

## South Asia

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### **India reduced to a stumbling elephant**

By Kunal Kumar Kundu

NEW DELHI - Snatching defeat from the jaws of victory - will this define India and its future? For all the talk of favorable demography, a huge middle class and likely impetus being provided by rapid urbanization and concomitant consumption, India is failing itself where it hurts the most - in the quality of governance.

The eulogies reserved for India, even a decade back, seems to have been turned on their head as the global media space is awash with stories of never-ending streams of corruption (mostly from the government and bureaucracy) and severe attacks on civil liberties, especially violence against women.

More worryingly, India's response to these has been endless sessions of debates and discussions and formation of committees but with very little real action on the ground.

Not surprisingly, the International Monetary Fund, in its latest "Regional Economic Outlook" released on April 29, while expressing optimism about Asian growth prospects, feels that emerging economies like India and China must improve government institutions and liberalize rigid labor and product markets if they wish to reach the level of developed countries.

It clearly states that, "emerging Asia is potentially susceptible to the 'middle-income trap', a phenomenon whereby economies risk stagnation at middle-income levels and fail to graduate into the ranks of advanced economies."

Just when we thought that the scandal over allocation of 2G telecom spectrum was behind us, came the coal-block allocation scandal, the Mahatma Gandhi National Rural Employment Guarantee Act, scandal and others.

While India has been rejoicing at the possibility of a normal monsoon lifting economic growth prospects (it seems that having lost hope of the government delivering on its promises, the denizens are pinning hopes on divine intervention), the Maharashtra is reeling under one of the most severe droughts in history.

Ironically, this drought is purely man made. With more than 3,500 projects of various scales, Maharashtra has the highest number of dams in the country and yet its irrigation coverage during 2009-10 was a mere 17.9%. While the Maharashtra Economic Survey for 2012-13 does not provide any detail for irrigated area, the survey for the previous year showed that over a 10-year period, the irrigated area increased by a meager 0.1 percentage point (from 17.8%) although the expenditure on this account during the period was as much as 700 billion rupees (US\$13 billion).

In fact, an analysis done by the South Asia Network on Dams, Rivers and People (SANDRP), shows that while 1972 drought could be called a natural calamity, [the] 2012-13 drought is a disaster of water management accompanied by corruption, extremely water intensive cropping pattern unsuitable for the drought prone areas, pushed by the government and the politicians, top heavy institutions without local participation or transparency, absence of responsive disaster management system and absence of a long term view to manage water and drought in changing climate. Political bickering is also taking a toll on India's image and its prospects. The budget session of India's parliament, which restarted on April 22 (after a month's recess) has failed to conduct any business to date as the government and the opposition are failing to see eye to eye on several issues.

A weak government (both politically and morally) is cannon fodder for the opportunist opposition aiming to bring the government to its knees, as it refuses to allow any parliamentary business to be conducted until the prime minister and the law minister resign for what is deemed as interference by the government in the investigation of the coal-block allocation scandal by India's CBI (Central Bureau of Investigation).

Finance Minister P Chidambaram, who recently went on a road show to North America to assure investors that the India growth story is intact as the country is serious about reforms, is seeing his plans come unstuck as parliament is caught in a deadlock.

Two important reform measures that have been stalled for a long time, passage of which would have signified real determination to carry out reforms, remain in limbo. Reform of the insurance sector envisages raising the ceiling on foreign ownership in domestic insurance companies to 49% from the current ceiling of 26%; the Land Acquisition Act aims to simplify the process of acquisition of land for industrial purposes - something that serves as the biggest stumbling block against industrial development in India. Both were due to be introduced during the current session of the parliament but are yet to see the light of the day.

The opposition seems to be solely focused on plotting the fall of the government before the next scheduled general election date (due before the end of May 2014) as it continues to disrupt parliamentary proceedings by questioning the investigations into scandals related to the allocation of telecoms spectrum and coal mines. Even if the economy suffers in the process, that is for the opposition highly acceptable collateral damage.

It is not a surprise, therefore, that foreign investors are wary of India. According to CEIC Data, foreign direct investment into India fell by as much as 23.2% during the 11 months between April 2012 and February 2013, to US\$33.73 billion from \$43.93 billion during the same period in the previous year.

Indian businesses even seem to be more comfortable investing abroad than at home. According to data from the Reserve Bank of India, Indian companies invested about \$1.9 billion in overseas markets in March, up from \$1.7 billion in February. In January, the investment was even higher, at \$3.3 billion. This compares highly favorably with investments by Indian companies in India.

One cannot but marvel at the infinite capacity of the politicians to ruin a perfectly good growth story.

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