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Another view

India at 60: great potential, many problems

By David J. Karl

India is 60 years old today and there are strong grounds for celebrating its success. Not too long ago, the country was regarded as the epitome of what Third World meant: decrepit, destitute and pitiable. Now it is embarked on an amazing project of national transformation and ranks among the top 10 of the world's largest economies.

And its future appears exceedingly bright to many observers. According to a new Goldman Sachs report, India will continue to sustain its breakneck growth for the foreseeable future, enabling it to become the world's second largest economic power by 2050. Another report by Price-

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waterhouseCoopers contains a similarly bullish outlook.

There can be no denying the tremendous economic strides India has made in recent years, which have had the effect of lifting 100 million people out of poverty. Yet, the growing plaudits obscure some stark realities that could significantly limit the country's power prospects.

In aggregate terms, India remains a very poor country. With hundreds of millions of people still mired in grinding poverty, it has the world's largest concentration of economic misery. According to a recent report quietly released by the Indian government, nearly half of the country's small children are malnourished. The per-capita income rate, literacy level and other key human development indicators also lag behind many other developing nations, including those in sub-Saharan Africa.

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India's economic boom has been powered disproportionately by a world-class technology sector that requires only a comparatively small number of highly skilled workers. Even as the economy soars, overall job creation has not kept pace with the growth of the working-age population, which is projected to expand by 70 million people over the next five years.

Notwithstanding the impressive high-tech centers in Bangalore and Hyderabad, 60 percent of the labor force (totaling 300 million people) continues to reside in poor rural areas, toiling in the inefficient agricultural sector. Shifting rural workers to more productive jobs will be the greatest chal-

lenge to India's continued economic ascent.

Two huge problems stand in the way of progress. The first is a chronic under-investment in the country's human capital. Because India's rural poor, many of whom are young and illiterate, lack adequate access to educational and health care services, they do not possess the skills necessary to compete in the global economy.

The second problem is a persistent lack of investment in physical infrastructure, particularly in the vital energy and transportation sectors. Power shortages and blackouts are common throughout the country and are an important drag on economic activity. The dete-

riorating condition of road and rail networks, as well as port facilities, further undermines the potential for continuing rapid growth. A shockingly high percentage of each year's agricultural crop rots for the lack of efficient transportation. A leading business group in India recently estimated that more than \$330 billion needs to be spent on infrastructure over the next five years in order to boost the country's competitiveness. This amount, however, is beyond the budgetary resources of the Indian state.

Managing India's transition to the future will largely be a task for the Indians themselves. But other countries that have an interest in seeing India succeed can play an important supportive role. As a recent Pacific Council report suggests, the United States should increase loans and grants to India with the aim of addressing the under-served needs of the

rural population, particularly the building of more schools and primary health care facilities. Financial assistance can be stepped up for the construction of new infrastructure to ease India's chronic power shortages and connect the country's vast interior with domestic and world markets. India should also be encouraged to allow the private sector to have a greater role in addressing its infrastructure needs.

India is a work in progress and its economic performance in recent years gives some reason for optimism that it can overcome the significant challenges it faces. But its ascent to national greatness will be neither automatic nor painless. It will depend in large measure upon a combination of farsighted policy choices and a stern discipline to push through necessary reforms. And there is room for some help from India's friends.

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