Two tales of development
Liliana Lavoratti, Rio de Janeiro

India is still almost unknown to Brazilians in general. Given the distance not only geographically as well as quite different civilization, the cultural exchange between Brazil and India is still insignificant, similar to what occurs with other emerging nations and the BRIC countries (India, Brazil, Russia, India and China) in particular. Apart from the general interests that unite these countries around their future potential economic growth, here in Brazil we do not know much beyond that the Indian population is divided into castes and that the currency is the rupee.

After China, the world’s most populous country, with nearly 1.2 billion inhabitants, India is one of the best performing economies coming out the global crisis and to possibly recording the second highest GDP growth this year (8.8%), behind only China (10.0%), according to the International Monetary Fund (IMF), and followed by Brazil (6.5%), according to the Brazilian Institute of Economics, Getulio Vargas Foundation (IBRE-FGV). This strong performance is focused on a strong domestic market and low exposure to the external sector, reinforced by fiscal and monetary stimuli given at the end of 2008. To contain inflationary pressures arising from higher than expected economic heating, these incentives are being removed. The IMF forecasts inflation of 8.1% this year for India.

Reforms
India has a number of successes since 1991, with a broad program of reforms aimed at liberalizing trade, restructuring of the domestic financial system and financial openness. All to promote development with economic stability. “These reforms led to changes in production structure, external insertion, and financial system,” explains Silvia Matos, an economist at IBRE-FGV.
India has recorded high rates of economic growth, with significant expansion of exports in the technology-intensive services sector. Between 1992 and 2002 the average growth of Gross Domestic Product (GDP) was 5.3%, while between 2003 and 2008 reached 8.4%, according to data from the IMF. The information technology sector, which relied on extensive research, has stood out in this process. The telecommunication and finance sectors also expanded at a pace faster than GDP.

“The reforms laid the foundation for rapid growth based on the service sector and a strong reduction in the share of agriculture in GDP,” says Silvia. According to data from World Bank, the share of services increased from 39.8% of GDP in 1980 to 52.8% in 2007. In contrast, the share of agriculture fell from 35.7% to 17.8% of GDP. The industry went from 24.7% to 29.4% of GDP.

India overtook Brazil in world ranking for industrial production, according to the Industrial Development Organization of the United Nations (UN). The Asian country, who won the ninth position in the ranking of the world’s largest industrial sector in 2009, doubled its global market share in ten years, rising from 1.1% in 2000 to nearly 2% last year, leaving Brazil in tenth place.

The increased openness of the economy (sum of exports plus imports over GDP) is another characteristic of India’s development. It reached 34.7% in 2007 from 14.6% in 1990. Equally important in India’s development were productivity gains in the period. Between 1997 and 2007, the Total Factor Productivity per capita grew by 15.2%, according to a study by Samuel Pessoa, economist of IBRE-FGV.

Another important aspect is that India has high share of investment around 40% of GDP in 2007 compared to 18.5% in the early 1980s. The expansion of the Gross Fixed Capital was 6.7% last year and government spending increased 12.1% in 2009. “During the crisis one wondered whether India could sustain that positive path, but the country has done better than expected,” says Professor Frederico Turolla, School of Economics of FGV São Paulo. However, he draws attention to the fiscal indicators, which are still negative. Despite having a low tax rate — around 18% of GDP, the same level in China, compared with 35% of GDP in Brazil — the budget deficit problem is similar ours.

The difference is the profile of government spending. “Public spending in Brazil is of poor quality because they consist of primarily consumption. In India, it is the opposite, government spending has a strong investment component,” says Turolla. India’s federal government investment is 11% of its primary spending.
while Brazil, despite increases in taxes, Brazil’s federal government investment is only 5% of its primary expenditure, proportionately less than half of what was in the 1970s. According to market forecasts, the budget deficit this year in Brazil will be 8% of GDP.

Gross debt of the public sector in India was 78.2% of GDP in 2008 (China, 17.7%), according to IMF data. In Brazil was 57.9%, according to Central Bank.

**Challenges**

Improving public services, particularly in infrastructure sectors, is among the challenges in India. According to The Global Competitiveness Report 2009-2010, World Economic Forum, the infrastructure and excessive government bureaucracy hinder the efficiency of the country, placed 49th in the ranking of competitiveness compared to China’s 29th position. But Brazil, which stayed in 56th place, is criticized for the high tax burden and complexity of tax legislation and social contributions.

Despite investments in education, India’s education indicators are still poor and educational inequality remains high. According to the World Bank, the percentage of literate population aged 15 or over was only 66% in 2005. Literacy rates have already reached 93% in China and 90% in Brazil.

According to the database Barro-Lee Educational Attainment Dataset (2010), in India the population over 15 years had on average 1.1 years of schooling in 1960. Fifty years later, this ratio was 5.1 years for the Indians. In Brazil, this ratio was 2 years and 7.5 years in the same period. The Chinese had an average 2.4 years of schooling in 1960 and reached 8.2 years of school in 1975.

“We must also bear in mind that two thirds of India’s population still lives in the countryside, which influences the productivity of the economy.”

India has a number of successes since 1991, with a broad program of reforms aimed at liberalizing trade, restructuring of the domestic financial system and financial openness.
India has high share of investment around 40% of GDP in 2007 compared to 18.5% in the early 1980s.

country and hampers progress in many aspects,” notes economist Silvia Matos. In Matos’ view, the greater liberalization in financial markets is among the priorities of India today. The state still controls around 70% of banking sector assets (data from Goldman Sachs investment bank) and there are few private financial instruments such as corporate debt. “The development of the industrial sector is also on the list of pending improvements, because of infrastructure constraints as well as limitations of the private financial instruments,” She explains. The reduction of regional inequalities completes the list of challenges.

India’s political system
India has parliamentary regime and elections every five years. The Parliament consists of two chambers — the Lok Sabha, with members elected by the people, and the Rajya Sabha, where members are nominated and elected. Members of both houses and the State Assemblies elect the president for a period of five years. The president — now the lawyer Pratibha Patil, 72 years — is the head of state and commander of the Armed Forces. The Prime Minister, Manmohan Singh, appointed by the president, must have majority support in the Lok Sabha. Each of the 26 states and six territories have a governor, assisted by a Council of Ministers. The judiciary, independent of the executive, is the guardian and interpreter of the Constitution, being the Supreme Court is its highest authority.

Average number of school years

Source: Barro-Lee Educational Attainment Dataset (2010).