

# India

*Briefing Notes for the Launch in New Delhi, April 2007*

## **Sustained high economic growth but inflation a genuine concern**

- India maintained its growth momentum in 2006 with GDP growing at 9.2% – a higher percentage than the 9.0% achieved in 2005. While there was some deceleration in agriculture, both industry and services performed well over the year. Strong economic performance has generated growing private sector demand for transport, communications, financial services and trade-related activities. This – together with the rapid increase in spending on public administration, social services, rural extension services and defense – has pushed up the share of services in GDP to 55.1% in 2006. Investment demand is also up – with gross domestic investment increasing from 33.8% of GDP in 2005 to 35.1% in 2006.
- India is less reliant than many others on exports for growth. Domestic demand is important for promoting economic growth in India. Private consumption is by far the largest contributor, with a stable share over the last 25 years and a large contribution to GDP growth.
- India is expected to grow around 9% in 2007, under-pinned by a strong performance by the industrial and services sectors. The Government's target is to increase growth to 10% in coming years.
- Most countries in South Asia felt inflationary pressures in 2006 on the back of high oil prices. Food prices also rose significantly in several countries, hurting the poor particularly. In India, inflation as measured by consumer price index for industrial workers (CPI-IW) rose to 6%, led by sugar and other food items, petroleum products, chemicals and chemical products and cement.
- To contain inflation, most countries in the subregion pursued tighter monetary policies. In addition, in India, the Government's anti-inflationary policies included effective managing supply and demand for essential consumer goods and raw materials by means of a liberal imports policy and strengthening the public distribution system for food grains, sugar and kerosene oil.
- In India, the fiscal deficit of the Central Government in 2006 was contained at 3.7% of GDP, compared with 4.1% in 2005. Recent budgets increased expenditure on social services, especially rural employment, irrigation,

drinking water, education and health, and improved both rural and urban infrastructure to make development and growth more inclusive.

- The current account deficit in 2006 remains manageable at 1.6% of GDP. High oil prices contributed to an estimated 31.5% increase in imports. But exports also grew at close to 30% reflecting good performance in the key exporting sectors of engineering goods, chemicals, automobiles, ore and minerals and basic metals and petroleum products.
- India is emerging as a force in manufacturing exports. Until recently, India's services exports, especially those related to outsourcing and IT, have been a success story. But manufacturing exports have surged, growing 37.3% year-on-year in United States dollar terms between April and September 2006. Manufactured exports are dominated by capital-intensive engineering, chemical and petroleum products. The main engineering products are iron and steel, feeding large global demand, especially from China. India's automotive sector is also expanding rapidly.
- The significant growth in research and development, information technology, IT-enabled services and off-shoring activities that India has experienced in recent years, have contributed to a boom in services exports. India is now the 18th largest exporter of services in the world, with its share in world exports rising from 0.6% in 1990 to 1.8% in 2004.
- Reform needs to be maintained to sustain high growth and rapid poverty reduction. With fiscal adjustment still a challenge, more progress is needed in tax collection and resource mobilization to reduce the budget deficit. This will allow redirecting resources from servicing public debt to economic development and social programmes, while at the same time creating an enabling environment for private investment. Increase in consumer prices is a genuine concern. Striking an appropriate balance between promoting economic growth and price stability remains a challenge because inflationary pressures accompany rapid economic expansions. Physical infrastructure reduces poverty in two ways. It promotes growth, which generally benefits the poor. And it directly benefits the poor by improving their incomes and the quality of their lives. Since most of the poor in countries of South Asia still live in the rural areas, rural infrastructure is key to reducing poverty rapidly.

### **Rural physical infrastructure for rapid poverty reduction in South Asia**

- Rural physical infrastructure covers roads, electricity, irrigation, telecommunications and much more. The impact of various types of infrastructure on rural economies and poverty reduction is maximized when provided in unison. The research feature in the Survey is focused on rural roads and electricity.
- In South Asia, only 65% of the rural population lives within two kilometres of an all-weather road, far less than the 95% in East Asia. Only 43% of the

population has access to electricity, far less than the 88% in East Asia. The situation in rural areas is much worse.

- Numerous empirical studies concluded that rural roads and electricity improvements had a significant impact on poverty reduction. In India, a million rupees spent on roads led to seven times the poverty reduction as a million rupees spent on specific anti-poverty programmes. The logic is simple: roads are the arteries that go where poor people live, improving their lives in concrete, immediate ways.
- To distribute electricity to smaller populations scattered over vast rural areas through conventional means, such as extending the electricity grid, can be complex and expensive. More preferred is distributing energy by using locally available resources, mainly renewable resources such as small hydropower, solar power, wind power and biomass power.
- Countries in South Asia are aware of deficits in infrastructure. India, for example, has estimated that it will take US\$320 billion over the next five years to expand and upgrade physical infrastructure. It is important to remember that mega projects may be essential to accelerate growth, but projects that directly benefit the rural poor should be given equal importance, if not more. In the absence of interest from the private sector, more public investment should go to rural infrastructure.
- Pricing of electricity is complex because of efficiency and equity considerations. Tariff rates should be competitive and reflect market conditions, with some provisions for poor households. All the countries have been raising tariff rates over the years, which are increasingly becoming unaffordable for the poor.
- Tariff rates should be kept low, affordable for small consumers. To cover the losses of public utilities on this account, the Government can allocate a certain amount of subsidy in its general budget and pass it on to public utilities distributing electricity. A more targeted approach of giving vouchers to the poor so that they can pay electricity bills at market rates is worth considering. Poor households can be asked to pay a fixed percentage of the electricity bill, with the remainder covered through the voucher.
- Transmission and distribution losses of electricity are enormous in most countries, mainly due to theft. By improving accountability and governance, losses if not eliminated can certainly be reduced substantially, which will reduce constant pressure of raising electricity tariffs.

### **Gender inequality continues – at great cost**

- Gender discrimination has widespread ramifications and clear economic and social costs. The Asia-Pacific region has made good progress in reducing gender discrimination in recent years, but appalling disparities remain. The region is losing US\$42-US\$47 billion per year because of lower labour force

participation rates of women – and another US\$16-US\$30 billion per year because of gender gaps in education resulting in lower productivity of women. Those are just the economic costs – added to them are social and personal costs.

- If India's female labour force participation rate reach parity with that of the United States, its GDP growth would increase by slightly over one percentage point – an annual gain of US\$19 billion. A 10% permanent increase in female participation would mean a gain of US\$5 billion a year.
- Gender discrimination in the region is most visible in the low access of women and girls to education and health services, to economic opportunities and to political participation. In South Asia, female school enrolment ratios in most countries tend to be lower than in other subregions of Asia. The female-to-male ratio in the population is deteriorating, partly reflecting women's inadequate access to health services. Meanwhile, violence against women continues, unabated, indicating how voiceless women are in households and in countries.
- One of the fundamental reasons women are subject to discrimination is that they do not have a voice in decision-making at home or in society, even when the matters are directly related to themselves.
- To overcome barriers for women in decision-making positions, particularly at the local levels, the Governments of Bangladesh, India, Nepal and Pakistan have introduced quota systems for women in elected bodies of local governments. In India, this approach is effectively helping in reducing gender barriers in local governments and society at large.
- The Survey proposes several specific recommendations in four critical dimensions: economic participation, education, health and empowerment. It recommends provision of free primary education, addressing safety and privacy concerns and provision of scholarships for girls. Governments should improve health services for women and involve NGOs and civil society organizations to improve health outcomes. They should ensure that women are not discriminated against in recruitment, wages, or promotions. The public sector should be a model for the private sector.
- Best practices highlighted from across the region and elsewhere show that gender balance can be achieved with limited resources, but this requires changes at the household, societal and national levels. In particular, political leadership and commitment will go a long way towards correcting abject discrimination against women. ■