India cannot achieve China-like growth without reforms: research

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Without new and sustained governmental reforms, India will not realize its economic growth goals or potential, according to a new policy report from Rice University's Baker Institute for Public Policy.

After being relatively unaffected by the global economic downturn and experiencing strong growth in the 1990s and early 2000s, India is undergoing a major slowdown because "the economy has overshot its support structure," said Russell Green, fellow in international economics at the Baker Institute and author of the paper "Limits of the Jugaad Growth Model: No Workaround to Good Governance for India."

"The government put reforms into place in the early '90s that made it possible for the private sector to grow," Green said. "But the government itself remained in the same semisocialist mode. It had allowed these private-sector reforms but the basic political leadership and basic political process have stayed the same."

The report cites lagging government services like education (India's adult literacy rate is 64 percent), energy systems and transportation as major issues facing the Indian people and private sector. "The road systems in India have been expanding but at too slow of a pace, and the rail system used today is basically the same now as in British times," Green said.

With India's finance minister presenting his annual budget this week, Green also spells out in the report near-term and deeper reforms that the Indian government should consider. The near-term reforms (summarized from the report) include:

- Fiscal – A politically and economically credible plan to introduce greater fiscal discipline. Lowering subsidies and holding the line on new spending must take priority, as tax measures may not show revenue gains for several years.
- Taxes – Goods and services tax reform would greatly simplify taxes across states and unleash a small wave of cross-state border and national network growth in the medium term. While it may have little immediate impact on the budget, even announcing political consensus to move forward could alter investment sentiment.
- Governance – Anticorruption initiatives may have hijacked the conventional reform agenda in the government, but attention to this critical problem can pay off in the long run.
- Agriculture – States need to cut out the middlemen mandated through the current agricultural marketing laws. India then needs to remove barriers to interstate trade. These measures would make a bigger difference than multibrand retail FDI in improving the plight of small farmers and reducing the pressure on food prices that fuel inflation spikes.
- Debt collection – Much-needed bankruptcy procedures are outlined in the Companies Bill, introduced in the Parliament in December 2011. The bill is not perfect, but it improves lenders' confidence in collecting debts, an essential component of developing a more robust corporate bond market.

Some of the deeper reforms include the judiciary, where there is currently a 30-million case backlog, bureaucracy, labor, education and land development. More information on all of the reforms can be found here.

Green also advocates for India to offer more of its government-run businesses to investors, foreign and domestic, where revenues from offerings could boost the economy and allow for free market enterprise to take hold. But he said that due to the current labor laws and union employment rules, this move will be difficult.

"India really has the potential to grow at a China-like double-digit pace," Green said. "However, that's not going to happen until the government gets its act together."

More information: Study: www.bakerinstitute.org/policyreport52

Provided by Rice University