The new India that we are building...

In a special article, Prime Minister Dr Manmohan Singh details the progress of the country’s liberalisation programme and outlines the measures that need to be taken to achieve a higher growth rate of eight per cent.

The Cambridge historian, Angus Madison, has estimated that in 1700 AD, India’s and China’s share of world national income was about 23 per cent, about the same as Europe. By 1950, India’s share was only 3.8 per cent, and China’s around 5.0 per cent, while that of Europe had increased to about 30 per cent. This secular decline is now beginning to be reversed. Rapid growth witnessed first in China twenty-five years ago and more recently also in India, suggests that both countries are on the way to reclaiming their rightful places in the World Economy.

The Indian economy grew relatively slowly between 1950 and 1980 at an average rate of 3.5 per cent — an improvement over the previous half century but well below expectations and targets. Performance improved considerably between 1980 and 2000, when the economy accelerated to an average of about 5.8 per cent. It has accelerated further recently to an average of seven per cent in the last three years. Most observers are agreed that India can now transit to a growth rate of eight per cent and perhaps even more on a sustainable basis.

With population growth slowing down to around 1.5 per cent, rapid growth combined with measures to ensure a broader spread of benefits, will ensure that we can rid our country of chronic poverty and also provide productive employment for our growing labour force. We can expect per capita income growth of over 6.5 per cent. This will not make us a rich country in 10 or even 15 years. It will however put us well on the way to becoming a middle income industrial economy in the next 15 years. Even though our per capita income may be only at middle income levels, the absolute size of the economy will make it a much more significant player in the world. This is all the more so because our strategy for achieving rapid growth involves making India a more open economy, with rising shares of trade to GDP.

We recognise that our objective of achieving a sustainable growth rate of 8 per cent and more is not an outcome that will occur automatically without effort on our part. On the contrary, while there are many reasons why India is well placed to achieve an acceleration in growth, we are also conscious that a special effort is needed if we are to convert this potential into actuality. We will certainly need to increase investment levels, upgrade technology, modernise the economy, and develop high quality infrastructure. For the growth to be inclusive it must pay special attention to income growth in rural areas. It must also ensure adequate access to education and health services for the mass of the people.

The reforms implemented over the past 15 years have laid the foundation for rapid growth in many respects. Industrial policy, which in the past imposed too many restrictions on domestic private sector activity, has been completely restructured. India has a long tradition of private sector activity combined with measures to ensure a broader spread of benefits, will ensure that we can rid our country of chronic poverty and also provide productive employment for our growing labour force. We can expect per capita income growth of over 6.5 per cent. This will not make us a rich country in 10 or even 15 years. It will however put us well on the way to becoming a middle income industrial economy in the next 15 years. Even though our per capita income may be only at middle income levels, the absolute size of the economy will make it a much more significant player in the world. This is all the more so because our strategy for achieving rapid growth involves making India a more open economy, with rising shares of trade to GDP.

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and the market friendly environment created by the reforms has produced vibrant growth in this sector. The economy has also been much more open to foreign trade. Import licensing has become a thing of the past and our import tariffs too have come down considerably. The government proposes to continue reducing them until we reach levels prevailing in East Asia.

The economy is also open to foreign investment which is now freely allowed upto 100 per cent of equity in most sectors. We are particularly keen to attract foreign direct investment to upgrade technology and modernise our industry and infrastructure. The response thus far is satisfying. India was recently ranked as the second most important FDI destination after China. However foreign direct investment levels in China are much higher and we hope to narrow the gap in the years ahead.

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India’s high quality technical and managerial resources, familiarity with the English language, the existence of long established commercial and legal institutions, a well functioning and transparently regulated financial and banking sector, and the constitutional provision of the rule of law, all augur well for India’s competitiveness in today’s globalised world.

One of India’s strengths has been a commitment to prudent fiscal and balance of payments management. We do recognise that there is some correction required in government finances. The Fiscal Responsibility and Budget Management Act commits the Government to fiscal discipline. India has a well functioning banking sector that conforms to global prudential norms. Our rapidly expanding and modern financial sector is a credible backbone of a growing economy. India also has a well regulated stock market that is efficient, modern and works within rules and under constant supervision by a credible regulator. The efficiency and transparency of our stock market is key to its successful functioning and growth. There is a need to develop a strong and deep debt market and to strengthen institutional support for long-term finance. Foreign investors have appreciated the strength and vibrancy of our financial and banking sector as well as the transparency in the functioning of our legal system.

I have every reason to believe that in the years to come India’s domestic savings rate will go up very sharply because, unlike many other countries, the proportion of working age population in total population is going to rise very substantially and our demographic experts tell me that that should stimulate the growth of savings in a very substantial way. If we have the increased savings potential, we need to put in place financial instruments, financial institutions which will bring savers and investors in a more efficient manner and that is where I see an expanding growth for the financial services industry in our country. We have opened up our financial services industry to participation by investors from outside, but I do agree and I do recognise that more needs to be done in all these areas.

The first fruits of economic reforms are evident in many success stories. Software development and IT enabled services are new economy areas where we are highly competitive and have achieved international recognition. India has also emerged as a competitive supplier in several sub-sectors of traditional manufacturing. This is true of pharmaceuticals, textiles, auto components, and bio-technology. Successes in these areas have promoted a broad based change in mind set, especially in the

Young Indians are ready to compete globally, to test their skills and sell their wares on the world market.
The challenge that faces India today is to sustain an inclusive growth process, while integrating itself with the world economy

The investment required to close the infrastructure deficit is very large. Preliminary estimates suggest that we need total investments of at least $250 billion in infrastructure in the next five years. Resources of this magnitude cannot be provided by the public sector alone. We therefore propose to supplement the public sector efforts by bringing in as much public private partnership as possible, and we are evolving strategies that will enable us to do so. The extent of private participation that is feasible will obviously vary from sector to sector. We are working on creating a policy framework that will allow the fullest possible exploitation of the scope for public private partnership, keeping in mind the nature of the sector. Critical elements of the policy framework will be the creation of a regulatory structure which will provide an appropriate balance between protecting the interest of consumers, provides credible assurances to investors that they can earn fair returns provided they achieve appropriate levels of efficiency, and also ensures transparency in choosing private partners.

An area which needs special attention in the year ahead is agriculture. Economic growth is normally associated with a reduction in the share of agriculture in GDP and this has happened in India also. The share of agriculture in India’s GDP is now a little over 20 per cent but 60 per cent of our population still depends upon agriculture as their principal source of income. Agriculture grew at an average rate of around 3.6 per cent between 1980 and 1996 but thereafter the growth rate has slowed down to around two per cent. We intend to double this growth rate imparting a significant stimulus to incomes in rural areas. This requires a new thrust towards agricultural policy including special efforts to support diversification of agriculture beyond production of food grains towards a diversified agriculture which will be a basis for expansion of agro-processing. It calls for extensive modernisation of agriculture, greater reliance on knowledge inputs, development of logistics and supply chains linking agricultural and agro-based production in rural areas to urban and export markets through modern marketing.

Along with these efforts it is necessary to invest in the development of rural infrastructure including irrigation, rural roads, rural electrification and rural telecommunications. An ambitious program for creating such infrastructure, called Bharat Nirman, has been launched recently.