

Ignoring The Headwinds

While realization may finally be dawning on India's current political leadership that there are very serious drags on India's growth story, there is still a very apparent lack of deeper understanding of the underlying factors behind the same and therefore, a total absence of visionary, bold, urgent, and decisive action. Sadly, there is still a lingering belief that somehow the same brains' trust that was credited with pulling India out of the tailspin of the early 1990's can pull off the same magic yet once again, with similar actions. Unfortunately, the current ground reality is fundamentally different than what it was in the late 1980's and the magnitude of the crisis that India is likely to face in this coming year and then the years ahead would be unprecedented unless we can somehow throw up a much more enlightened political and administrative leadership and unless we can somehow create a new, much bigger, and more genuine class of private entrepreneurs and inspiring managers.

A recent book titled "The Great Stagnation – How America ate all the low hanging fruit of modern history, got sick and will (eventually) feel better" by Tyler Cowen of George Mason University could well have been written for India too except that we did not reap the all the benefits of the many low hanging fruits USA got to enjoy in the 18th, 19th, and most of the 20th century. While India under the British rule had little control on its destiny and hence may have missed the many opportunities that the major technological and other advances of the 18th and 19th century offered to create growth and rise in living standards for the masses in that period, post independence India has only itself to blame for missing and continuing to miss major opportunities to get going on the path of a strong, sustained, and inclusive economic growth. The economic crisis of 1990 forced the government at that time to take up a serious of reforms that were essentially not much more than relaxing some of the rules and regulations that had stymied India's growth in the previous 4 decades, and giving India's private sector a chance to breathe and grow with lesser fetters. As a result, the Indian economy could grow at about 6% CAGR in the last 2 decades and giving many in India a justified reason to dream again and dream big.

Unfortunately, for a population that is now over 1.2 billion, there were never enough of the so-call low hanging fruits to start with when India unveiled its first set of major reforms in the 1990's. Whatever was available has already been plucked in the last 2 decades, and much worse, the unabashed populism of recent years is now metaphorically leading to chopping of the trees that can bear fruits in the future in the hope of getting very short term political gains. At the start of 2012, India's physical and social infrastructure deficit is much bigger in absolute terms than it was in 1991. If India were to grow even at a real CAGR of 6% per year for the next 10 years, it would need to spend several hundred billions of dollars each on generation of power; expansion and modernization of transport networks including railway, roads, ports, and airports; education; healthcare; availability of water for personal, industrial, and agricultural consumption; environment; public housing; and then formation of capital needed to spur new industrial activity which can provide the tens of millions of new jobs India needs to create year after year after year keeping in mind that its population is still increasing by about 18 million every year. Additional capital formation on the scale of several trillions of dollars over the next decade requires extraordinary political vision, inspirational

public and private leadership, and exceptional entrepreneurship. Taking ideas and technologies from elsewhere in the world, adapting them to Indian conditions, and using the available vast masses has provided much of the growth in the last 20 years. Unfortunately, this will not work in the next 20 or even in the next 10 as the input costs rise faster than productivity gains leading to a rapid erosion of any potential competitive advantage India may have had when the first wave of reforms were launched.

At this juncture, India needs to come up with radically new ideas to tackle its many current challenges and then to put the economy on a sustained high growth trajectory. Compromises and short-term fixes just cannot work, and “jugaad” cannot be a substitute any longer for true innovation. Mediocrity cannot be accepted anymore just because India is a developing country, and benchmarking for quality, performance, and governance has to be done with the world’s best. India is not short of potentially talented but unless that talent is discovered, rigorously developed, and sharply honed, its large population will be more a liability than an asset. This is the message in this New Year for the government, for private enterprise, and even for the individual. The West is already facing a great stagnation, and unless we get our act together, India’s growth story could soon wither too.

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