

## The Asian way of development

N K Singh

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The 39th Annual Meeting of the Asian Development Bank (ADB) has just concluded. The impressive convention centre in Hyderabad, perhaps the only one of its kind in India, enabled us to host this prestigious event after a long time.

The Asian Development Outlook 2006 published on the eve of the conference presents a comprehensive economic report on the 43 developing member countries of the Bank. ADB President Haruhiko Kuroda expects continued growth buoyancy this year and the next year. However, "higher energy prices with full pass-through to end-users will ease growth rates to 7.2 per cent this year, and which may come down further to about 7 per cent in 2007 as cyclical support for growth rates".

Within this broad projection, there will be significant sub-regional and country diversities. Broadly speaking, the projected growth rates are contingent on resolving several risk factors. First and foremost, the challenge to health and social sector which may arise from an avian flu, which could mutate into a global pandemic. Second, a disorderly adjustment in structural imbalances, precipitating a sharp fall in the real value of the US dollar. Third, a possible sharp increase in long-term US interest rates, making exports to the US expensive even while domestic demand sags under the impact of higher interest rates. Trade would suffer in a disorderly adjustment. Contra-cyclical fiscal expansion and improved coordination of macro-economic variables could mitigate these concerns. Fourth, Asia's pace of growth could induce environmental disasters and the strive for cleaner, more efficient energy technologies needs acceleration. Finally, growing income inequalities and inability to provide gainful employment to its large population would create social unrest.

The economic outlook says that at least 500 million people in the region are either unemployed or underemployed, out of a total labour force of 1.6 billion. The employment pressures would further increase between 2005 to 2015, with another 240 million people being added to the labour force and the need to find over 750 million new jobs in the next decade. None of the above risks is either new or surprising. They however deserve concerted and co-coordinated efforts; the ADB must foster meaningful dialogue.

In respect of India, the outlook is a bit cautious even while projecting a growth rate of 7.6 per cent this year, followed by 7.4 in 2007 and an average annual growth of 8-8.5 per cent between 2006-2010. Of course, this assumes the continuation of fiscal consolidation, significant improvement in infrastructure, improved rural productivity and human development, in addition to improving the investment environment by lowering the cost of doing business.

I was somewhat amazed to find that notwithstanding our huge claims about economic liberalisation, procedural simplification and de-bureaucratisation, India ranks so poorly in the index presented in the outlook on 'Doing Business'. The index ranks economies from 1-155 based on parameters like obtaining licences, hiring and firing of labours, getting credit, enforcing contracts among others. Not surprisingly, Singapore ranks at 2, China at 7, Thailand at 20, Pakistan at 60, Bangladesh at 65. India is ranked at 116. If the methodology and data are acceptable, it is yet another wake-up call on improving our investment climate. Clearly the success achieved so far remains grossly inadequate.

The risk perceptions for India in the outlook rest on four issues. First, while the economy is likely to weather the transition to a new fuel price regime, economic uncertainties resulting in inflationary pressures remain a worry. Second, if the capital and closely linked real-estate market over-heating on the strengths of strong portfolio investment inflows unwind in a disorderly fashion, it could shake investors and consumer confidence. Third, poor monsoon adversely affecting the rural income base. And finally, an assumption that the recommendation of the Rangarajan Committee report on fuel prices would be substantially implemented without jeopardising fiscal targets.

Out of the aforesaid risks, monetary authorities are vigilant on incipient inflationary pressures and also on a possible disorderly real-estate over-heating. Monsoons are exogenous but India's vulnerability and dependence on the monsoon have substantially

moderated, with much higher contribution to the GDP coming from the services sector. However farm incomes have a multiplier effect and a sharp decline could depress the current consumer buoyancy. The pass-through on fuel prices remains problematic and Chidambaram while recognising this in his address to the ADB conference is seeking a minimum political consensus within coalition partners.

Time is running out even while crude prices are on a relentless upward curve with unabated geopolitical uncertainties. There will never be a political consensus which is fully satisfactory and the transition recommended by the Expert Committee which mitigates any sudden shock to consumers should be implemented without delay.

Finally, beyond the Outlook 2006, the ADB must address the more basic question—if over the years it has addressed the obligations contained in Article 2(iii) of the Charter—namely of assisting better coordination of development policies and making economies in the region more complementary while promoting orderly expansion of their foreign trade.

The analysis rightly exhorts the need to seek multilateral arrangements recognising the limitations of a disorderly spaghetti bowl of preferential bilateral sub-regional arrangements. Given the maturity and strength of Asian economies this is the right time to strive for an Asian Union, embedded in which is the concept of an Asian Currency Unit. Europe took many decades to establish the European Union, a movement which has recently been stalled given problems of unemployment and immigration. Multiplicity of groupings in Asia (ASEAN plus others) is neither rational nor inclusive enough. They fall far short of the dream of an Asian Union or what the Prime Minister describes as a Pan Asian FTA. The ADB has failed to actively address this broader vision. It must now be a catalyst for both technical work and fostering policy dialogues on a more integrated Asia. Advantage India is comforting but an inclusive Advantage Asia remains a quest. The Asian Way of Development makes this an inescapable challenge.

*write to [nk.singh@expressindia.com](mailto:nk.singh@expressindia.com)*