India on the move

India on the Move The case study highlights how, despite severe problems, reforms in the industrial and financial sectors have put India on the pathof growth. Yet in order for the country to continue on its path from the Licence Raj era to being an open and market driven economy there are a number of issues that need to be addressed. The weakness of the infrastructure, growing population and its fragmentation on the basis of regionalism and ethnicity, and a limping agricultural sector are going to become impediments in its growth if not addressed on an emergent basis.

The main issues that emerge from the case study are:

Burgeoning population - unlike the other emerging economic giant in the region - China, India has not been able to control the growth rate of its population. While this was attempted to be addressed through the, highly unpopular, forced sterilization program in the regime of Indira Gandhi during the 'emergency' years attention seems to have fallen by the wayside. The population continues to grow at a rate of 1. 5% and India is expected to cross China by 2018. This is the result of higher birth rates coupled with increased life expectancy. At the root of the problem, however, lie poor literacy levels. Growth of the economy, to a large extent, is negated by the population rise and the number (and percentage) of people living below the poverty line continues to be at a staggering level of 44% of the population. The unemployment levels are also consistently high. With the unofficial figures estimating these to be above the 20% mark this indicates a lack of balanced growth. Since agriculture provides sustenance for more than 72% of the population, it seems obvious that this sector of the economy has been neglected at the cost of modernization in the more visible sectors like IT, manufacturing industry and services.

Fractured and regionalized politics is perhaps the next biggest problem facing the country. While reforms seem to be progressing, the need to carry coalition partners in government is slowing down the process. This is evident from the statement of the minister for disinvestment Arun Shourie's comment ".. disposing off ulcersallegationcrown jewels." Corruption and the presence of a large number of politicians who are facing allegations of 'kidnap, rape and murder' obviously points to a desperate need to clean-up and check systems that allow this. The fracturing of the society along religious lines evinced by the 'saffronization', the Ayodhya temple issue and the Gujarat 'ethnic cleansing' are dangerous trends. The lack of coherence in implementation of programs is shown by the slow progress of privatization. While 48 companies have been privatized and a revenue of Rs. 30, 917 crore generated even now 43% of the capital stock of the entire country are owned by poorly performing public sector companies. Difference in performance is highlighted by the case of Hindustan Zinc and Modern Foods. Infrastructure needs to be brought up to scratch. The present growth is led by industry that exists in virtual space and has little or no need for roads, railways and ports. However, for the economy to grow this growth will have to be supported by improvement in the traditional manufacturing sector - and that can not happen unless the infrastructure is laid out to facilitate this. FDI and inflow from FII's will only improve once the confidence levels improve in the viability of the economy. The breadth and depth of the business supporting the economy is one prime factor in developing this confidence. Broad-based industrial and agricultural development can only follow development of world class infrastructure, for which investment has to be found in an economy already facing a 6. 1% fiscal deficit. The only answer is - privatization.

The toughest problem that the country faces seems to be that of corruption. The country has fared poorly on the Corruption Perception Index and even the Prime Minister (Rajiv Gandhi) has faced corruption charges!

Given the issues highlighted above the questions that need to be raised and for the Indian government to find answers, and find them quickly are:

Open up the economy further and remove ceilings on investment by foreign companies (and restrictions on repatriation of earnings) in both the manufacturing and service sectors. This will attract investment at levels that may not be possible indigenously in present circumstances.

Remove the Public Sector from the portfolio of government business. Privatization and disinvestment in this sector will allow for reduction in the government expenses (funding of losses) and help reduce fiscal deficit. In addition, a large amount of capital stock will be released for exploitation by industry.

Strengthen agriculture that is flagging after the 'green revolution'.

Improve infrastructure so that large areas of the hinterland can participate in the efforts to improve exports.