Comments
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Indian economy has been on an upward growth path. The growth rate has accelerated from 3½ per cent per annum during 1950-80 to 5½ per cent per annum during 1980-2000 and 7.7 per cent per annum during 2001-08. The average growth rate in the past 5 years has been 8.8 per cent per annum.

I will spell out the areas in which the OECD countries can interact with India to harness the interdependence between these economies for mutual gain.

(i) Agricultural sector has not shared in the dynamism of growth in India for some time. Growth slowed down from 3.5 per cent per annum in the 1980s to 2.8 per cent per annum in the 1990s and was even less than 2 per cent per annum in the second half of the decade. This has implications for urban / rural income distribution and poverty. Neglect of agriculture has been because of inadequate investments in rural infrastructure, e.g., irrigation and rural roads, and escalating subsidies in food, fertilizers, rural electricity. Research and Development expenditure for agricultural innovations has been neglected. As a result, yields have been stagnating. There has been some revival of agricultural growth with 3.3 per cent per annum growth recorded in 2001-02 to 2007-08. But we have a long way to go.

We need not only more funds for agricultural investments but also systemic reforms. Agricultural universities are in a state of disarray. There is an urgent need to address second generation challenges in agriculture, i.e., (i) crop diversification, (ii) dry land agriculture, (iii) investment in water harvesting and water conservation, and (iv) reform of institutions, including marketing which allow private trade in agriculture. Vulnerability and insecurities in agriculture are even higher with the recent spurt in fuel prices.

A clearer and undistorted trade regime in the OECD countries will offer new opportunities for trade with India.

(ii) Manufacturing sector in India is clearly on the move. Increasing FDI, improvement in the efficiency of the private corporate sector, a spurt of Indian corporate acquisitions abroad, are all signs of improving fundamentals, although some cyclical factors are responsible for the slowdown in the past few months. The target growth rate for manufacturing is 12 per cent per annum in the Eleventh Plan.

The Government of India is now emphasizing Special Economic Zones with a view to providing world class infrastructure within a public private partnership framework by incentivising private developers to build world class infrastructure and help improve the competitiveness of the Indian manufacturing companies. While land acquisition is a major problem in setting up the SEZs, rules are being framed for this purpose. The SEZ policy has become controversial but there is also demonstrated success.

Another dynamic sector of opportunity is retail. With the modernization of retail services on the agenda of economic reform is India, there is opportunity for investments in logistics, cold chains, cash and carry. This has implications not only for employment creation but also for development of small towns and urban infrastructure.

Recognizing the importance of infrastructure to sustain the 8 to 9 per cent industrial growth in the Indian economy in the years ahead. The Government of India has estimated that $500 billion will have to be spent in the five years of the Eleventh Plan. Investments will include airports, ports, roads and railways and will be undertaken within the framework of public private partnership. The private sector is expected to put in 30 per cent of the requirements.

There is opportunity for OECD countries to invest in infrastructure projects in India as well as come with FDI into the manufacturing sector.

(ii) An emerging challenging in the context of the 8-9 per cent growth in the economy is that of skill development and human capital accumulation. At one level, higher education is being emphasized through setting up of new Universities, Centers of Excellence, IITs and IIScs. On the other hand, the importance of vocational education is being recognized and efforts made to revitalize the industrial training institutes by actively involving the private sector to match skill creation with the demands that emerge. While it is true that by 2035, 69 per cent of India's population will be of working age (15-65), it is extremely important to endow this young population with the right skills. Otherwise the demographic dividend may well turn into a demographic liability.

This presents an opportunity for collaboration in the field of higher education as well as skill development.

(iii) Finally, there is the challenge of macro-economic management of an open economy. The surge of capital inflows in recent years has led to intervention on the part of the Reserve Bank of India to keep the Indian rupee from appreciating. Of course, the Government of India and state governments in India need to work towards improving the investment climate so that the capital inflows can contribute to generating investment and economic activity in India. The intervention of the central bank to protect the exchange rate leads to inflationary pressure in the economy.

The problem of global imbalances requires research and policy coordination. The OECD can play a helpful part in this process. Why is there too little saving in the US and too little investment in India? How to create a stable macro-economic environment in India, and also better financial management and prudent macro-economic management in the developed economies? These issue need to be studied and debated. The OECD can facilitate this process.