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It's time to sink our teeth in

India: The Emerging Giant

Arvind Panagariya

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The changing fortunes of the Indian economy have had a bearing on the attention of American scholars. With its booming economy there is now considerable academic interest and a number of books have appeared with titles like *India Arriving*, *India: Emerging Power* and, now, *India: The Emerging Giant*.

In sharp contrast to today during the 1960s and 1970s when India's economic performance was poor, one casualty was scholarship on the Indian economy. But in the halcyon 1950s, like today India was considered the star of the developing world and American and other researchers headed here in droves to study its economy. According to the author, India's performance can be divided into four phases: 1951-65, 1965-81, 1981-88, 1988-2006 during which overall growth was 4.1 per cent, 3.2 per cent, 4.8 per cent and 6.3 per cent respectively. This clearly shows the upward movement in growth rates over time.

Not surprisingly much of the current 'present, continuous' discourse seeks to explain the whys and wherefores of the India growth story. The Indian economy registered robust growth averaging 8.6 per cent during the last four years, making it the second fastest growing economy in the world.

Predictably economists are divided on, whether this sizzling track record reflects a shift upward in the underlying trend or is only a strong upswing - the normal ups and downs associated with a market-driven, capitalist economy. Professor Arvind Panagariya at Columbia University, for one, believes that India's trend growth has been shifting upward.

According to him, India's performance can be divided into four phases: 1951-65, 1965-81, 1981-88, 1988-2006 during which overall growth was 4.1 per cent, 3.2 per cent, 4.8 per cent and 6.3 per cent respectively. This clearly shows the upward movement in growth rates over time. More importantly the trend has been shifting upward again since 2003-06 as India's annual growth averaged 8.6 per cent.

While the author does sound a note of caution in conclusively interpreting these numbers, the evidence, on balance, does favour his view that the trend growth rate of the Indian economy has gone up.

India's growth party thus can go on for much longer. The factors that support the author's presumption include "some spectacular successes during 2003-2006 that had not been witnessed before, successes that almost rival the performance of the Chinese economy.

In turn, these successes are bringing fundamental changes in the initial conditions that are likely to help the economy sustain the current growth rate". For starters, India's growth expressed in US dollar terms was a whopping 13.8 per cent after allowing for inflation. At this pace, India can overtake the US economy of 2005 in 21 years time! While reforms have made progress under different political regimes, the bad news is that there is a vast unfinished agenda in this regard.

During 2003-06, India rapidly integrated into the world economy as in no other period. The share of exports and imports in gross domestic product rose to 43 per cent. There was also a boom in foreign direct investments and remittances into India's economy that have altered the initial conditions for future growth - one result of which is a build-up of forex reserves of \$200 billion. With this stock, prospects of a weaker rupee are low and can sustain the 13.8 per cent growth in dollar terms. More importantly India's savings and investment rates have been rising of late to underpin faster growth in the future.

Reforms in terms of delicensing, deregulation and decontrol of economic activity clearly are responsible for this remarkable turnaround in India's fortunes. This saga didn't exactly begin one fine day in 1991 when Manmohan Singh was the Finance Minister in the P. V. Narasimha Rao government. They began incrementally and by stealth since the late 1970s, especially the late 1980s during the regimes of Indira Gandhi and Rajiv Gandhi before the Big Bang of 1991 pushed the process much further. The result has been a ratcheting up of the economy's growth from 1981-88 to 1988-2006.

While reforms have made progress under different political regimes, the bad news is that there is a vast unfinished agenda in this regard. Worse is the weakening will for reforms by coalition governments such as the UPA government that depends on the Left for its survival.

Privatisation, flexible labour market policies to stimulate labour-intensive manufacturing, pension, insurance and financial sector reforms are now on the back-burner. Moreover, further fiscal consolidation is imperative. More roads, ports, highways and airports need to be built to sustain the growth surge. One exception has been telecom that contrasts sharply with the limited progress in electricity generation.

Rapid growth has cut the population living in poverty by a third. But the absolute number of poor people are still staggering. Part of the problem is the incomplete transformation of India's agriculture in which 60 per cent of the population still lives off the land although the sector's share in the GDP is fast shrinking.

Unless this sector is modernised, sustaining the India story will be problematical. The unfinished agenda also includes reform of government and improving the delivery of health and education. Panagariya covers a broad front on these topics lucidly This book is compulsory reading for those interested in the India's transformation.

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