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INDIA'S BIG LEAP FORWARD

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Abstract

India has changed dramatically in recent years. The world's second most populous country has radically liberalized its economy and gone from producing simple exports to becoming a world leader in software exports. The country has accumulated foreign exchange reserves of over $102 billion, up from a mere $2 billion in 1991. There is little doubt that India's emergence as a major economic power will rank as one of the principal issues confronting world leaders in next few decades and that its progress demands careful analysis.

This paper examines India's winning strategies-economic liberalization, a focus on high technology, and its resolve to become a regional leader-as well as its challenges-the wide gap between its urban and rural populations, growing unemployment, and the challenge posed by fundamentalist ideologies. It also considers the effects that its success has had both at home and abroad. India's progress has unnerved some of its neighbours and trading partners. South Asian countries worry about India's economic dominance, in the United States concern has been mounting over loss of jobs in the services sector. India has tried to soften its neighbours' concerns by spearheading a project to create a regional free trade zone. It continues to signal its desire to integrate into the world economy by pursuing liberalization at home and encouraging trade. Economically strengthened India will increasingly regard itself as a great power and expect more deferrence from other countries.

1. Economic Liberalisation

Economic growth in India during the last decade has been faster than it was in earlier decades. In the first four decades of India's independence it grew at an average annual rate of 3 to 5 percent per capita. But in this present era of globalization, India has achieved per capita annual growth rates of 5 to 8 percent. It is projected that if India can keep this rate of growth it could become the **third largest economy** in the world by the year 2020, after the United States and China.

A big reason for faster growth in India in recent years is that growth and globalization have gone hand-in-hand: Access to a buoyant international market has greatly facilitated faster growth. It has permitted a degree of reliance on comparative advantage and division of labor that was not possible in the earlier decades. Not only has there been rapid growth in world trade, but it has taken place in an environment where the support facilities are readily available from other trading nations. These facilities—communications, wholesalers, finance and insurance—would have been expensive for developing countries like India and would have put them at a disadvantage competitively. Of course, technology transfer helps as well to boost growth rates.

Latecomers to development like India have the advantage of ready access to all the blueprints developed over the past several hundred years in the more advanced nations. And latecomers also derive benefits from the very large declines in the costs of transport and communications. Korea, for example, shifted from being a 70 percent rural economy to a 70 percent urban economy in the course of three decades. Such a shift would not have been possible without the support of an international economy. More recently, over the last decade, joining the international economy has helped some regions in India make the transition to an information-based economy.

The impact of the faster growth on living standards has been phenomenal. We have observed the increased well-being of a larger percentage of the world's population by a greater increment than ever before in history. Growing incomes give people the ability to spend on things other than basic food and shelter, in particular on things such as education and health. This ability, combined with the sharing among nations of medical and scientific advances, has transformed life in many parts of the developing world, including India.

In India, infant mortality has declined from 146 per 1000 births in 1951 to 66 per 1000 births in 2001. Literacy rates have risen from a low of 18.33 percent in 1950-51 to 65.38 percent in 2000-01. World poverty has declined, despite still-high population growth in the developing world. Since 1980, the number of poor people, defined as those living on less than a dollar a day, has fallen by about 200 million, much of it due to the rapid growth of China and India. However, a quarter of India’s population still lives below the poverty line.

If there is one measure that can summarize the impact of these enormous gains, it is life expectancy. Only fifty years ago, life in much of the developing world was pretty much what it used in be in the rich nations a couple of centuries ago: "nasty, brutish and short." But today, life expectancy in India is 67 years, up from under 36 years in 1951. The gap between life expectancy between the developed and developing world has narrowed, from a gap of 30 years in 1950 to only about 10 years today.

2. Focus on High Technology

Already India is making its presence felt in the global market place. Backed by its **mind power**-five lakh engineers, 2.5 lakh doctors and 75 lakh graduates-India is seen as having a clear claim at being the software capital of the world, the business process outsource for the the global corporations, and the centre for cutting edge research in formation technology and even biotechnology. India is also the global original equipment manufacturer of auto ancillaries and the preferred supplier of infrastructure-erection-construction skills.

3. Political Resolve

In recent years India has moved with growing self-confidence as it has swiftly began redefining its relations with other countries. Keeping aside decades of lethargy, it signed a major agreement with Beijing to recognise the Tibet Autonomous Region as an integral part of China and put on fast track the negotiations on the border dispute. By doing so, India recognised the importance of dealing independently with the world's rising power. This was reflection of India's "multi-mode, multi-vector" diplomacy.

Essentially it means building bridges with a raft of nations on a variety of strategic issues rather than remaining narrow-focused. So India looked harder east than it ever did before, even signing a frameowrk agreement for comprehensive economic cooperation with the ASEAN in an effort to lessen China's influence in the region. It was key to India asserting itself as an Asian power, something that it was surprisingly not recognised as before.

Against Pakistan, India has got out of the rut by employing what has been called a "drums and flutes" approach. While maintaining India's stance of zero tolerance against cross-border terrorism, India has pushed for new peace process with Pakistan. Same pragmatic, yet firm approach was visible at the SAARC summit where India succeeded in keeping out the Kashmir issue even as it managed to build a consensus on South Asia Free Trade Area and counter terrorism measures.

4. Regional Disparity

A recent World Bank Report on India (Sustaining Reform, Reducing Poverty, 2003) as also the UNDP's Human Development Report 2003 have expressed grave concern over the widening inter-state disparities and the growing urban-rural divide in India.

The World Bank Report says that development has been uneven and, as a result, poverty is getting concentrated in the slower growing states of Uttar Pradesh, Bihar, Madhya Pradesh and Orissa. The report adds: "Accelerating growth and poverty reduction in India cannot be achieved without also accelerating growth in India's lagging states."

The UNDP's Human Development Report (HDR) bemoans that India contains regions of intense poverty relieved little by overall national growth. It points out the enormous disparities across India's states with extremely high gaps in literacy between low social classes and the rest of the population.

Female literacy, the key to so many other social indices, is as low as seven per cent in Rajasthan and nine per cent in Madhya Pradesh, among low social classes. This is despite the fact that over the past decade, there has been a significant improvement in overall literacy rate from 44 per cent to 64 per cent in Madhya Pradesh and from 39 per cent to 61 per cent in Rajasthan.

While regional imbalances and socio-economic disparities have persisted in India over the last half a century of planned economic development, it should be a matter of particular concern to policy-makers that the same have tended to widen at an alarming rate, post-reform.

With the role of the public sector diminishing, the virtual dismantling of industrial licensing and removal of locational constraints, private investments have been mostly flowing to states and regions with relatively better infrastructure and other facilities. The same is the case with the inflows of foreign direct investment.

A CII-sponsored study by the National Council for Applied Economic Research (NCAER) released in 2000 shows how the northern states have slipped badly in respect of economic growth during the decade of the 1990s compared to their counterparts elsewhere. The study warns that the relentlessly widening economic and social disparities among states are threatening to weaken the national fabric.

According to the study, the western region comprising primarily Maharashtra, Goa and Gujarat was able to step up its annual economic growth rate from 5.7 per cent in the 1980s to 6.6 per cent in the 1990s. A similar trend is seen for the southern region. In contrast, the annual economic growth of the northern region fell from 5.6 per cent in the 1980s to 4.5 per cent in the 1990s.

The annual growth rate of state domestic product increased sharply for Gujarat and Maharashtra during the 1990s to 8.6 per cent and 7.1 per cent from 3.1 per cent and 3.6 per cent respectively in 1980s. For Tamil Nadu, it rose to 4.9 per cent from 3.9 per cent, Kerala 4.5 per cent from 2.2 per cent, Karnataka 3.5 per cent from 3.3 per cent, and West Bengal 5 per cent from 2.4 per cent.

On the other hand, the annual growth rate of state domestic product declined in the 1990s to 2.8 per cent from 3.3 per cent for Punjab, 2.7 per cent from 3.9 per cent for Haryana, 1.2 per cent from 2.6 per cent for Uttar Pradesh, 3.5 per cent from 4 per cent for Rajasthan, and from 4 per cent to 3.1 per cent for Delhi over the decade of the 1980s.

Census 2001 revealed disturbing disparities in the demographic indicators such as population growth rates, literacy levels and sex ratio. For instance, Bihar, with a dismal record of human development indicators, recorded a much higher rate of population growth at 28.3 per cent during the decade of the 1990s against 23.3 per cent during the previous decade.

Similarly, Uttar Pradesh, the most populous state in the country, recorded a higher population growth of 28.3 per cent against 23.38 per cent during 1981-91.

Rajasthan also recorded a high rate of population growth at 28.33 per cent during 1990s (28.44 per cent).

Some of the other States in the north and east also recorded much higher population growth rates. But these are much smaller states both in terms of area and population and hence their overall impact is not so significant.
Against this, Kerala recorded the lowest decadal population growth of 9.42 per cent, followed by Tamil Nadu (11.9 per cent), Andhra Pradesh (13.86 per cent), Goa (14.89 per cent), and Karnataka (17.25 per cent).

As for literacy, Kerala continued its lead with 90.92 per cent, followed by Mizoram (88.49 per cent), Lakshadweep (87.52 per cent), and Goa (82.32 per cent). Maharashtra also recorded a fairly high literacy rate of 77.27 per cent.
In contrast, Bihar recorded the lowest literacy rate of 47.53 per cent; the female literacy level in the State was much lower at 33.57 per cent. Incidentally, Bihar also happens to be the only state in the country to have a literacy level below 50 per cent.

Other States that figure at the bottom level of literacy are Jharkhand (54.13 per cent), J&K (54.46 per cent), Arunachal Pradesh (54.74 per cent), UP (57.36 per cent), Orissa (63.61 per cent), Meghalaya (61.31 per cent), and Andhra Pradesh (61.11 per cent).

In general, the southern States, which have been outperforming the northern and eastern regions in respect of economic growth and per capita income, have also shown a better record in respect of population control, literacy and sex ratio.

An equally disturbing facet of growing socio-economic disparities is the growing rural-urban divide that is brought out by the National Sample Survey Organisation's (NSSO) household consumer expenditure surveys for recent years. According to the data complied by the NSSO, the average monthly per capita expenditure (MPCE) by rural households during 2000-01 (July-June) was Rs 494.90, which was just a little over 54 per cent of the corresponding figure of Rs 914.57 for a typical person in urban India.

What is striking about the MPCE data is that the gap between the average per capita expenditure for urban and rural areas has widened by over 8 percentage points between 1987-88 and 2000-01. Considering that 1987-88 was a drought year, when rural incomes would have anyway been depressed, the increase in disparity levels between the two periods appears all the more worrisome.

The urban-rural gap is much more pronounced for non-food *vis-à-vis* food items. An average urban resident's monthly expenditure on food items during 1987-88 at Rs 139.73 was higher than the corresponding non-food spending of Rs 110.18.

But in 2000-01, the position had reversed, with average non-food expenditure (Rs 514.01) exceeding that of food expenditure (Rs 400.57). No such progress or diversification of the commodity basket has been observed for rural India.
The other major pointer to the sizeable difference in living standards is the fact that about 93 per cent of the rural population during 2000-01 had a MPCE of less than Rs 915, the average figure for urban India. Thus, the so-called rural rich enjoying consumption standards comparable to the average urban Indian constituted hardly five per cent of the rural population.

The increase in rural poverty during the 1990s is not surprising considering the gross neglect of agriculture during this period. Because of the big drop in the annual growth rate of public investment in agriculture during the decade as also the substantial decline in the growth of banks' lending to the sector, the agricultural growth rate witnessed a substantial deceleration over this period. However, while the share of agriculture in our country's GDP has witnessed a substantial decline, the proportion of population dependent on this sector in the total population has not shown any significant drop. Not surprisingly, the people dependent on agriculture are getting increasingly impoverished.

It is thus evident that reduction of rural poverty is closely linked with agricultural growth. The moderate pick-up in the growth of the economy during the decade of the 1990s was largely driven by manufacturing and services sectors, the activities that are concentrated in urban areas.

The challenges before the country in the context of the widening socio-economic disparities between states and regions as also the growing rural-urban divide were aptly summed up by the World Bank Chief Economist, Mr Nicholas H. Stern at a meeting in Bangalore in May this year. He stated that a central concern in the Tenth Plan is the growing disparities in growth performance and social outcomes across states.

More than half of India's poor live in just four states. Over two-thirds of poor live in rural areas and depend largely on agriculture. The highest incidence of poverty is found among people of scheduled castes and scheduled tribes, who face major social barriers that exclude them from opportunity.

With the concentration of poor people in these areas, there is a concentration of problems poor people face: Lower access to, and lower quality of public services, lack of leverage to gain fair treatment from public institutions, and greater vulnerability to corruption and abuse.

Mr Stern concluded: "Accelerating national growth, reducing poverty, and achieving national social targets will not be possible without strengthening the performance of, and access to, services in these lagging states, sectors and communities."

It is evident that if this trend of widening regional disparities and growing rural-urban divide is not arrested and reversed soon, it will not only continue to pull down the overall growth rate of the economy, but will lead to serious social strife in the country. It is, therefore, time the policy-makers viewed the situation with a new sense of urgency and initiated measures to contain the damage.

There is a need for the Planning Commission, Centre and the States to jointly formulate strategies and play a pro-active role in developing infrastructure facilities in the less developed regions and in utilisation of resources more efficiently.

As the World Bank Report observes, for growth to improve in lagging states, implementation of reforms is essential to reduce fiscal imbalances and improve the composition of public expenditure and investment climate. Of particular importance for poverty reduction and increasing rural incomes are policies aimed at increasing agricultural productivity and rural employment.
Taking a leaf out of the recent Asian experience, suitable modifications are needed in the development strategies of laggard states.

The major thrust will have to be on the development of human capital through education, health and nutrition apart from increased flow of funds to agriculture and rural infrastructure. To ensure this, the role of state intervention would be crucial in the medium term. Subsequently, the market will start playing its role.

5. Problem of Unemployment

The need for urgency and magnitude of the **problem of unemplyment** in India cannot be overstated. India will add 35.29 million people to the labour force between 2002 and 2007. This will be over and above the 41.6 million jobless already registered with the nation’s emplyment exchanges. In short, India needs to create more than 75 million jobs by 2007. To get a perspective of the real magnitude of the problem, it needs to be considered that at 6.5 percent growth India will create 24.08 million jobs leaving over 46 million jobless. Even at 8 percent GDP growth on;ly 29.67 million jobs can be created, leaving a 40-plus million on the jobless list.

What about the impact of growth on labor and social conditions in India? Conditions in so-called "sweatshop" factories in India should be compared to the other choices available to people in the country. For instance, the growth of the footwear industry in India has translated in to a five-fold increase in wages in a short period of time; while still a pittance by western standards, the higher wages have completely transformed for the better the lives of those workers and their families.

Insisting that such workers be given a "decent wage" by western standards would completely erode any competitive advantage of businesses using unskilled labor on the international market. Likewise, child labor in sometimes prevalent in India because the alternatives are so much worse: starvation or malnutrition, forced early marriages (for girls) or prostitution, or life on the streets as a beggar. There is ample evidence that parents in India, like parents everywhere, choose schooling for their young when they can afford to do so, and the quickest path to that outcome is through more rapid economic growth.

Take the perennial concern that rapid growth depletes fuel resources and once that happens growth will come to a complete dead stop. World oil reserves today are higher today than in 1950. Then the world's known reserves of oil were expected to be enough for only 20 more years of consumption. That is, they were expected to run out by 1970. It did not happen. Today, the known reserves are enough to keep the world going for another 40 years at the present rate of consumption. There is no doubt that by the time 2040 rolls around research and development will have delivered new breakthroughs in energy production and use.

Nor has India done irreparable harm to the environment. The evidence shows quite convincingly that economic growth brings an initial phase of deterioration in some aspects, but followed by a subsequent phase of improvement. The turning point at which people begin choosing to invest in cleaning up and preventing pollution occurs at a per capita GDP of 5000 dollars.

Concerns that globalization is associated with a loss of control are also misplaced. In fact, it is poverty that is a state of almost total loss of control. Growth has done more to give people a control over their lives than any alleged loss of control to multinationals or fickle flows of foreign capital.

Some anti-globalizers allege that the gains of globalization are not universally shared. Inequality of outcomes is said to be the Achilles Heel of globalization. This characterization is misleading in several respects. At the very outset, one has to wonder about the preoccupation with inequality. As Chinese Premier Deng Tsiao Ping famously remarked: "I have a choice. I can distribute wealth or I can distribute poverty." Poor people are desperate to improve their material conditions in absolute terms rather than to march up the income distribution. Hence it seems far better to focus on impoverishment than on inequality. And there is no doubt that growth reduces the incidence of impoverishment.

Empirical studies show clearly that the incomes of those at the bottom of the income distribution rise one-for-one with growth. To take one specific example, identifying who lost in absolute terms in Korea during its period of high growth in the 1960s or 1970s is a difficult task. The losers were largely older peasants, and in their case too their offspring often sent remittances from their urban jobs so that rural living standards were rising rapidly.

Even if one is going worry about inequality, there is no evidence that globalization has any systematic impact on a country's income inequality. Many countries have experienced fast growth by opening up to the world economy, but without changes in inequality. In any event, countries that are concerned about inequality of incomes within their countries can, and do, address it through government policies.

If one looks not at within-country inequality but at world inequality, the news is actually very encouraging. The evidence, though difficult to piece together, suggests that world inequality is declining. This is happening in large part because of the phenomenal growth of China and India. Because the majority of the poor reside in these two countries, their growth helps to reduce inequality of world incomes, even though many smaller countries have had stagnant incomes.

What the protestors are against is not growth or globalization, but change and fear of the impacts of change. There once used to be warnings that train travel in excess of 15 miles per hour would be hazardous to health. Many of the alleged hazards of growth and of joining the international economy are similar to such warnings. To be sure, there are losers whenever there is change. But as we get richer, we can afford greater protection and insurance against unforeseen hazards.

6. Issue of Fundamentalism

Modi became Chief Minister in October 2001 replacing Keshubhai patel. He was reelected in December 2002. In two years, he has brought down the state's annual revenue deficit to around Rs.2,500 crore from whopping Rs.6,700 crore through cost-cutting and better financial management. He hiked user charges in areas such as education and irrigation, brought the ailing public-sector units like theGujarat Alkalies and Chemical Ltd. Out of the red and implemeted restructuring braving opposition. His style is clearly a big departure from that of his immediate predecessors: the difference is visible in almost all the crucial sectors, right from education to energy, oil and gas.

He has also weeded out the "rule" of the middlemen who used to call the shots in Gandhinagar. Says Professor ravindra Dholakia of IIM, Ahmedabad, "Modi has focused on areas that are going to spur development, from gas and ports to water, bio-technology and tourism. He is also paying proper attention to education and agriculture." Modi worked wonders at the Gujarat Electricity Board

(GEB), till recently a den of corruption, by reducing its losses by over Rs 1,000 crore in just a year through steps ranging from checking power theft, slashing the agriculture subsidy to renegotiating old power purchase agreements.

Modi government has also taken several steps to curb graft within the bureaucracy and sectors such as education. And, Modi has been called a Chief Minister who is both financially transparentv and dynamic. For many industrialists, Modi is more a CEO of a successful company than a politician.

7. ‘Can Do’ Factor

The Author is Reader in Political Science in the University of Delhi, India. He has been a Senior Fulbright Fellow at the Georege Washington University (1992), and a recipient of Shastri Faculty Research Fellowship (1995 and 1999), Canada Asia Pacific Award (2000), and Shastri Applied Research Project Award (2003). He has published seven books, the most recent being *International Relations:A Framework For Analysis* (2004).