

Climate Change and India/China Cooperation

This afternoon and tomorrow, I wish to share with you my thoughts on how we can effectively attack the threatening forces of climate change and other issues of global importance. Some of us here were fortunately able to participate in the 2007 Mumbai meeting where a decision was reached to form an Asian Peace Science network. We heard yesterday of the research of the JICA-RD (the Japan International Cooperation Agency Research Institute). I want to explore a larger role for our research, namely the cooperation between the developing two Big Major Regions, China and India. I must confess that my knowledge of China is limited but I do know well the possibilities for the development of India. This then needs to be supplemented by Major Region findings on China.

The first point is to recognize the tremendous economic development that has taken place in India. To do so, let me quote Basu (an Indian scholar writing in September 2008 about the Asian Region.) Over “centuries this was a region that slumbered. First, it was Japan that woke up. Then by the late 1960s Singapore, Korea, Taiwan, and Hong Kong came to grow at a rapid rate. Then by the 1980s, Asia began to truly change when China began growing consistently at rates till then believed to be impossible for a nation as large as China. Then by the mid-nineties, India, long wedded to a mediocre 3 percent growth rate, suddenly broke ranks from many other nations in Africa, Asia, Latin America and also its own past, and began surging ahead. Over the last five years India’s GDP growth has averaged just short of 9% per annum. If a scholar had predicted this for the Indian economy, he would have been laughed at loudly.” Kaushik Basu, “Asia Century: A Comparative Analysis of Growth in China, India and Other Asian Economies: 2009” unpublished.

Another recent publication on the development of India is by the distinguished scholar Bhagwati. For many years he has studied the development policy of India. For many years this policy produced abysmal growth rates, a stagnant economy. It failed to deliver any major advance on increase in social spending for health and education essential for development. It was handicapped by revenue constraints and other political economy factors that are needed for development. However, by 1991 payments were beginning to be made to support regional reform. So by 1991, India had a gigantic reduction in the external tariffs on manufactures. “There was more flexibility in the exchange rate, so India was not plagued by overvaluation. Many of the restrictions on foreign investment and production have largely been removed. India’s growth rate then remained high in a sustained fashion, even accelerating in the last few years toward the two digit figure that China has.” Bhagwati, Jagdish N. and Calomiris, Charles W. *Sustaining India’s Growth Miracle*, Columbia University Press, 2008, pp. 216-7.

But such growth has occurred while simultaneously major poverty has prevailed. For example, consider

India's Priorities for Agricultural and Rural Development

Although agriculture contributes only 21% of India's GDP, its importance in the country's economic, social, and political fabric goes well beyond this indicator. The rural areas are still home to some 72 percent of India's 1.1 billion people, a large number of whom are poor. Most of the rural poor depend on rain-fed agriculture and fragile forests for their livelihoods.

The sharp rise in food grain production during India's Green Revolution of the 1970s enabled the country to achieve self-sufficiency in food grains and stave off the threat of famine. Agricultural intensification of the 1970s and 1980s saw an increased demand for rural labor. This raised rural wages and, together with declining food prices, reduced rural poverty.

Then, there followed in the 1990s much slower agricultural growth. Despite this, rural poverty declined to 26.3 percent by 2000. Since then, however, the slowdown in agricultural growth had become a major cause for concern. India's rice yields are one-third of China's and about half of those in Vietnam and Indonesia. With the exception of sugarcane, potatoes, and tea, the same is true for most other agricultural commodities.

The Government of India places high priority on reducing poverty by raising agricultural productivity. However, bold action from policymakers will be required to shift away from the existing subsidy-based regime that is no longer sustainable. It is necessary to build a solid foundation for a highly productive, internationally competitive, and diversified agricultural sector.

Enhancing agricultural productivity, competitiveness, and rural growth: Creating a more productive, internationally competitive and diversified agricultural sector would require a shift in public expenditures away from subsidies toward productivity enhancing investments. Second, it will require removing the restrictions on domestic private trade to improve the investment climate and meet expanding market opportunities. Third, the agricultural research and extension systems need to be strengthened to improve access to productive enhancing technologies. The diverse conditions across India suggest the importance of regionally differentiated strategies, with a strong focus on the lagging states.

Improving water resource and irrigation/drainage management: Increase in multi-sectoral competition for water highlights the need to formulate water policies and unbundle water resources management from irrigation service delivery. Other key priorities include: (i) modernizing Irrigation and Drainage Departments to integrate the participation of farmers and other agencies in irrigation management; (ii) improving cost recovery; (iii) rationalizing public expenditures, with priority to completing schemes with

the highest returns; and (iv) allocating sufficient resources for operations and maintenance for the sustainability of investments.

Strengthening rural non-farm sector growth: Rising incomes are fueling demand for high-value fresh and processed agricultural products in domestic markets and globally, which open new investment opportunities for agricultural diversification to higher value products (e.g., horticulture, livestock), agro-processing and related services. The government needs to shift its role from direct intervention and overregulation to creating the enabling environment for private sector participation and competition for agribusiness and more broadly, the rural non-farm sector growth. Improving the rural investment climate includes removing trade controls, rationalizing labor regulations and tax regime (i.e., adoption of the value added tax system), and improving access to credit and key infrastructure (e.g., roads, electricity, ports, markets).

Outlook for poverty alleviation: Eradication of poverty in India is generally only considered to be a long-term goal. Poverty alleviation is expected to make better progress in the next 50 years than in the past. Such could be a trickle-down effect of the growing middle class. Increasing stress on education, reservation of seats in government jobs and the increasing empowerment of women and the economically weaker sections of society, are also expected to contribute to the alleviation of poverty. It is incorrect to say that all poverty reduction programs have failed. The growth of the middle class (which was virtually non-existent when India became a free nation in 1947) indicates that economic prosperity has indeed been very impressive in India, but the distribution of wealth is not at all even.

After the liberalization process and moving away from the socialist model, India is adding 60-70 million people to its middle class every year. One analyst writes that an estimated 390 million Indians now belong to the middle class; one-third of them have emerged from poverty in the last ten years. At the current rate of growth, a majority of Indians will be middle-class by 2025. Literacy rates have risen from 52 percent to 65 percent during the initial decade of liberalization (1991-2001).

Now let us proceed to other major problems of India.

Infrastructure: India's rapidly growing economy has been placing huge demands on power networks, roads, railways, ports and transportation systems. But infrastructure bottlenecks have been eroding the country's competitiveness. Increases in power generation during the Tenth Plan period fell short of target. When the economy was growing at a rapid 8 percent a year, power supply grew at only 4 percent. While the national highway network doubled in size between 1997 and 2007 – almost 35,000 kms were added during this period – soaring demand has far outstripped supply. While India's longer-term infrastructure goals remain appropriate, issues of implementation need greater attention.

However, the country needs to invest an additional 3-4 percent of GDP on infrastructure to sustain its current levels of growth in the medium term and to spread the benefits of growth more widely. Although this will clearly require a larger government role, the relative roles of the government and private sector will need to be clearly defined. Policies that encourage competition can be strengthened. The emphasis on PPP schemes – which was helping to deliver faster and better infrastructure – is now likely to be set back by the global downturn. The Government's role will be to help support the implementation of existing projects while supporting additional investments. It is starting to address these issues. The World Bank has agreed to support the India Infrastructure Company Limited (IIFCL) to help finance private-public partnerships in infrastructure.

Education: India has made huge progress in getting more children, especially girls, into primary school. Since 2001, the government's Sarva Shiksha Abhiyan program, with some support from the World Bank and other donors, has helped to bring some 20 million children into school; many of them are first-generation learners. According to the Ministry of Human Resources Development, less than 5 million children aged 6-14 now remain out of school, the vast majority of them from marginalized social groups. The program is now focusing on bringing the hardest-to-reach children into primary school, raising access to upper primary education and improving retention of learning outcomes.

Skills: Equally important is the building of skills among India's rapidly rising work force. Their ranks are joined by some 8-9 million new entrants each year. Presently, nearly 44 percent of India's labor force is illiterate, only 17 percent has secondary schooling, and enrollment in higher education is a mere 11 percent. Moreover, the quality of most graduates is poor, and employers offer very little upgrading of skills; only 16 percent of Indian manufacturers offer in-service training compared to over 90 percent in China. To help produce engineers of international standards, the World Bank has supported improvements in the quality of education in engineering institutes in 13 states. A project is now supporting 400 Industrial Training Institutes to become centers of excellence in technical skills that are in demand.

Health: The health sector presents a mixed picture. Despite some gains, a large unfinished agenda remains. Gains in infant mortality rate, institutional births, family planning, and understanding of AIDS have been accompanied by persistently high maternal mortality and unacceptable and stubbornly high levels of malnutrition. Some 45 percent of India's children remain underweight and 70 percent are anemic. On infectious diseases, while leprosy has been eliminated as a national health problem, and TB treatment is now available in 80 percent of the country, polio is not yet fully eradicated.

While budgets are increasing for health and disease control and the Government of India is rapidly extending access to basic care, systemic new problems in health services and human resource constraints may limit the effectiveness of these new resources. The World Bank has been helping India to address the issues of child undernutrition, maternal and child mortality and morbidity.

World Bank Support to India: The Bank's new Country Strategy for India for 2009-2012 focuses on helping the country to fast-track the development of much-needed infrastructure, and to support the seven poorest states, to achieve higher standards of living for their people. The strategy is closely aligned with the country's own development agenda as articulated in its 11th Five Year Plan. The Bank's strategy envisages a total proposed lending program of US\$14 billion for the next three years.

India Country Overview 2009:

In the past two decades, India has been making sustained progress on a scale, size and pace that is unprecedented in its own history. A low-income country with mass poverty at the time of Independence in 1947, India now has a diminishing pool of very poor people. It is poised to cross the threshold to join the ranks of the world's middle-income countries. Over these past 62 years, the country has been successful on a number of fronts:

- It has maintained electoral democracy
- Reduced absolute poverty by more than half
- Dramatically improved literacy
- Vastly improved health conditions
- Become one of the world's fastest growing economies with average growth rates of 9% over the past four years
- Emerged as a global player in information technology, business process outsourcing, telecommunications, and pharmaceuticals

Key Issues

1. Making Growth More Inclusive

Faster economic growth has seen rising disparities between urban and rural areas, prosperous and lagging states, and skilled and low-skilled workers. India's richest states now have incomes that are five times higher than those of the poorest states – a gap that is higher than in most other democratic countries. The challenge will now be to insure that pockets of poverty do not increase in this downturn.

Small and medium enterprises (SME): Small and medium enterprises are essential for dynamic economic growth and job creation. The sector has, however, been hit hard by the current downturn with credit growth slowing and demand falling in both domestic and export markets.

Indian Economy 2009

After several years of rapid growth, 2009 will prove to be a testing year for India.

Inflation continues to pose a threat. Inflation peaked at 12% in early August '08. Inflation is being caused by rapid growth (demand pull factors) but also the cost push inflation factors. Hopefully, the fall in oil prices and higher interest rates will reduce inflation without causing too much of a slowdown.

Economic growth. After reaching growth of 9.8% in 2007/08, growth is expected to slow down to 7%. This might not be a bad thing, as it will avoid inflationary pressures building further. However, some worry that the global credit crunch would reduce growth much more.

Global Recession and Indian Economy. It appears that Europe, Japan, and the US are entering into a recession. Falling house prices, crisis in the financial system, and lower confidence could lead to a sharp downturn, with the worst still to come.

However, many argue that India's growth is not so dependent on growth in the West. But, the Indian stock markets have been hit by the global crisis. India's growing service sector and manufacturing sector would be adversely impacted by a global downturn. Some feel that India's economic success is not dependent on growth in the West, and at worst India's growth rate will be less than hoped for.

Challenges for Indian Economy in 2009

1. Getting inflation under control
2. Spreading the benefits of growth more equitably.
3. Completing investment projects which are essential for long term development of the economy
4. Dealing with global financial insecurity, which will make capital flows and exports more difficult.

Views to Share

May I share with you some views. I would like to see the cooperative behavior involved in what JICA-RD and China are exploring and doing, as for example ways of eliminating poverty – and then in later years to upgrade education and health programs in both China and India. Along with this, I would like to see the control of trash phenomena and also the control of the spread of water pollution to receiving regions of India and elsewhere. In time, such would be the basis for future interactions between nations of all sorts for world welfare.