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India's tortoise must turn on the speed

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When Indians talk about China, many fall back on what is essentially a tortoise-and-hare rendering of their relative performance. The story goes something like this: "Sure, China has its 30-year record of double-digit growth, its gleaming skyscrapers and its eight-lane superhighways. But India has the 'soft architecture', the democracy, the rule of law and the freedom of speech that provide shock absorbers and make its economic prospects more enduring." The implication is that, while authoritarian China may have raced out of the traps, sooner or later it will falter. India, playing the long game, will keep up a measured pace and one day surpass it.

If India is indeed the tortoise, its performance is all too convincing. In 1991, the year Indian reforms got going, its per capita income was roughly the same as China's. Today, China's is more than three times higher. It is not that India has been terribly slow. Indeed, in the 1990s, it finally sloughed off its lacklustre "Hindu rate" of growth and began to expand at a halfway decent clip of 5.5 per cent a year. From 2000, that notched up higher still – to about 7.5 per cent. The only problem – when it comes to comparisons – is that China has done even better, expanding at 10 per cent a year over the same period. By the magic of compound growth, it has streaked ahead.

One does not need to accept the tortoise-and-hare analogy to believe that India, too, has a reasonable shot at double-digit growth. This year, it is expected to grow at about 8.5 per cent. Even Manmohan Singh, the quietly spoken prime minister who – as finance minister in the early 1990s – helped dismantle some of the obstacles to rapid expansion, has said 10 per cent growth is a reasonable medium-term proposition. Last week, K.M. Chandrasekhar, the government's cabinet secretary, became the latest official to conjure up the double-digit genie, saying it would become reality if only the farming sector could be prodded into a modest 4 per cent growth.

Morgan Stanley's Stephen Roach, who has just returned to New York after three years in Asia, has long stressed India's potential. For years, he says, it has had a "better micro story" than China, with its world-class companies and entrepreneurs, its large English-speaking and IT-competent workforce, and its prudently regulated banking system.

Now, he says, India is steadily overcoming its "macro-deficiencies". Its gross domestic savings rate soared from the low-20s as percentage of output in the late-1990s to the high-30s by 2008. Foreign direct investment, though not yet at China's ear-popping heights, has quadrupled since 2005 to a very handy $40bn. Similarly, though ambition continues to run ahead of reality, India has become serious about improving its woeful infrastructure. Putting all this together, Mr Roach reckons it could emerge as "Asia's biggest surprise in the years immediately ahead".

What would need to happen? Even as the tantalising prospect of truly transformational growth looms into view, there are those in Mr Singh's ideologically scattered alliance who remain sceptical about the reforms that have made it possible. After all, 40 per cent of India's children remain malnourished and a recently released Oxford study found there were more desperately poor people living in just eight Indian states than in the whole of sub-Saharan Africa. Given such a terrible backlog of poverty, it is easy to see why there are doubts – even anger – about policies that have benefited an apparently narrow sub-set of Indians. More should indeed be done to spread the fruits of growth to India's most vulnerable.

But that, alone, is not enough. Jagdish Bhagwati, professor of economics and law at Columbia University, says only by pushing ahead with what he calls "Stage 2 reforms" can India create the necessary wealth to go around. There is only so much you can do with per capita income at $1,000. Indian officials tend to roll their eyes at what they call the "laundry list of reforms" that are continually urged on them: reducing subsidies, raising limits on foreign ownership, speeding up privatisation and deepening India's capital markets. There are even those who say India does not need to do anything to achieve faster growth. It can just wait until its demographic dividend, born of one of the world's youngest populations, kicks in. (A report from Goldman Sachs this week said India's expanding workforce could add up to 4 percentage points of annual growth over the next decade.)

But India should not rely on that. Mr Singh should give economic liberalisation one more push. Even if one does not buy the argument that the Chinese hare will be overtaken by the Indian tortoise, there is no reason why India cannot accelerate towards Chinese rates of growth. For India's poor, hundreds of millions of whom have seen precious little benefit from its success so far, that moment cannot come soon enough.

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