

# Two decades of reforms: India's three transitions

## TWO DECADES OF LIBERALIZATION

July 2011 saw India completing two decades of post-liberalization economic growth. It is futile to debate, as some academics have done, whether India's economic liberalization started in the second half of the 1980s or in 1991. It is clear that the movement for liberating India's dynamic entrepreneurs and reversing the trend of rising public investment began in earnest only in 1991. The release of the private sector from the licensing and control shackles was the most important feature of the reforms initiated after the country's worst external financial crisis in 1990–91.

The rising share of private corporate investment during the past two decades has resulted in some remarkable achievements, including a substantial decline in poverty levels from nearly 40 percent of the total population in 1991 to about 27 percent in 2011. India's exports have increased remarkably and its foreign reserves once a mere \$2 billion, or equal to two weeks of imports, have increased to \$300 billion, nearly equivalent to the country's annual import bill. More important, the impressive achievements since 1991 have brought India to the forefront of the global scene with a seat at the high table of global economic and financial governance. In the two decades since the reforms, India has arrived.

## INDIA'S GROWTH STRATEGY

The country, having achieved higher than 8 percent growth since 2003–4, has now targeted a growth of 9 percent during the 12th Five-Year Plan currently under preparation to cover the period 2012–17. The 12th Plan envisages the doubling of investment in the country's physical infrastructure from \$500 billion in the previous plan period to \$1 trillion during the next five years. The invest-

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ment will be financed primarily from domestic savings, which are expected to rise to 37 percent of the GDP in the last year of the plan.

Nevertheless, foreign direct investment and capital inflows will play a critical role by helping to finance the current account deficit, which is expected to remain between 2 to 3 percent of the GDP. The current account deficit reflects a high appetite for investment, on the one hand, and the structural energy deficit that necessitates large-scale and rising volumes of hydrocarbon imports, on the other.

This growth scenario and investment requirement makes India an attractive investment destination. This is further reinforced by India's unique growth model, which has relied pre-dominantly on domestic demand, both investment and consumption, in contrast to the experience in East Asia, where growth has been achieved primarily on the basis

of high dependence on external demand. This is best captured by noting that net exports account for a negative 7 percent of India's GDP growth while contributing a whopping 10 percent of Chinese GDP growth. A domestic demand-based growth model makes India not only an attractive investment destination but also a balancing actor in the evolving global economic order.

## INDIA'S MULTILEVEL TRANSITIONS

The most impressive feature of India's post-independence development has been its audacious attempt to undertake its three transitions—social, political, and economic—simultaneously. Historically, in all other countries, these three transitions have unfolded sequentially over a couple of centuries. In China, for example, the economic transition is nearly complete while the other two have been shelved. In India, these three transitions have been ongoing throughout the six decades since independence. As a result, the millennium old, traditional Indian society is being largely transformed and the social pyramid is being overturned. For the first time, a Dalit woman is the chief minister of the largest province in the country.

The political transition has resulted in the establishment and nurturing of robust institutions and the emergence of a vibrant democracy based on universal adult franchise and a clear separation of powers among state institutions. The share of agriculture in GDP has declined from 70 percent in the 1950s to a mere 14 percent by 2010 and, during the same period, the share of services has risen to more than 60 percent and that of industry from 15 percent to 26 percent because of the economic transition.

## A UNIQUE GROWTH TRAJECTORY

More remarkably perhaps, the economic transition has put India on a growth trajectory, which could make it the third or even the second-largest economy in the world by 2040. During the next three decades, India should have made the transition from a poor economy to a middle-income or even a higher-middle-income economy. Such an achievement would represent the only time in history when a poor country completed this transition in its economic prospects while at the same time holding on to democratic principles and practices and respect for individual human rights and freedoms in both letter and spirit. A successful triple transition would present a unique growth model not only for developing economies but, possibly, even for advanced economies, because India will have undertaken these transitions while also addressing issues of environmental and natural resource sustainability.

Still, despite the promise and structural features that support growth—the favourable demographic profile, high savings rate, dynamic entrepreneurs, and reasonable endowment of natural resources—India still faces many possible futures. There is nothing inevitable or mechanically assured about India successfully completing its triple transitions. With its continental scale and diversity, this multicultural, multireligious, and pluralistic society presents governance challenges unmatched in their complexity. The audacity of taking on the triple transition simultaneously makes the task far more complex.

## STILL AN UNCERTAIN FUTURE

To convert its potential to inclusive and rapid growth, India has to address three principle challenges: human resource development; good governance to ensure delivery of public services; and the implementation of adequate levels of physical infrastructure, especially energy capacity. India will not benefit from the much talked about demographic dividend in the coming years unless its

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young population is appropriately trained, skilled, and educated. It seems ironic that a country that produces more than 100,000 engineers a year is still far short of trained and skilled labour in a large number of sectors.

If the young labour force is going to accept high-paying, blue-collar jobs instead of increasingly scarce white-collar jobs, a change of mindset is desperately needed. Only 12 percent of India's youth attain a higher education compared with 75 percent in the United States and 23 percent in China. With a curriculum that is generally outdated and out of sync with evolving industry requirements, dropout rates are extremely high at both the primary and secondary levels. India has done well to achieve 100 percent primary school enrollment but has to now focus on providing higher-quality education at all levels in order to generate the needed skills. Estimates indicate that India will require 500 million skilled people in the next two decades. This target aptly sums up the enormous challenge that India faces in realizing its demographic dividend.

## BOULDERS ON THE PATH

Governance reforms will prove even more difficult because they will impinge on the vested interests of those who currently benefit from rents generated as a result of dysfunctional controls, regulations, and procedures. However, with the increasing openness of the Indian economy because of recently finalized bilateral and regional free-trade agreements, governance reforms are essential if Indian industry expects to retain its

global competitiveness. The belief that Indian industry, and indeed the Indian economy, can continue to achieve rapid and inclusive growth “despite the government” is patently wrong in the current circumstances. The government has a role to play in providing the needed volumes and quality of social infrastructure, public services like education and basic health, and above all a secure law-and-order environment.

The critical need for governance reforms is best understood in the context of making growth more inclusive. The high overall economic growth of the past ten years has generated much larger public revenues, which, with efficient governance of income transfers and welfare schemes, should have enabled higher levels of inclusion. However, inefficient governance and extensive leakages in these welfare schemes means that people living below the poverty line and those in rural areas have not benefited commensurately from these welfare expenditures. As a result, there is an avoidable perception of a trade-off between growth and equity. Surely, both growth and equity can be achieved with good governance. It is hoped that the introduction of the unique identity scheme, which provides proof of identity cards so that the poor can open bank accounts or access government welfare programs, in addition to tremendous social pressure will result in better governance. Better governance will ensure that inclusion improves and provides social legitimacy for continued rapid growth.

## A MOUNTAIN OF INFRASTRUCTURAL CHANGES

The final, urgent hurdle to sustaining rapid, inclusive regional growth is to overcome the huge physical infrastructure deficit. One big success has been the telecom revolution, begun in 1994, which has seen the rate of diffusion rising almost miraculously from less than 1 percent to more than 55 percent in 17 years. The telecom industry has

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shown that the right policy mix, effective regulatory framework, and private initiative can overcome infrastructure deficits in a reasonably short period. A similar breakthrough is currently required in the energy sector, particularly with electricity. India's per capita electricity consumption at approximately 700 kWh is far below even the average among developing economies at 2300 kWh.

The extreme imbalance in electricity consumption between urban and rural areas and across income classes further exacerbates India's electricity problems. It is shocking that, with 64 years of post-independence development, nearly 30 percent of the population still does not have access to a round-the-clock electricity supply. The 12th Five-Year Plan is expected to earmark a trillion dollars for investment in physical infra-

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structure. This is indeed welcome; however, the actual investment will come largely from the private sector, which still does not have easy access to purchase land for such investment purposes. Moreover, because provincial electricity utilities are in general financially broke, it is even more difficult for private investments to create additional electricity-generating capacity out of fear that state utilities will be unable to honour their financial commitments. So, perhaps

more important than earmarking large investments, the government needs to create the conditions that would enable investors to move into the electricity generation and distribution sector.

#### THE GOVERNANCE QUANDARY

India has its destiny firmly in its hands. The external environment is more benign than ever; there is goodwill toward India because its economic success in difficult and complex circumstances has come in conjunction with its social and political transitions. India can emerge as a strong model for other developing and emerging economies. The political leadership and policy establishments need to rise to the occasion and implement the necessary reforms to take India toward its appointed place in the global community. 

## Centre for Culture Media and Governance

Jamia Millia Islamia University, New Delhi, India

The Centre for Culture Media and Governance undertakes research to develop critical understanding of culture, media, and governance, and the interplay among them. With communication as a frame of reference, research cannot be pursued within existing disciplinary confines. Communication plays a pivotal role in the organization of institutional forms, symbolic systems, and patterns of everyday life throughout the Indian subcontinent. We identify communication as an interdisciplinary science and as a specialized field of inquiry.

Our orientation leads us to reflect on the historical and cultural nature of the media, and is not confined to, and categorized by, any medium of communication. In doing so, we combine the study of the material shaping of the media with that of the institutional organization structuring them.

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## The Centre for the Study of Law and Governance

Jawaharlal Nehru University, New Delhi, India

The Centre for the Study of Law and Governance adopts a multidisciplinary approach to the complex relationship between law and governance. The study of governance, in its various forms and at different sites, is central to several issues: reform of public institutions and public law; creation and establishment of procedures and rules that lead to greater efficiency, transparency, and accountability; and the challenge of making governance more inclusive and participatory through the strengthening of democracy and civil society. The program's interdisciplinary focus is distinctive in its attempt to explore how practices of law and governance are embedded in political, economic, social, and historical processes; how practices of governance are dispersed over various sites, from the government, bureaucracy, and judiciary to community and the family; the socio-legal processes that deter or provide access to justice; and notions of governmentality, sovereignty, and rights in specific politico-jural regimes.

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