



CENTRE FOR  
DEVELOPMENT  
AND ENTERPRISE

# INSIGHT

## REFORMING INDIA Successes and Challenges in a High-Growth Country



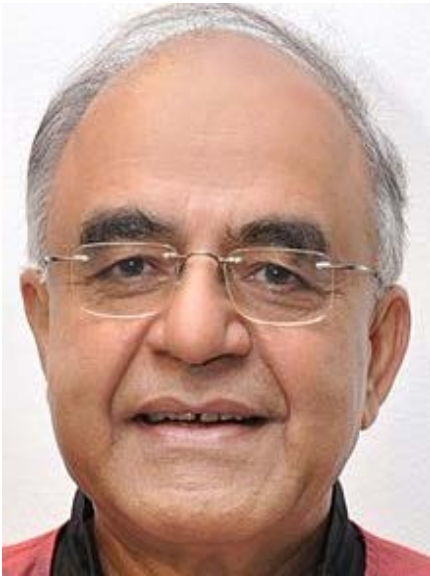
The Centre for Development and Enterprise is a leading South African development think tank, focussing on vital national development issues and their relationship to economic growth and democratic consolidation. Through examining South African realities and international experience, CDE formulates practical policy proposals for addressing major social and economic challenges. It has a special interest in the role of business and markets in development.

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Series Editor: Ann Bernstein

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## GURCHARAN DAS

In March 2016, the Centre for Development and Enterprise hosted Gurcharan Das. He is the well-known author of *India Unbound*, a detailed account of India from independence to the global information age, which was published in many languages and filmed by the BBC, as well as *India Grows at Night: A Liberal Case for a Strong State*.

He is a regular columnist for six Indian newspapers in English, Hindi, Telugu, and Marathi. He writes periodic pieces for the *New York Times*, *Wall Street Journal*, *Financial Times*, *Foreign Affairs*, and *Newsweek*. Das was also the CEO of Procter & Gamble India and Vice-President and Managing Director, Procter & Gamble Worldwide.

This report summarises the views and insights he shared with a South African audience on some of the achievements and challenges emerging in India as it moves to become the fastest growing country in the world. Das also responded to questions from the audience on topics that are of particular interest to South Africans.

## Introduction

### Ann Bernstein, Executive Director of CDE

South Africa needs to improve its growth performance. Without faster, more labour-intensive growth, we will fail to employ the millions of South Africans who need work, condemning them – and their children – to lives of grinding poverty. Slow growth will also mean that state revenue will not keep pace with legitimate demands for access to all levels of education and training, essential infrastructure and improved social welfare. South Africa's poor will be left behind, society will stagnate, race relations will worsen and instability will increase.

CDE has been looking at other developing country democracies. We can learn from countries wrestling with many similar challenges about what to do and what not to do. We have hosted numerous people from Brazil, Mexico, India, and elsewhere, and we have learnt a lot from them. However, they don't all agree with each other about their countries or the lessons for South Africa.

We are delighted to have Gurcharan Das in South Africa to hear his views on recent trends and changes within India, and what they might mean for South Africa.

*"India grows at night."*

India's has been a remarkable story. The country remains firmly committed to electoral democracy after almost seventy years of independence and has produced more than two decades of rapid growth. Yet some of India's indicators of human well-being have been recorded as below those of much poorer sub-Saharan African countries. The Harvard based economist Lant Pritchett says that a large part of the problem is the administrative capacity of the state. He characterises it as a 'flailing state' with poorly-performing bureaucrats, high levels of corruption, and policies disconnected from realities on the ground.

Gurcharan Das neatly encapsulated this reality in 2012 when he pointed out that 'India grows at night'. What he meant is that India grows in spite of the state - it grows when the 'government sleeps' – and almost all of the growth is produced by a dynamic private sector. This is not an ideal situation in his view and he looked forward to a time when India would also grow during the day. This would happen, he argued, when public policy supported private enterprise. To achieve this he called for a strong liberal state, with the authority to take quick, decisive action while relying on the rule of law and remaining accountable to citizens.

Since 2012 there have been important changes in India with the victory of Narendra Modi of the Bharatiya Janata Party (BJP) in the 2014 national elections. During the election Modi promised to shift growth back up to nine per cent and to reform the way the state governs. There are now many new initiatives and important trends emerging within India. As one of the world's great reform experiments India is a place to watch – what can the

Modi government achieve with respect to reform; how will this affect the country's economic performance; how important is the increased Hindu nationalism of the BJP and its supporters?

## **Gurcharan Das in South Africa**

### **A summary of his talk**

#### ***Turning points in India's past***

Contemporary Indian history has had three major milestones: 1947, 1991, and 2014. The first – 1947 – is an obvious one as it is the year India gained its political independence from Britain.

The second major milestone is 1991. This is when India began to liberalise the economy and to end the 'License Raj' – the system in force since independence when nearly all economic activity depended on a licence. Before 1991 per capita annual income growth was only about 1.3% - the so-called Hindu rate of growth. This rate of growth had very little to do with Hinduism and almost everything to do with socialism. Once the government stepped out of the way, Indian growth picked up and the country became the second-fastest growing economy in the world, with the golden age of growth being from 2002 to 2011. For more than a decade India grew at almost nine per cent per year. This proved that it is possible for a large country other than China - and a democracy to boot - to grow at that pace.

The third milestone was the 2014 election of the BJP as the governing party, and Narendra Modi as Prime Minister of India. This was the year, I maintain, when the middle-class finally achieved dignity. Between 1991 and 2014 a new middle-class had been created which contained within it many young, confident Indians who wanted to take charge of their own destiny. This had a profound effect on the 2014 election results. Deirdre McCloskey, in her book, *Bourgeois Dignity*, explains the rise of the West in those terms. According to her, the key thing that brought about the industrial revolution was that the narrative and rhetoric began to recognise the ordinary greengrocer as a person with dignity. This is what has happened in India.

#### ***The rise of the new middle class***

The new Indian middle class has expanded rapidly. Defined broadly, including the aspirant group that Modi calls the 'neo-middle class', this class accounted for only eight per cent of the population in 1990. Today it accounts for one-third, and in another ten years it will account for half of the country's population, which is currently the middle class proportion of the population in China – half of China is middle-class. The middle class in these two countries is not a car-owning middle-class but rather a scooter-owning middle-class. Nevertheless, the values of this class are mostly the same as those in the West – to lift yourself up by the bootstraps through education, to focus on educating your children, and to move up the income ladder.

*“India's nine per cent per year growth proves that it is possible for a large country other than China to grow at that pace.”*

During the period of high growth poverty decreased spectacularly, but the ruling Congress Party that presided over this amazing achievement did not realise this. They failed therefore to adapt to the realities of an aspiring middle-class, sick and tired of populist politics and of the give-aways and subsidies that Congress championed. The new middle class rose on their own initiative and not through the state, and so the rhetoric of the country changed. The new middle class sees life in terms of aspiration, in terms of opportunity rather than of inequality.

India was one of the few countries that survived the financial crisis relatively unscathed and sustained a high economic growth rate. However, from 2011 onwards there was a growing arrogance in the Congress Party, a malaise that befalls many developing country ruling parties who stay in power too long. This arrogance stemmed from the phenomenal growth that had been achieved under the left-of-centre Congress Party. Unfortunately, the Congress Party seemed almost embarrassed by this growth and argued that it had not been inclusive growth.

What the Congress Party did was to postulate a false trade-off between growth and equity. They argued that to ensure inclusive growth, the government had to give things to the poor. Congress was convinced that the poor should receive free (or at least highly-subsidised) goods and services such as food, fuel, and electricity. And just as they ramped up their redistributive approach the Indian growth rate began to fall. The process had actually begun somewhat earlier, but from 2011 to 2014 economic growth decreased from nine per cent to 4.5%. That decline in growth is part of the reason why the Congress Party lost the election to Modi and the BJP.

*“The new middle class sees life in terms of aspiration, in terms of opportunity rather than of inequality.”*

### **Modi, the pragmatic moderniser**

There are three primary reasons why India elected Modi in 2014. He promised to control inflation, stop corruption, and to create employment.

He has achieved the first two. Inflation has come down. It is now at about five per cent and the wholesale price index is down much lower. It seems he's been able to stop corruption because there has been no major corruption scandal for the last two years in India, whereas it seemed that there was a corruption scandal every week while the Congress Party was in power. However, he has not controlled corruption in the way many people would like to see, which is through institutional changes.

The most important challenge in India is creating jobs for new labour market entrants. Unfortunately, we have not seen the reforms that we thought we would see. Many had hoped that Modi would be a relentless reformer, but we have realised that he is really a pragmatic moderniser. He is not someone like Margaret Thatcher who was committed to a classical liberal ideology. He wants to transform India by changing attitudes and improving the functioning of the state – through better execution and efficient delivery of services. He will reform for practical reasons, like Lee Kuan Yew, the former leader of Singapore.

Modi is also not convinced that government enterprise is by nature inherently wrong or that if there is a fight between a private-sector company and a government company the same size the private sector company will always win.

### ***The importance of ‘selling’ reform***

India has had to reform furtively because no party has bothered to explain the difference between being ‘pro-market’ and ‘pro-business’. People are left with the impression that liberal reforms mostly help the rich. They don’t understand that being pro-market is to believe in competition, which helps keep prices low, raises the quality of products, and leads to a rules-based capitalism that helps everyone. On the other hand, to be pro-business without understanding the importance of markets and competition can lead to situations where politicians and officials retain authority over economic decisions, leading to crony capitalism. The continued prevalence of cronyism is one reason why India has not yet reached its full potential.

Indians continue to believe that markets and reforms make the rich richer and the poor poorer. They have not understood the benefits that reforms have generated for everyone because Indian governments have failed to explain those benefits to the electorate. Even today, some of the senior Congress leaders, such as Sonia Ghandi, the current President of the party, remain unconvinced that the reforms were beneficial for India. Congress was always unlikely, therefore, to sell the idea that market reforms generate real benefits for the poor.

Another reason why it is important to ‘sell’ reform is that in an election populist candidates will generally have an advantage over pro-market candidates. When a voter has to choose between a candidate who believes in the market, believes in fiscal prudence, believes in building an environment for investment and growth, and a candidate who campaigns on a populist platform promising free goods and services for everyone, the populist candidate will normally win. Modi won the recent election on a fairly pro-market platform, but he also represents a party that is associated with Hindu nationalism. In last year’s state-level election in Delhi, the largely populist Aam Aadmi Party (AAP), promising cheaper electricity and free water, won easily against both Congress and BJP. The AAP won 67 of the 70 seats in the state legislature, while the BJP won only three seats, and Congress won none. This happens far too often, even in mature democracies (which India is not yet). It happens because the invisible hand, as described by Adam Smith, is just that, invisible. The voters cannot see it – they do not see the benefits of the invisible forces of the market. What the voter sees in the short run is a businessman who makes a lot of money, or that new jobs are created for some people. It is hard for them to see the broader, long run transformations that market reforms bring that benefit the whole society.

*“The growing arrogance in the Indian Congress Party is a malaise that befalls many developing country ruling parties who stay in power too long.”*

## Most subsidies do not reach the poor in India

The following is adapted from: T.N. Ninan, *The Turn of the Tortoise: The Challenge and Promise of India's Future* (Penguin Books, 2015).

The size of the bill for what government calls the major subsidies has fluctuated, peaking at around three per cent of GDP. The real problem with the subsidies though, is not the size of the bill, but that the bulk of the benefit does not reach the poor. The subsidy on fertilizers, for instance, is routed through the distributors of fertilizers; their primary customers are medium and large farmers, who are not poor. The subsidy on cooking gas goes substantially to the non-poor since it is they who use gas as fuel, the poor use biomass like fuelwood and cow-dung cake or, in some cases, kerosene. A good deal of the subsidised cooking gas is diverted to restaurants and eateries that are supposed to pay the commercial price. Indeed, in 2013, some 30 million bogus gas connections (20% of the total) were uncovered in fairly quick time.

When it comes to foodgrains, where the subsidies are between 50% and 90% of cost, the planning commission estimated that more than half the grain issued through the public distribution system did not reach its intended beneficiaries; other estimates place the misallocation at 75%, while defenders of the system have put it at 35%. Market distortion is substantial. At its peak in 2013, buffer stocks of procured grain not distributed through the public distribution system reached 80 million tonnes – thereby locking up capital, raising the risk of storage losses and adding to cost.

In Chhattisgarh, which introduced an expanded public distribution system in 2013, only six per cent of all households were listed by the state as being above the poverty line (such families get a smaller subsidy). Worse, a total of 7.03 million households had been issued ration cards, though the state has only 5.6 million households.

Over-registration of families reckoned to be below the poverty line has been a problem in almost all the states, not just Chhattisgarh. The incentive for state government to game the system is obvious and over-reporting of the poor to be expected. In Karnataka, 75% of all families were listed as being below the poverty line, though the poverty headcount for the state was only 21-22% of the population in 2011-12. In these states, substantial numbers of people who are not poor are receiving ration cards and benefitting from the subsidies aimed at the poor.

More and more people are recognising that there must be a better way of delivering food security. But committee reports on how to reform the whole system to get better bang for the buck are routinely buried. The issue of replacing subsidised grain with cash payouts remains a political touch-me not.

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In the 1990s there was one state-controlled television channel, and today there are 960 private channels as well as 185 all-news channels. People have felt the huge gains in their lives, and some have been able to link those gains to the benefits generated by a less-regulated economy. However, to cement his position and to carry momentum into the next election, Modi needs to work harder to convince Indians that market reforms are good for all of them. He needs to be more assertive in selling the ongoing reform programme and must not repeat the error of his predecessor, Manmohan Singh, who, despite being pro-market himself, failed even to convert his party, never mind the electorate, to the cause of market reform.



### ***Extremists and right of centre politics***

I mentioned earlier that Modi's success in the 2014 elections were associated with his party's commitment to a version of Hindu nationalism. However, while elements in the BJP are committed to fairly extremist views, Modi was largely successful during the elections in disassociating himself from such views. Political parties win elections when they move to the moderate centre, where they can appeal to a broad cross section of voters. This strategy presents a challenge for Modi going forward as it leaves the old extremists and loyalists in the BJP dissatisfied.

A successful leader needs to manage these elements. We can currently see aspects of this challenge in Britain, where David Cameron struggled to manage the 'cultural right' in his Conservative Party and its anti-Europe policy. By contrast, one of his predecessors, Tony Blair, successfully marginalised the left-wing unions of the Labour Party. In India, Sonia Gandhi has also failed this test because she allowed leftist extremists to influence her party's agenda.

Modi is acutely aware that his mandate is jobs and growth and he must curb the unruly extremists of the Sangh Parivar (the RSS) and others, who represent the Hindu nationalist movement allied to the BJP. This will not be easy as the BJP needs the 'foot soldiers' of the organisation for future elections. However, Modi has done this before. When he was chief minister of Gujarat he managed to marginalise the extremists.

At the same time, there are aspects of the Hindu past that Modi can draw on in a way that will help him promote market reforms in India. He could appeal to India's great trading past when a Roman ship touched an Indian port daily. Rather than speak about markets in the abstract, he should talk about the famed ancient market of Hampi, which was once at the centre of the second-largest and possibly the richest city in the world. To explain the value of low tax rates, he should appeal to the ancient text of Arthashastra, in which Rajadharma dictates 'shatbhaga' (a tax rate of fifteen per cent).

The division between the 'economic' and 'cultural' right means that the BJP has matured into a full-fledged conservative party that now resembles the Republicans in America, the Conservative Party in the United Kingdom, or the Christian Democrats in Germany. The BJP needs both the economic and the cultural right to coexist, because the 'economic right' cannot win elections on its own. The problem that Modi faces is that the 'cultural right' in India has increasingly become too extreme for the middle-of-the-road voter. Modi has his work cut out – he must assuage the anxieties of the cultural extremists while single-mindedly pursuing his reform and jobs agenda.

### ***Differences between India and China***

China is often held up as a good example for India and other developing countries, even South Africa, to emulate. However, the two countries

*"The problem with the invisible hand of the market is that it is, by definition, hard for ordinary voters to see its benefits."*

couldn't be more different, and it is doubtful that India could gain much from studying the Chinese model of development. India is a bottom-up success while China has benefitted from a top-down approach. China's success was orchestrated by an incredible, technocratic elite that Deng Xiaoping handpicked when he came to power. China has now had 30 years of very high growth based on the plans and the infrastructure that this elite initiated. By contrast, India's government largely stands in the way of economic success, and India's economy is mostly powered by private entrepreneurs, many of whom have nothing to do with government.

There is something very deeply rooted about this Indian reality. In some senses India has always had a strong society and a weak state, while conversely China has historically had a strong state and a weak society. India's strong society has helped prevent tyranny. An Indian was defined by his village, caste, and family, not by the state (as in China). The law – dharma – also emerged from society, not the state, and was later codified in the Dharmashastras, the ancient commentaries and treatises on duties, responsibilities and ethics to oneself, to family and as a member of society that remain popular today.

*“India's government largely stands in the way of economic success, and India's economy is mostly powered by private entrepreneurs”*

India has historically 'accumulated' its diverse groups who retain their distinctiveness while identifying themselves as Indian, while China has 'assimilated' its people into a common, homogeneous Confucian society. China is a melting pot in which differences disappear while India is a salad bowl in which the constituents retain their identity. Hence, China has always been governed by a hierarchical, centralized state – a tradition that has carried into the present era of reform communism. China resembles a business corporation today. Each mayor and party secretary has objectives relating to investment, output, and growth, which are aligned to national goals. Those who exceed their goals rise quickly.

Despite China's successes though, it is a mistake to think that either India or China will succeed and become rich countries. India and China will become middle-income countries, with China being about fifteen years ahead of India in this race. However, those who think that the Chinese or the Indian destiny is to achieve a per capita income of US\$40 000 (roughly the current per capita income of the United States) are mistaken. Neither country will succeed unless China fixes its politics and India fixes its governance. At this point there is no clear sign that China will become democratic or that India will become well governed. It is likely therefore that both India and China are going to get stuck in a middle-income trap.

To achieve full-scale development, a strong state and strong society are both necessary. A strong state is necessary to get things done and a strong society is needed to make that state accountable. A 'strong state' usually carries a bad odour, conjuring up authoritarian images of Nazi Germany or Soviet Russia. A 'liberal, strong state' is, however, not oppressive. It is efficient, enabling and tough against law-breakers. It punishes the corrupt swiftly. But it also protects liberties and dissent and enjoys legitimacy among the governed. India cannot and should not copy China, but it must move towards better governance if it wants to sustain its successes. Why

should it take 15 years to get justice in the courts? Why should it take 12 years to build a road? These institutions have to be reformed.

### ***The influence of caste***

Sixty-four countries implemented the same reforms that India in the 1990s did but none grew at India's phenomenal rate. One of the reasons is entrepreneurship. Paradoxically, this has something to do with the caste system. It is something of a 'politically incorrect' viewpoint, but if you implement market reforms in a society where there are groups who know how to accumulate and conserve capital, your reforms will have a bigger bang. Historically, India is fortunate to have had its Vaishya or Bania business castes – the Marwaris, Chettiars, Gujarati Bhatias, Sindhis, Khojas, Jains, North Indian Banias, Punjabi Khattris/Aroras, even Parsees, and more – and they have played a major part in India's growth story. Despite its many draw-backs, India's much-maligned caste system may have actually given the country a competitive advantage. Reforms work well in a society where you have very sharp entrepreneurs who are ready to compete.

At the same time, India's market reforms, and the opening up of its economy to global forces, have served to undermine the caste system by benefitting India's lower castes. When a global company hires people, it wants the best person to do the job. It rarely asks an applicant their caste. Many people who are members of lower castes have advanced to be vice-president of companies or successful entrepreneurs. In a modernising market society all these things become possible, and the transformations initiated when people compete in markets according to their abilities rather than their status are accelerated further by urbanisation. Caste is still a reality in the village but increasingly it is not a major issue in the city.

*“To achieve full-scale development, a strong state and strong society are both necessary”*

## **Responses to questions**

### *How will e-commerce impact on India's future?*

E-commerce is changing the world and creates many challenges for both developed and developing countries. However, we must not lose sight of the opportunities that e-commerce has already and can continue to generate. E-commerce is producing millions of jobs in India at the moment.

When you can have anything you want delivered at home at a lower price than you can buy at your mom-and-pop store it is easy to make a choice. These kind of 'app-based' services are taking off rapidly in India. They are creating jobs and delivering goods and services to even the poorest family. This is being done by people on ordinary bicycles or motorbikes. England may have been a nation of shopkeepers but India will be a nation of 'delivery men'.

## How market reform freed the Dalits

The following is adapted from: Devesh Kapur, 'Western capitalists take too much for granted,' *Financial Times*, 23 July 2014. Devesh Kapur is co-author of the book *Defying the Odds: The Rise of Dalit Entrepreneurs* (Random House, 2014).

In the West many are becoming increasingly suspicious of capitalism, especially since the financial crisis of 2008 and the Great Recession. But in the developing world hundreds of millions are being lifted out of poverty as a result of market-led development. Below the surface, the social changes are even more profound.

Among the most striking beneficiaries are India's Dalits (previously known as the 'untouchables'), who for centuries were victimised by one of the most hierarchical societies in the world.

Since India's market and economic reforms began in 1991 Dalits have advanced their economic lives. If they have the money they can now buy what was once out of reach, and receive the education they were once denied. They have made still more impressive gains in securing dignity and ending social humiliation. Surveys have found that in the early 1990s, for example, fewer than three per cent of non-Dalits who visited Dalit homes in the state of Uttar Pradesh would condescend to drink water or tea; two decades later, two-thirds would accept.

Dalits have also increased their consumption of high-end food, grooming products and other goods associated with high social status. They participate in ceremonies, such as weddings, that were once reserved for people of more fortunate birth. They are no longer confined to their own parallel economy, but buy from the same merchants and sell to the same customers as everyone else.

Much of this social advance can be attributed to capitalism. The Dalits were once consigned to demeaning occupations, such as handling dead animals or working as bonded agricultural labourers which transmitted the patterns of caste oppression down the generations. However, market forces are driving out these humbling activities.

No longer the indentured servants of high-caste groups, the Dalits have instead become their customers – leasing land or hiring capital goods such as tractors, and selling their wares at market. They are also moving away from rural settings, where many people are still obsessed with caste, to the cities, where there is less discrimination.

The Dalit community is also producing its own capitalists – entrepreneurs who are profiting from opportunities in everything from construction to healthcare to education. In a growing economy that is open to all, fortune rewards those with grit, ambition, and drive. The Dalits' new freedoms are also influencing Indian politics. In the 2014 general election, a plurality of Dalits voted for the BJP, which has traditionally been dominated by upper castes.

Caste has by no means disappeared. But India's economic growth and dynamism, unleashed by market forces, are at last providing new ways for Dalits to liberate themselves from servility and servitude.

"In the tropics the people are cheering as capitalism undermines social inequalities."

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It is vital that India creates jobs, and it doesn't matter in which economic sector. India's economic growth rate has to go up from 7.5 to nine per cent to create one million jobs a month. In the case of jobs created in e-commerce, it is likely that each directly created job creates three indirect jobs, and each job supports five people, which means that millions of people can benefit from the expansion of e-commerce in India.

*What role does low-fee private schooling play in educating Indians?*

In India there is widespread access to education, but in many cases it is access to rotten education. One out of four school teachers does not show up, and many who do show up do not bother to teach. There is not much that can be done about this because the teachers' unions are powerful.

Parents have reacted to this by taking their children out of public schools and sending them to low-fee private schools. For two dollars per month children can receive a reasonable education – not excellent, but reasonable, and at least the teacher will show up. India is now a country where 55% of urban children and 20% of rural children are in private schools – education has essentially been privatised. However, the government has realised its failure and it now says that in every private school a quarter of the places must be reserved for the poor. Even the very elite private schools of India have to have 25% of children coming from poor backgrounds. This is creating its own dynamic because millions of poor children are now being integrated into these elite, previously very exclusive, private schools.

Private schools in India face a number of other challenges. The Indian government has mandated that private schools have to pay a salary equal to a government school teacher and a number of private schools had to close down as they could not pay those salaries and still charge the relatively low fees that would make their schooling accessible to the poor. This was challenged in court and it was argued that a school should only be closed down on the criteria of outcomes, and not on how much the teaching staff is paid. In addition, the government mandated that schools must have football-size playing fields and this is difficult to achieve in India, especially in an urban slum, with the high costs of real estate.

*"In India there is widespread access to education, but in many cases it is access to rotten education."*

Over the last 25 years the middle-class has abandoned government schools, and for the last 15 years the poor have also increasingly been doing this. Statistics show that two per cent of Indian learners move from government schools to private schools every year, both rural and urban. On current trends there will be no children in government schools in the future, except for the small number in elite government schools.

*Is healthcare becoming more accessible to the poor?*

One of Modi's successes so far is a vigorous plan to achieve universal health insurance. It is a variant of a programme (RSBY – Rashtriya Swasthya Bima Yojana – Hindi for National Health Insurance Programme) that began with the last government. This is a public/private partnership between the government and the 25 largest insurance companies, and you can buy insurance which will cover you for about US\$1 600 (about one hundred thousand Indian rupees). Healthcare costs in India are fairly low and the low premium still grants substantial benefits. Those who are below the poverty line and cannot afford the premium are also covered. The left is opposed to this but the programme is resulting in the mushrooming of private health clinics all over the country. Places that didn't have any health care – the villages, small towns – now have it or will soon have it. People can then go to any hospital they want to get a procedure done.

*“India is a world leader in reducing healthcare costs – a cataract can be fixed for only five US cents.”*

India is a world leader in reducing healthcare costs – a cataract can be fixed for only five US cents. People are also using the Internet and Wi-Fi to connect people to health care. There are more expensive hospitals but these hospitals also have to make sure that 25% of people that are served are poor, the same way that schools have to have 25% of pupils enrolled from poor backgrounds.

Today, about 20% of India gets reasonable education and health care. But twenty per cent of India is 250 million people. That's why India can produce competitive companies and can produce technology-driven cities like Bangalore. You can get that phenomena because the numbers in India are such that even 10% of India is 130 million people. If you have an elite of 130 million, you can imagine what they can do as a group.

*Is the Indian model unique?*

The entrepreneur is clearly at the centre of India's success story. India now boasts highly-competitive private companies, a booming stock market, and a modern, well-disciplined financial sector. And since 1991 especially, the Indian state has been gradually moving out of the way - not graciously, but kicked and dragged into implementing economic reforms. It has lowered trade barriers and tax rates, broken state monopolies, unshackled industry, encouraged competition, and opened up to the rest of the world. The pace has been slow, but the reforms are starting to add up.

## Democracies can deliver in the developing world

The following is adapted from: *The Democratic Alternative from the South: India, Brazil, and South Africa*, published by CDE, 2014.

After the fall of the Berlin Wall, Western democratic capitalism seemed to have triumphed. But the 2008 economic crisis, and the relative decline of Western influence which followed, significantly undermined the appeal of Western democracy in the developing world. While Western powers struggled to overcome political gridlock, the Chinese political establishment, using a mix of market mechanisms and state capitalism, continued to deliver high levels of growth, lifting millions out of poverty. As a result, it is now far more respectable to advocate authoritarianism in the developing world than it was a decade ago. A battle of ideas between democratic and authoritarian approaches to growth and development is playing itself out in countries across the globe. But the global conversation rarely refers to democratic market economies beyond the industrialised world. In contrast to China, India has managed to achieve high growth without sacrificing the political freedoms and legitimacy that democracy provides. India's citizens do not need less democracy in order to grow or to improve the lives of the very poorest, but rather more. India will continue to benefit from a deepening of democracy, transparency, and accountability; further market liberalisation; a more competent state with a positive attitude to business; and a new approach to expanding opportunities for the poor.

The evidence from India and other developing democratic societies (such as Mexico, Chile and Indonesia, as well as countries like Brazil and South Africa that are currently mired in a serious economic slow-down) proves that it is not necessary, as some argue, to give up individual freedoms, rule of law, independent institutions, a free press, and regular elections if you are struggling with the challenges of poverty. On the contrary, democratic rights and freedoms can, in numerous different ways, help to promote sustained development, higher economic growth, and effective routes out of poverty.

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Although this model of development is fairly unique, it is certainly not impossible to emulate. There is nothing unique in the world and human beings are more similar than they are different. Fundamentally, once people and businesses move fully into the global market the rules become the same for everyone and the same challenges will apply everywhere.

In one crucial area, both India and South Africa face a major common challenge. They both need more reform. Reformers in both countries need to make the case for growth that is led by the private sector, and supported by a strong liberal state that gives entrepreneurs every opportunity to grow their businesses and to create jobs.

## CDE Insight Series

### **Mexico's market reforms: Progress and challenges**

*A high-level conversation with the Mexican Secretary of Foreign Affairs, José Antonio Meade Kuribreña, co-hosted by the Mexican ambassador and the Centre for Development and Enterprise (CDE) on political and economic reform in that country.*

*(February 2015)*

### **Raising South Africa's 'speed limit'**

*A presentation by Prof Ricardo Hausmann, where he calls for a number of critical reforms in government's approach to unemployed young people, black economic empowerment (BEE), and a unified national narrative, which will help raise South Africa's 'speed limit'.*

*(December 2014)*

### **Mathematics outcomes in South African Schools: What are the facts? What should be done?**

*This report summarises two specially commissioned CDE reports, written by Prof Charles Simkins and Nicholas Spaull respectively, and finds that South Africa is still significantly underperforming in maths education.*

*(October 2013)*

### **Why Africa needs its private sector**

*Prof Paul Collier of Oxford University argues that Africa could grow rapidly in the next few decades, but that this would happen only if 'effective organisations' emerge and if the governance of extractive industries was improved.*

*(September 2013)*

### **The role of politics in development**

*CDE hosted Prof Francis Fukuyama of Stanford University, where he spoke about the difficulties of governance in much of the developing world and emphasized the importance of politics in getting development right.*

*(August 2013)*

### **Affordable private schools in South Africa**

*The report focused on the low-fee private schooling sector and found that there are significant new developments taking place, bringing considerable investment and innovation into private schooling for the poor in South Africa.*

*(July 2013)*

### **Graduate unemployment in South Africa: A much exaggerated problem**

*The report, based on research conducted by Prof Servaas van der Berg and Hendrik Broekhuizen of Stellenbosch University, debunks the popular view that possession of a university degree no longer guarantees success in the job market.*

*(April 2013)*

### **Inequality in South Africa and Brazil: Can we trust the numbers?**

*This report concludes that the decline in inequality in Brazil appears to be real. It is based on research conducted by Prof Murray Leibbrandt and Dr Arden Finn of the University of Cape Town.*

*(July 2012)*

### **The role of concessionary finance in Brazil**

*In Brazil concessionary finance has entrenched a massive subsidy, generated from tax payers' contributions, which is channelled towards large corporations. The report is based on a presentation by Professor Armando Castelar Pinheiro, former head of the economic department at BNDES, Brazil's large, state-owned development bank.*

*(June 2012)*





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