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ENHANCING PRODUCTIVITY, EFFICIENCY AND INTERNATIONAL COMPETITIVENESS OF INDIAN ECONOMY

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Abstract

Indian economy has been recording impressive growth rates since 1991. This can be partly attributed to the multi-sector structural reforms aimed at enhancing productivity, efficiency and international competitiveness of the economy. The reforms have been undertaken gradually with mutual consent and wider debate amongst the participants and in a sequential pattern that is reinforcing to the overall economy. The financial markets have developed and are more integrated after the reforms, and regulatory and supervisory institutions have been set-up. The reforms, though slow paced initially but well synchronized, have begun to yield results. The economy has recorded consistently high growth rates, avoided any adverse impact from the South East Asian crises, built substantial foreign exchange reserves, pre-paid some of its external debt and restructured its domestic debt. An attempt is made in this paper to figure out the challenges and threats that lie ahead in Indian economy. The study also raises a number of questions that need further analysis to enable us to understand better the continuing and likely impact of the economic reforms in India.

Keywords: Indian Economy, Trends and Issues, Poverty, Agriculture, Economic Reforms.

INTRODUCTION

India is the seventh largest country in the world by geographical area and the second most populated after China. It has the largest democracy in the world. The economy of India is the fourth largest in the world in terms of purchasing power parity with an over 8 percent annual economic growth rate. India has a rich and unique cultural heritage, and its diverse population has managed to preserve 5,000-year old traditions by absorbing customs, traditions, and ideas from natives, immigrants, and invaders. India's extraordinary cultural heritage has the characteristics of tolerance, resilience, and integrity. Many cultural practices, languages, customs, and monuments are examples of this amalgamation over centuries. Indian music is represented in a wide variety of forms and its classical music is very well received all over the world. The techniques of Indian Yoga and Ayurvedic medicine are so popular in various regions of the world.

The economic reforms in India were initiated in the early 1990s have made Indian economy more competitive. Indian business is responding to new market opportunities. India's growth is underpinned by a vibrant and growing entrepreneurial class. Indian

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youth is keen to get into technical and scientific institutions — helping India gain salience as knowledge based economy. Hence, India is now on growth path of 7 to 9 per cent per year, while maintaining price stability (Baldev, 2001). The proportion of people living below the poverty line is declining. The openness of the Indian economy has nearly trebled between 1990-91 and 2005-06. The Indian economy is thus now much more intertwined with the global economy. Assuming trend growth in agriculture under normal monsoon conditions and barring domestic or external shocks, the Reserve Bank in its Annual Policy Statement for 2006-07 (April 2006) placed real GDP growth, for policy purposes, in the range of 7.5-8.0 per cent during 2006-07. The Reserve Bank reaffirmed its forecast for GDP growth in July 2006 in its First Quarter Review of the Annual Statement on Monetary Policy. The Reserve Bank revised upwards its forecast for GDP growth to around 8.0 per cent in October 2006 in its Mid-Term Review on the back of improvement in industrial outlook and expected sustenance of growth momentum in services. Other agencies have also placed their growth estimates close to 8 per cent (RBI, 2005-06).

Led by manufacturing, the upturn in the industrial sector is entering its fifth year of expansion in 2006-07. Manufacturing activity has remained stronger than expected in the current fiscal year so far. Based on movements in the index of industrial production (IIP), growth in manufacturing activity accelerated to 11.8 per cent during April-August 2006 from 9.6 per cent in the corresponding period of 2005. In terms of use-based classification, all sectors, excepting consumer non-durables have exhibited acceleration. Notably, growth in capital goods production accelerated to nearly 19 per cent, even on a high base, reflective of strong investment activity in the economy (Rakesh Mohan, 2006).

An attempt is made in this paper to delve the Indian economy and its trends after the economic reforms in 1991. The paper also deals with the some important issues in the economy in the recent past. The article is mainly based on the secondary data source. The data mainly collected from the government reports and policy documents, books and articles published in journals and news papers.

TRENDS AND AIMS OF THE ECONOMY

As table-1 provides long-term growth trends, real GDP growth rates increased to a higher level from the 1980s, and increases in per capita income were even more marked because of the fall in the rate of population growth. But this change in trend rates began before the economic reforms of the 1990s.

Table -1: Annual rates of growth of national income (per cent)

Period Year Starting 1 April	Gross Domestic Product	Per capita Net National Product
1950-52 to 1960-62	3.9	1.8
1960-62 to 1970-72	3.5	1.2
1970-72 to 1980-82	3.5	1
1980-82 to 1990-92	5.6	2.9
1990-92 to 2000-02	5.6	3.5

Notes
1. Both GDP and NNP are measured in constant 1993-94 prices.
2. Rates of growth are compound annual rates for the three-year averages.
Source: CSO, *National Accounts Statistics*, various issues

This was associated with some amount of structural change, but not as much as might be expected. Investment rates increased over time, which is only to be expected in a developing economy achieving higher rates of per capita income, but the rate of increase actually slowed down, until the last decade – that of neo-liberal reforms – shows almost no change in the investment rate. Meanwhile, the share of agriculture in GDP fell along predictable lines in the course of development, but there was little increase in the share of the secondary sector, which has not changed at all since the early 1990s. Instead, the share of the tertiary sector has increased dramatically, to the point where it now accounts for around half of national income (Baldev, 2001).

Table – 2 The Structural Change in the Indian Economy

	Per cent of GDP			
Period Year Starting 1 April	Investment Rate	Primary	Secondary	Tertiary
1950-52	15.5	59.0	13.4	27.6
1960-62	19.4	53.1	17.3	29.6
1970-72	23.8	46.6	20.4	33.0
1980-82	22.0	41.3	21.8	36.9
1990-92	26.0	34.4	24.0	41.6
2000-02	26.2	26.1	24.7	49.2

Source: CSO, *National Accounts Statistics*, various issues.

Such changes in output shares were not accompanied by commensurate changes in the distribution of the workforce. The proportion of all workers engaged in agriculture as the main occupation has remained stubbornly above 60 per cent, despite the collapse in agricultural employment generation of the most recent decade and the fall in agriculture's share of national income. Further, the higher rates of investment of the last two decades have not generated more expansion of industry, but have instead been associated with an apparent explosion in services, which is a catch-all sector of varying components. It is true that the import-substituting industrialisation strategy, which did have some degree of success during the decade and a half immediately following Independence, had clearly run out of steam as early as the mid-1960s. Not only was the once-for-all stimulus offered by import substitution exhausted, but the ability of the state to continue to provide the stimulus to growth was undermined by its inability to raise adequate resources. This reflected the contradictory nature of the roles the state was required to fulfill. While increasing government expenditure was necessary to keep the domestic market expanding, the state also effectively became the most important instrument for primary accumulation by the domestic bourgeoisie. Some reflections of this were the inability to tax the rich beyond a point, and the use of public resources to subsidise the investment and consumption of the elites (Government of India, 2004). This contradiction became manifest in the fiscal crisis of the state, which meant that the government had either to cut back the tempo of its investment or to maintain this tempo through increased borrowing. The inability of the state to impose a minimum measure of discipline (essential for viable capitalist functioning) among capitalists made the attempts at regulation through licensing and other instruments less effective. This had the effect of reducing its productive possibilities over time. This was related to the imbalance between the possibilities of domestic production and the patterns of demand emanating from the relatively affluent sections who accounted for much of the growth of potential demand for consumer goods (Government of India, 2002a).

With more than 75 percent of India's population under the age of 35, Prime Minister Singh and his closest aides recognize that the country needs to accelerate its economic growth rate to meet popular expectations. With the explosion of cable channels - some 500 are available in the capital city of New Delhi alone - contemporary global lifestyles, attire and accouterments are everyday images in Indian living rooms.

For most Indians, these lifestyles and purchases are unattainable in present circumstances. (The per capita income is $450.) But the dramatic expansion of jobs in the IT and financial-services sectors, telecommunications, tourism, and the automobile industry, has spawned an increasingly affluent middle class that has discretionary income for consumer goods. A credible estimate - based on buying trends - suggests that this middle class, concentrated in India's large cities and burgeoning towns, has more than 400 million people. This would make it the biggest middle class in the world, almost twice the entire population of the U.S (Baldev, 2001; Bery and Singh, 2003).

Indian leaders have also recognized, however belatedly, that the Fabian socialism imposed by Nehru - independent India's first prime minister - did not alleviate poverty. Egged on by the main contributors to his Congress Party, five or six indigenous Indian industrial families, Nehru discouraged foreign investment in India. He opted for government control of the "commanding heights" of the economy - which is to say, the government built or managed virtually everything from steel mills, dams, civil aviation, telecommunications, hotels, insurance companies, and banks (Baldev, 2001; Government of India, 2002b).

Nehru's daughter, Indira Gandhi, continued this tradition when she became prime minister. It was only well after her assassination by Sikh bodyguards on 30 October 1984 that her son, Rajiv Gandhi - who succeeded his mother as prime minister - began to dismantle some of the bureaucratic controls over the economy. He met with fierce resistance from the entrenched bureaucracy (more than seven million people are officially categorized as "bureaucrats" in India). A commercial pilot by profession, Rajiv Gandhi was hopelessly outmaneuvered by political colleagues allied with powerful bureaucrats. His signal contribution was in the introduction of computers in federal government offices.

The man who became prime minister shortly thereafter, P. V. Narasimha Rao, is to be credited with initiating economic reforms which eventually resulted in a far more open system. Mr. Narasimha Rao's finance minister was Manmohan Singh, a one-time leftist economist who became widely known as the brains behind Mr. Rao's reforms. A series of opposition-led governments were subsequently in office through the 1990s; some of them supported the Rao-Singh reforms, which included cutting back on subsidies for staples, trimming the bureaucracy, lowering punitive taxation on companies and their executives, and lessening the license load on industrialists (Bery and Singh, 2003)..

When Mr. Singh became prime minister in May 2004, there were great expectations that he would speed up economic reforms that he had drafted in 1991. But from the very start of his administration, it is obvious that there would be less velocity to progress than he would have wanted. That's because leftist members of the Congress-led coalition often agitated against reforms perceived as helping the private sector and foreign entrepreneurs. Under the banner of populism, they undercut job-generating policies that would have benefited millions of Indians mired in poverty.

Still, Prime Minister Singh has been persistent about opening up the Indian economy. His finance minister, Harvard-educated Palaniappan Chidambaram, offered substantial tax breaks in the 2005 budget. He and other cabinet officials such as Commerce Minister Kamal Nath have been traveling around the world to encourage investors.
They have encountered growing interest among investors, particularly from the U.S., where Indian entrepreneurs and software programmers have gained acclaim in Silicon Valley. (The founder of Hotmail.com is an Indian.) Practically, every major American computer-related company has set up offices or production plants in India: Dell, Microsoft, Intel, among them. The Indian IT sector's exports grew by 32 percent in 2004, and this year the figure is likely to be higher. Cities like Hyderabad in Andhra Pradesh, and Bangalore in Karnataka, have emerged as formidable techno-hubs, with investments by global giants such as Microsoft (The Hindu News Paper, 15 March, 2005).

(1) The primary goal is to transform the country into an economic superpower through accelerated growth in manufacturing, IT, bio-technology and agro-industries. As a country already possessing nuclear weapons, India also seeks to expand the use of nuclear technology to generate more electricity, which its economy sorely needs. To qualify as a superpower, India would need to have a gross domestic product of at least $3 trillion; the current figure is $675 billion. That means the annual economic-growth rate, currently around 6 percent, would need to be between 8 and 10 percent annually for the next decade, a formidable challenge. At the same time, India needs to pay greater attention to its agricultural sector, which accounts for two-third of the GDP. More rural cooperatives are sorely wanted by farmers, and also more agro-industries that would create jobs. In November 2006, the American Senate overwhelmingly voted to pass a controversial deal to share civilian nuclear technology with India.

(2) The second goal is to attract more foreign investment. Currently, India gets just about $4 billion in FDI annually, compared to $54 billion for China, and $8 billion for Thailand (which has a population of 65 million). In 2003, the stock of FDI to India totaled just 5 percent of GDP, compared to 31 percent for Thailand, and 35 percent for China. At the same time, surveys by the Paris-based Organization for Economic Cooperation and Development (OECD) suggest that India may become one of the top two or three destinations for FDI in the coming years. A bright spot is India's tourism sector, which fetched $4.9 billion in 2004, a gain of $1.6 billion over the previous year. Another bright spot for earning foreign-exchange is the remittances that overseas Indians - of whom there are reported to be 22 million, 2 million in the U.S. alone - send to their homeland. The U.S. accounted for nearly 50 percent of the $19 billion that India received in 2004

from Non-Resident Indians (also known as NRI's). The figure for 2006 is expected to be $10 billion. Similarly, foreign investment in Indian equities is on the rise. The figure for 2004 was more than $9 billion in investment by foreign funds, and it's expected to rise substantially in 2006 - even though no foreign investor is permitted to acquire more than 49 percent of shares in any Indian company. The OECD said that FDI generally is on the rise: The world's 30 industrialized countries invested $667.8 billion in manufacturing, real estate and companies in foreign countries in 2004, a 12 percent increase from 2003. The U.S. was the leader by far in FDI last year, with a record $252 billion invested abroad, an increase of 80 percent from 2003.

(3) The third goal is to alleviate, if not eliminate, crushing poverty. Government figures indicate that the poverty rate fell from 36percent in 1993-94 to 26.1 percent in 1999-2000 (Indian Economic Survey, 2001-2002). That's nearly 400 million people who subsist on the equivalent of less than $2 a day. In the commercial capital of Mumbai - formerly known as Bombay - slum dwellers are said to number 6 million, or half of the city's total population. The national unemployment rate has hovered at 12 percent for several decades. With an annual population growth of 18 million - the size of Australia's population - India will need to create 100 million new jobs in the next 10 years just to keep that rate from rising. Because of rural unemployment, villagers keep streaming into India's cities, which are already bursting at the seams. For example, more than 10,000 people are said to migrate to Mumbai every week. Not only are there no jobs for most of them, there isn't adequate housing either. Many of the newcomers - especially women from as far away as Nepal - are snared by prostitution rings. Little wonder that the prevalence of HIV/AIDS has soared in India. The World Health Organization estimates that India, with 5.3 million known AIDS patients, will soon surpass South Africa, which currently has the world's highest number of AIDS-afflicted people - 5.4 million.

(4) A fourth goal is to fashion a peace with neighboring Pakistan, an Islamic theocratic state with which secular India has fought four wars since both nations were carved out of the Subcontinent by the departing colonial power, Britain, in 1947. Defense expenditures are draining the economies of both countries, diverting resources that would otherwise have gone toward social expenditures. For example, India allocates $18 billion of its annual budget of $104 billion to defense; nearly a third of Pakistan's budget of $20 billion goes toward defense. The main dispute between the two countries is over the mountainous territory of Kashmir, which both India and Pakistan claim. With American prodding, the two antagonists seem to be making progress over resolving the issue - which in effect would mean that Pakistan would retain a third of Kashmiri territory that its vassals occupy, and India much of the rest. (China grabbed a portion of northeast Kashmir and refuses to give it up.)

(5) A fifth goal is for India to obtain a permanent seat in the 15-member United Nations Security Council. In 2005, UN Secretary General Kofi Annan proposed an expansion of the Security Council to include key states such as Japan, India, Brazil and Germany. India has long lobbied for a permanent seat on the Council, not just a two-year rotational one. In part, this is an effort to reclaim its prominence during the cold war era when India led the grouping known as the Nonaligned Movement (NAM). NAM's avowed aim was

to stay neutral in the global struggle for influence between the U.S. and the Soviet Union. In practice, many NAM members - including India - tilted toward the Soviets, frequently inviting the displeasure of Washington. With the fall of the Berlin Wall and the disintegration of the Soviet Union, NAM members are struggling to latch on to a cause. India seeks to re-exert its leadership, this time as a major model of sustainable human development. However, Washington has been less than enthusiastic about supporting India's bid for a permanent seat on the Security Council.

(6) A sixth goal is to increase India's global trade, particularly with the U.S. Some 22 percent, or $15.5 billion, of India's annual exports of $80 billion go to the U.S. The latter sells merchandize worth $6 billion to India. Both sets of figures have increased substantially over the last five years, sometimes in excess of 20 percent a year. At the same time, a thawing in relations between China and India has resulted in a huge increase in bilateral trade between the two countries, which fought a war in 1962 over disputed Himalayan territory. From barely $1 billion 10 years ago, two-way trade has jumped to $14 billion; it is expected to climb to $30 billion in another five years. India is actively pushing bilateral and regional trade pacts in Asia. Its parliament recently ratified one such agreement with Singapore; a "South Asia Free Trade Area" (SAFTA) is also on the cards. The seven nations of South Asia - India, Nepal, Sri Lanka, Bangladesh, Mauritius, Pakistan and Afghanistan - barely do trade with one another. SAFTA is likely to change that. In fact, India need look no further than some of its neighbors in Southeast Asia to see what vigorous structural reforms coupled with opening of their economies can accomplish: Korea and Taiwan have been able to increase their per capita GDP from less than 5 percent of the level of the U.S. in the 1960s to more than two-third of U.S. levels in one generation (RBI, 2005-06; World Bank, 2006).

ECONOMIC PRIORITIES

The fundamental objective of India's economic development needs to be poverty alleviation. The cohort of those living in extreme poverty is growing. That means some 400 million Indians earn less than the equivalent of US$2 a day, the largest such group in the world. The technology revolution and the development of energetic securities markets have not helped this cohort one bit. Manufacturing jobs are still concentrated in and around the major urban centers of Mumbai, Chennai, Delhi, Hyderabad, Bangalore, Kolkata, and Ahmedabad. That's partly because these cities offer educated workers who are willing to toil for relatively low wages. Even among the educated, there's an estimated 200 million population of unemployed. There is little coordination between federal and state governments on the question of poverty alleviation, let alone something as essential as a national job-creation scheme (Indian Economic Survey, 2002).

Infrastructure development is another priority. Vast areas of India's hinterland have no paved roads, fitful electricity, and little access to potable water. Little wonder that entrepreneurs are unwilling to set up production facilities away from the urban centers. India's national leaders have been only occasionally successful in persuading foreign investors to channels funds into infrastructure strengthening. There needs to be a stepped-up focus on wooing funds for hydroelectric projects, road-building, and telecommunications (World Bank, 2000; Nagesh, 2000).

Still another priority needs to be irrigation and water supply. India still depends heavily on good monsoons to generate adequate agricultural yields. There is no national grid of irrigation canals that could feed areas whose soil is hospitable to year-round crops. Here again, unresolved disputes between states over the sharing of river waters need to be dealt with forthrightly by state and national leaders (Planning Commission of India, 2002).

Primary education and health care are also critical. While India's much-publicized technical institutions - such as the seven Indian Institutes of Technology - turn out stellar graduates who then promptly head for lucrative overseas jobs, primary-school education in much of the country is sadly under-funded. There simply aren't enough teachers and schools in rural areas. Because education is a state responsibility, India's 35 states and territories need to have their local leaders pay more attention to the issue.

Deficit reduction needs to take place. More resources available for private-sector investment if the government's borrowing needs are brought down. The IMF says that private investment in India remains low by regional standards. Public investment is also low compared with much of Asia. Interest payments, wages and subsidies take up 50 percent of all federal government spending, leaving little room for much needed public investment and basic social services, according to the IMF. The IMF also says that lower fiscal deficits will improve financial intermediation. India's banks currently hold about one-third of their assets in the form of government securities, compared with 8 percent in Singapore and 15 percent in Thailand. "This has contributed to a banking system that, until recently, seemed largely disinterested in financing private sector activity," according to the IMF (IMF, 2005).

Internet and telecommunications: The world's largest computer-chip manufacturer, Intel, is planning to spend more than $400 million on a chip assembly and testing facility in India. Intel already has a plant in Bangalore, India's Silicon Valley, where it designs software for power chips. Intel selected India over competing bids from China, Malaysia and Singapore. India's minister for communications, Dayanidhi Maran, has been lobbying American firms to establish a presence in India. He has convinced Flextronics - the world's leading contract electronics manufacturer - to widen its investment in India. Mr. Maran has also persuaded Flextronics's rival, Solectron Corporation, to come to India. He says he's also encouraged by the fact that Indian engineers and software specialists are increasingly returning home from California's Silicon Valley, where around 30,000 Indians still work. They are attracted by the growth in the IT industry. Also, visa restrictions following September 11, 2001, have resulted in an annual fall to 60,000 from 200,000 H-1 visa, under which professional workers are allowed to come to the U.S. for employment for a period of six years. This means that more Indian engineers must find jobs at home. The mobile-phone industry has experienced explosive growth. Nokia, the Finnish manufacturer of handsets, recently announced that it would spend $150 million to establish a production facility in the southern city of Chennai. India is adding some two million new subscribers a month, many of them in rural areas. As a result, cell phone-service providers are received revenues of $7 billion in 2005. An international consortium - consisting of Indian and American companies, as well as the World Bank -

is planning to establish thousands of rural Internet centers to bring government, banking and education services to isolated villages.

Power and energy: With increasing industrialization, India's energy needs have grown exponentially. Although India produces some oil and natural gas, the Paris-based International Energy Agency says that if current trends hold, India would need to import 90 percent of its crude-oil requirements by 2030. While there is scope for American companies to construct pipelines, there is concern in Washington over the proposed $4 billion, 1,700-mile pipeline that would bring natural gas from Iran to India via Pakistan. Because Iran is officially categorized as a terrorist state, Indian companies that participate in the Iran pipeline project face sanctions. Bush Administration officials say they are discussing alternate ways to meet India's energy needs. Among the projects under discussion are a pipeline from Turkmenistan to India, and building gas-fired power plants.

Manufacturing and agro-industries: Industrial production accounts for less than 30 percent of India's GDP of $675 billion. This is low by Asian standards. And yet manufacturing is widely seen to be India's best bet for creating new jobs. But domestic entrepreneurs as well as foreign companies have been hesitant to invest in this sector on account of still formidable restrictions, a plethora of license requirements, and poor infrastructure. Vast areas of India's hinterland have no paved roads, fitful electricity, and little access to potable water. Little wonder that entrepreneurs are unwilling to set up production facilities away from the urban centers. Although agriculture generates the most revenues and India is now self-sufficient in food supplies - and indeed even exports rice and wheat - the country still depends heavily on good monsoons to generate adequate agricultural yields. In fact, a weak monsoon can reduce the annual economic growth rate by 2 to 3 percentile points. There is no national grid of irrigation canals that could feed areas whose soil is hospital to year-round crops. Here again, unresolved disputes between states over the sharing of river waters need to be dealt with forthrightly by state and national leaders (Indian Economic Survey, 2005; World Bank, 2006).

Tourism: India expects this sector to grow dramatically. It has embarked on an international advertising campaign, "Incredible India," through which it believes that the annual number of tourists would double to 12 million. But even though India has some of the best luxury hotels and resorts in the world - particularly ones run by the Oberoi and Taj groups - it needs more hotels that are affordable for young foreigners who may not have the funds to splurge. India wants more foreign investment in developing tourism, and its hotel and hospital industries.

Automobiles: With 1.1 million vehicles sold in 2004, India has become the fastest growing market in the world for automobiles, the third biggest in terms of sales in Asia, after China and Japan. But American manufacturers such as Ford and General Motors were slow to recognize the potential of the Indian market - unlike Japanese companies such as Nissan, Suzuki and Toyota. Korea's Hyundai, in fact, has grabbed a 17 percent share of the Indian auto market. Ford and GM each has only 3 percent. With rising incomes and a growing middle class that views cars as affordable, there appears to be plenty of scope for American auto makers to do well in India.

Biotechnology: The biotechnology sector's revenues in 2004 were $1.1 billion, representing a growth of 37 percent from the previous year. Science Minister Kapil Sibal told a conference in Philadelphia recently that India will expand its biotechnology sector five-fold by 2010. Citing lower costs and a skilled scientific work force, he urged greater American investment in the sector. Ten biotech parks are being created by the government's Department of Biotechnology, and entrepreneurs will be offered incentives such as tax holidays and infrastructure support.

SOME IMPORTANT ISSUES

Communications are still spotty, although 48 million Indians now own mobile phones - the number of mobile-phone subscribers has exceeded that of land-line phone in homes and businesses. (The number of mobile phones is expected to surge beyond 125 million by the end of 2006.) Power shortages have long hampered industrialization. Roads are generally of poor quality. Seaports are inefficient. Airports are dilapidated. Lack of water has bedeviled agriculture, especially in the vast rural hinterland where more than 700 million of India's 1.1 billion people live. There is excessive reliance on the monsoons, and on rituals to invoke the blessings of deities in a predominantly Hindu country. Health and education services are primitive in many of these rural regions, home to 575,000 villages. Some 60 years after India's independence from two centuries of British rule, life hasn't changed much for hundreds of thousands of peasants (Indian Economic Survey, 2005).

Perhaps the most troubling factor for foreign investors is that India remains a hard place in which to do business. Corruption is deep-rooted virtually everywhere. It is customary for cabinet ministers to expect emoluments from those who seek to enter the Indian economy. And although the liberalization of the last decade has resulted in the gradual abandoning of economically-crippling socialist policies that dominated the polity since independence, India's huge bureaucracy retains enormous decision-making power concerning the economy. India is still a land of permissions and approvals that are often subject to the caprice of powerful bureaucrats. Transparency International, the Berlin-based watchdog, has named India has being one of the world's five countries with the most corrupt political parties.

The "License Raj" - supposedly consigned to history along with Fabian socialism espoused by founding fathers such as Jawaharlal Nehru - continues to be a deterrent for business. For example, it takes 22 days to start a business in Korea; in China, it takes 41 days. But in India it takes 89 days. And enforcing a contract takes 425 days in India, more than five times longer than Korea and nearly double that in China. There is also the growing phenomenon of the "Inspector Raj," where government monitors who are dispatched to industrial sites frequently shut down production unless gratuities are paid.

Notwithstanding such constraints, sectors such as information-technology (IT), tourism, biotechnology, and call-centers servicing foreign companies are expanding rapidly, contributing to a dramatic growth in India's annual hard-currency income: annual exports in 2004 were a record $80 billion - mostly from software, textiles, chemicals, engineering goods, and pharmaceuticals - and are expected to grow to $92 billion in 2006, according to Commerce Minister Kamal Nath. Mr. Nath also estimates that India's exports would rise to $150 billion before 2009.

This is largely on account of the enterprise and innovativeness of the private sector, whose inventiveness in coddling the bureaucracy or maneuvering around it has been remarkable. Foreign-exchange reserves are at a record high at $139 billion, but so is India's external debt, which is $121 billion. Consumerism is on the rise as foreign brands and Indian knock-offs are more readily available.

Although it's become fashionable to assert that economic growth in India will be mostly driven by an energetic private sector, the central issue today is that of good governance and how it will affect the country's economic prospects. Those prospects would appear to be promising, on the surface at least. With a population of 1.1 billion people, including a growing middle class of 400 million mostly urban residents, India has become the world's fourth biggest consumer market - after the United States, the European Union, and China.

The annual economic growth rate is expected to be around 5 to 6 percent for the rest of this decade. This isn't a spectacular figure by any means, and India would need to accelerate the growth rate by at least 2 or 3 percentage points in order to meet the rising expectations of its mostly impoverished population, and certainly if it wants to achieve its ambition of becoming an economic superpower in two decades. At 6 percent annual growth, average incomes will double in 16 years, while at 8 percent it would take just 11 years. The impact of such a development on the living standards of everyday Indians would be profound. For that to happen, leaders at the federal and state levels need to better demonstrate a capacity for good governance, and inject more transparency and accountability into the political system. The political parties - without exception - demand, and receive, funding for campaigns from India's dozen or so big industrial houses. Some of this money is laundered through foreign sources, particularly non-resident Indians in Europe, Canada and the U.S (World Bank, 2006).

That means tackling biggest issue of all, corruption. The Indian polity is deeply infected with corruption. It starts at the top of the political pyramid, with federal and state cabinet officials widely reputed for demanding - through their proxies - payments for approving projects. Government bureaucrats have been known to make their own demands, particularly of industrialists who wish to expand their facilities or to start new factories.

Even the Indian judiciary, supposedly independent, is gradually being tainted by credible accusations of corruptions. In poor states such as Uttar Pradesh and Bihar, it's not uncommon for court decisions to be bought. Intimidation - even murder - of judges is not unheard of.

While the liberal use of money to buy votes is scarcely the monopoly of India, the scale of campaign expenditures is staggering. In the 2004 parliamentary and state elections, for example, the equivalent of $2 billion in Indian rupees was reportedly spent by all parties. Perhaps more than most other democracies, economic policy in India is influenced by political considerations.

For all practical purposes, Sonia Gandhi is India's real ruler. Prime Minister Singh, an economist and technocrat, governs but doesn't rule. No Cabinet decisions are taken unless Sonia approves them. Dr. Singh is a mild-mannered man who takes his marching orders almost daily from Sonia Gandhi. Members of the 29-person cabinet often go directly to Sonia Gandhi for directions and directives.

Complicating the situation is the fact that, although the ruling coalition is led by the Congress Party, its survival depends on the support of the 70 or so Communists in Parliament. They constitute the biggest obstacle to further economic liberalization. For example, the Leftists have consistently opposed involvement of foreign investors in telecommunications, modernizing India's antiquated airports, and privatizing the moribund state-owned carriers, Air India and Indian Airlines. They have also opposed a reforming labor law - which means that the bloated bureaucracy - cannot be trimmed meaningfully. Nor can workers at government industrial behemoths such as loss-making steel plants, be laid off. In other words, the Singh Administration cannot take bold measures to fully open up India's economy to foreign capital or even to dramatically eliminate the statist system of controls and inspections. It will take a majority government at the federal level for this to happen.

Some of the investors, including Temasek of Singapore, have recognized the economic potential of India. Malaysian companies have won bids to develop roads and mini-dams in the resource-rich but economically backward eastern states of India.
That ambition may well provide India with the political stability it needs at the federal level in the long run. In the short run, however, it stymies prospects for faster economic growth because Sonia Gandhi's focus is almost entirely on the political calculus. And faster economic growth - through the mobilization of domestic and foreign funds - is what India needs now.

CONCLUDING REMARKS

If India wins political stability (without coalition government), it is clear that it can move more speedily along the path of economic reforms. It can be expected to be in a stronger position to persuade foreign investors to channel more money into manufacturing and infrastructure projects; many investors are sitting on the sidelines because of continuing uncertainties over the direction and implementation of market-oriented policies. There is need to develop closer economic and political relations with the Association of South East Asian Nations (ASEAN), and with China and Japan, in the hope that pacts such as the Comprehensive Economic Cooperation Agreement with Singapore, and the Foreign Trade Agreement with Thailand, will generate not just more trade but also fetch substantial investments for strengthening India's languishing infrastructure. Besides, some of the investors, found India as the most potential place for product and market development. The closer economic relations with neighbours, Asian countries and others in the world would help India to explore the ventures for its trade and economic development.

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