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Indian growth model unsustainable at best

By Kunal Kumar Kundu

NEW DELHI - The Indian economy is likely to have grown at a mere 5% in the financial year that ended in March, the lowest growth rate in a decade; investments are falling and the fault lines of Indian politics lie fully exposed.

With the government embroiled in a numerous corruption cases, leading to a sense of policy paralysis gripping the economy, business confidence has been on the wane.

India's shinning story of a decade back has lost plenty of sheen of late due to growing frustration at a rising governance deficit. very fact that the Indian economy is expected to grow at close to 6% during the current financial year and close to 7% in the next (a far cry from 8% to 9% growth predicted a few years back) indicates how short-term expectations have been whittled down.

However, like China, India is still considered to be one of the world's rising economic powers. But, while the Chinese growth story has the authoritarian state to thank for it, the forward march of the Indian economy has been impeded by the ineptitude of the state.

After growing at over a double-digit rate for decades, China is now on the throes of a slowdown caused by over investment and under consumption, though its state-of-the-art infrastructure can be cause for envy. India, on the other hand, suffers from woefully inadequate infrastructure as the financially challenged government cannot invest while the morally and politically challenged government fails to clear away hurdles against private investment.

Even so, there's a generally held view that by 2030, India (a supposed growth engine for the global economy) will be the world's third-largest economy while it could overtake China as the world's fastest growing major economy much sooner.

The question, therefore, is how can one of the most populous countries like India grow at a pace it has grown despite widespread corruption, inefficiency and a government that can barely be called functional?

A peek into India's growth history can, to a large extent, explain this dichotomy. Essentially, it boils down to the extent of control that the government has on the various sectors of the economy.

India leapfrogged from being an agrarian economy to a service sector led economy as entrepreneurs had to find a way to grow despite the heavy hand of government. The agriculture sector, which is under maximum government control, now accounts for a mere 14% of gross domestic product (GDP). Industry, where the government still has major control on the factors of production such as land, labor and natural resources, accounts for roughly 26% of GDP. On the other hand, the service sector, about which the government has limited knowledge and over which it has the least control, now accounts for roughly 60% of GDP.

To understand how India's entrepreneurial spirit thrives and grows despite clear governance failure, one need look no further than the cities of Gurgaon, in northwestern Haryana state, and Bangalore, to the south in Karnataka.

Gurgaon, as we know it, is barely two decades old yet houses practically every big name in the corporate world. Its buildings are designed by the world's best architects, and it has about 24 shopping malls that stock practically every international brand, eight golf courses and more than 20 outlets for luxury cars such as BMW, Audi and Volkswagen.

However, while it's a private sector success story, it is a public sector failure. The city does not have a functioning drainage system; reliable electricity or water; or any citywide system of public transportation.

The inadequacies of the government did not act as a deterrent for the private sector. To compensate for several hours of electricity blackouts, companies and real estate developers operate massive diesel generators that have the capacity to provide electricity to small towns. Private water supply flourishes as do privately dug bore wells to take care of shortages. Large number of companies employs hundreds of private buses and taxis to bridge the transportation gap.

The experience of India's IT capital Bangalore is not dissimilar. Companies such as Infosys and Wipro maintain their own fleet of vehicles to transport their employees and have huge captive power generation capacity to ensure uninterrupted service.

Gurgaon and Bangalore are good examples of how the private sector strives to keep the economy functional despite the huge governance deficit, raising the question of whether this should be the template for future economic growth?

Ideally not, since the existing growth template is not efficient enough. It can provide temporary succor but not a permanent solution. The animal spirit that was unleashed following the ushering in of economic reforms in 1991 has, by now, taken advantage of all the low hanging fruits that could be plucked.

A functional private sector and a dysfunctional public sector is the least desired recipe for sustainable growth. Fact is, only a small portion of the blame for recently plummeting growth can be directed toward external factors. The debilitating impact of the governance deficit has manifested itself in a far bigger way than anticipated.

Rising inequality, continued health and education challenges, and a tussle for ownership of factors of production are challenges that need to be addressed by well-intentioned government and the private sector.

The Indian economy cannot be service-sector driven for an indefinite period. Manufacturing has to play an equally important role to ensure a more equitable growth. For that to happen India desperately needs a government that can function and be effective. Only a concerted effort to follow this strategy can help the economy get back to the growth path that logically should be India's.

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