influence of Japan and China in that Region and in the world. There are a huge number of countries in the world who may come to look to India as a model of how globalisation and free markets should best be adapted to by a stable developing nation. India has always provided a staggering example of how free speech and democracy can succeed and be sustained for the benefit of society against every pressure. India may yet prove that its ancient

civilisations can also help to show the modern world how sensible market economies can continue to be employed for the creation of prosperity and the elimination of poverty. Economic reform remains the key to the greater success in the global economy of one of the world's great nations and I trust there will be no turning back now.