

**The
Economist**

India's economy

India's surprising economic miracle

The country's state may be weak, but its private companies are strong

Sep 30th 2010



HORRIBLE toilets. Stagnant puddles buzzing with dengue-spreading mosquitoes. Collapsing masonry. Lax security. A terrorist attack. India's preparations for the 72-nation Commonwealth games, which are scheduled to open in Delhi on October 3rd, have not won favourable reviews. "Commonfilth", was one of the kinder British tabloid headlines. At best—assuming that the organisers make a last-minute dash to spruce things up—the Delhi games will be remembered as a shambles. The contrast with China's practically flawless hosting of the Olympic games in 2008 could hardly be starker. Many people will draw the wrong lesson from this.

A big sporting event, some people believe, tells you something important about the nation that hosts it. Efficient countries build tip-top stadiums and make the shuttle buses run on time. That India cannot seem to do any of these things suggests that it will always be a second-rate power.

Or does it? Despite the headlines, India is doing rather well. Its economy is expected to expand by 8.5% this year. It has a long way to go before it is as rich as China—the Chinese economy is four times bigger—but its growth rate could overtake China's by 2013, if not before (see [article](#)). Some economists think India will grow faster than any other large country over the next 25 years. Rapid growth in a country of 1.2 billion people is exciting, to put it mildly.

People power

There are two reasons why India will soon start to outpace China. One is demography. China's workforce will shortly start ageing; in a few years' time, it will start shrinking. That's because of its one-child policy—an oppressive measure that no Indian government would get away with. Indira Gandhi tried something similar in the 1970s, when she called a state of emergency and introduced a forced-sterilisation programme. There was an uproar of protest. Democracy was restored and coercive population policies were abandoned. India is now blessed with a young and growing workforce. Its dependency ratio—the proportion of children and old people to working-age adults—is one of the best in the world and will remain so for a generation. India's economy will benefit from this "demographic dividend", which has powered

many of Asia's economic miracles.

The second reason for optimism is India's much-derided democracy. The notion that democracy retards development in poor countries has gained currency in recent years. Certainly, it has its disadvantages. Elected governments bow to the demands of selfish factions and interest groups. Even the most urgent decisions are endlessly debated and delayed.

China does not have this problem. When its technocrats decide to dam a river, build a road or move a village, the dam goes up, the road goes down and the village disappears. The displaced villagers may be compensated, but they are not allowed to stand in the way of progress. China's leaders make rational decisions that balance the needs of all citizens over the long term. This has led to rapid, sustained growth that has lifted hundreds of millions of people out of poverty. Small wonder that authoritarians everywhere cite China as their best excuse not to allow democracy just yet.

No doubt a strong central government would have given India a less chaotic Commonwealth games, but there is more to life than badminton and rhythmic gymnastics. India's state may be weak, but its private companies are strong. Indian capitalism is driven by millions of entrepreneurs all furiously doing their own thing. Since the early 1990s, when India dismantled the "licence raj" and opened up to foreign trade, Indian business has boomed. The country now boasts legions of thriving small businesses and a fair number of world-class ones whose English-speaking bosses network confidently with the global elite. They are less dependent on state patronage than Chinese firms, and often more innovative: they have pioneered the \$2,000 car, the ultra-cheap heart operation and some novel ways to make management more responsive to customers. Ideas flow easily around India, since it lacks China's culture of secrecy and censorship. That, plus China's rampant piracy, is why knowledge-based industries such as software love India but shun the Middle Kingdom.

India's individualistic brand of capitalism may also be more robust than China's state-directed sort. Chinese firms prosper under wise government, but bad rulers can cause far more damage in China than in India, because their powers are so much greater. If, God forbid, another Mao were to seize the reins, there would be no mechanism for getting rid of him.

That is a problem for the future. For now, India's problems are painfully visible. The roads are atrocious. Public transport is a disgrace. Many of the country's dynamic entrepreneurs waste hours each day stuck in traffic. Their firms are hobbled by the costs of building their own infrastructure: backup generators, water-treatment plants and fleets of buses to ferry staff to work. And India's demographic dividend will not count for much if those new workers are unemployable. India's literacy rate is rising, thanks in part to a surge in cheap private schools for the poor, but it is still far behind China's.

Advantage India

The Indian government recognises the need to tackle the infrastructure crisis, and is getting better at persuading private firms to stump up the capital. But the process is slow and infected with corruption. It is hard to measure these things, but many observers think China has done a better job than India of curbing corruption, with its usual brutal methods, such as shooting people.

Given the choice between doing business in China or India, most foreign investors would probably pick China. The market is bigger, the government easier to deal with, and if your supply chain for manufactured goods does not pass through China your shareholders will demand to know why. But as the global economy becomes more knowledge-intensive, India's advantage will grow. That is something to ponder while stuck in the Delhi traffic.

Leaders

