

The world cannot be just flat: It should be a straight line

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Every billion-people economy that humanity has yet produced shows within itself wide contrasts and great divides. The larger that something is, necessarily, the more extreme the opposites it generates, regardless of the underlying reality. In the eyes of the outside world, however, perhaps nowhere shows greater polarization than India today.

The cutting-edge dynamism, cool success, and global impact of high-tech, plugged-in, globalized India are lauded in reports ranging from Thomas Friedman's *The World is Flat* and numerous articles in *Wired* magazine, to regular features in *The Economist* and almost daily accounts in the *Wall Street Journal*. Bright shining monuments dot the Indian landscape, marking out award-winning global leaders in information technology, pharmaceuticals, Bollywood entertainment, and much else. Steve Hamm's book *Bangalore Tiger* (published, obviously, before the name change to Bengaluru) argues that it is conceptual models and management insight at Infosys, Tata, and Wipro, rather than low labor costs alone, that have allowed Indian information technology and business-processing to run circles around their more established Western counterparts. A quarter century of fierce pharma competition, without the straitjacket of overly-restrictive product patents, made India the world's largest producer and a major exporter of bulk drugs and essential medication, in the fight against that bacterial infection prevalent in tropical countries.

But switch perspective only minimally. Then one immediately latches onto a debate regarding the extent of grinding poverty in India. World Bank data tell us that the top 10% of India's population makes 28% of its national income; the bottom tenth, only 4%. India has 80% of its population live on less than \$2/day; 35%, on less than \$1/day. By contrast, in the East Asia and Pacific region the counterpart fractions are only 41% and 12%; for China, they are 47% and 17%.

One reads both business surveys and scholarly studies about India's dismal physical infrastructure in roads, ports, and power supply; India's fractured distribution networks, India's stifling government bureaucracy and ineffectual public sector; and India's restrictive red tape and onerous labor market regulation.

Every country in the world, though, faces challenges in infrastructure. China still has no nation-wide highway distribution network. Regional tastes fragment a putative national retail market, disrupting possible economies of

scale. In the UK, personal experience painfully reminds us how too hot a day or indeed too cold a day will bring railway lines to a grinding halt, just as will dust falling on the rail track. And the wrong kinds of leaves on the track will stop trains in the UK as well as trains in Connecticut in the United States.

But while UK railways generate their fair share of ire, they transport only 6% of total people-miles; roads carry 85% of those. In the UK 25% of trunk roads are clogged for more than an hour a day, and average speeds on main roads have been declining over the last decade.

Despite all this, however, infrastructure problems in India *are* extreme. The Times of India reported on 06 December 2006 that Delhi faces an 8% shortfall of projected power demand this winter, and thus will resort to load-shedding blackouts, although likely restricting those to high-theft areas! In India it takes 67 days to register a property and 71 to start a business. By contrast, in rich economies, on average, registering a property takes 47 days, starting a business, only 24. In the East Asia and Pacific region, overall, starting a business takes 55 days—not as good as in the rich economies but better than in India. And, although this will soon change, of India's \$250bn retail sector sales, 97% are transacted in inefficiently tiny sole-proprietor, neighborhood outlets.

That long bottom tail of the distribution pulls down averages, even when set against the cool cutting-edge dynamism of Bengaluru and elsewhere. Thus, India has only 32 Internet users per 1,000 people; East Asia and the Pacific region, 74; the rich economies, 545! India has only 44 mobile phone subscribers per 1,000 people; East Asia and the Pacific region, 243; the rich economies, 772.

There are two ways to go when faced with such polarized extremes. Succumb to pessimism, and work the bottom and the misery. Or look to the successes, and try to figure out what made them so.

By coincidence or otherwise, all the successes on which India has taken global lead concern *digital* technologies: computer software, business processing, pharmaceuticals, Bollywood movies. These successes are all about creating, storing, and manipulating strings of 1s and 0s—whether kept in order in a database, wrapped together to make computer code, encoded in chemical formulas, or sequenced so they make an image on-screen that edifies and entertains. All these successful industries have been facilitated by dramatically falling prices on relevant tools, driven by creativity and brainpower, and enabled by job reorganization. Large projects in these industries can be disassembled, have their component parts worked on independently and asynchronously in spatially-remote locations, and transported back over fiber-optic cable, to be re-assembled.

The traditional justification for policy intervention is when economies need to deal with public goods—common resources, national defense, the water supply network. These digital technologies produce goods and services—computer software, pharmaceuticals, digital entertainment, digital music—that bear the nature of public goods. Paradoxically, however, these have also

been precisely the industries in a modern economy that have performed best through private enterprise and initiative.

By doing well for themselves, these successes have done good for the world. It took no trumpeting of an overarching grand global political design, no obvious big push on national policy simultaneous with reams of paperwork from international agreement. A need arose in the world; brainy, enterprising individuals from the IITs and elsewhere stepped up to the challenge. In the process they created wealth, jobs, and opportunity for countless others within India. And by Indian companies' increasing supply and thus improving affordability of, among other things, information technology products, the rest of the world has benefited too. Across developing countries, businesses that now use information and communications technologies, compared to similar ones that don't, have higher employment growth, ten times the sales growth, double the profitability, and 60% higher a level of productivity.

When the playing field levels more, as competition takes ever greater hold in pharmaceuticals and digital entertainment and elsewhere, clever Indian manufacturing and engineering and artistic creativity will, even more than before, do good in the world by doing well for themselves. Medication for now unaffordable for many in developing countries will come onstream, even as Indian pharmaceutical companies then get written up by future Thomas Friedman's and Steve Hamm's.

Already, CIPLA and Ranbaxy (and the Indian government for that matter) are involved in Clinton Foundation efforts to provide antiretroviral medication to children in over 65 countries, for over half the discount on what is currently available.

Infrastructure reform needs to pay mind to these emerging patterns of private entrepreneurship, and make their operation even more straight-lined. Public goods in the form of top-class education, regimes of intellectual property rights that encourage rather than restrict competition, are critical. These areas of an economy work best when those knowledgeable in them are allowed to follow their own counsel. On the other hand it is dead easy to destroy a knowledge economy: 14th-century Sung Dynasty China did precisely that by discouraging knowledge dissemination through interventionist top-down management.

India is now already the fourth-largest economy in the world, measured in PPP-adjusted incomes. Grouped together with China, the two billion-people economies combined just about match the US in national output. Adding Japan into the mix gives an economic mass that outweighs the US, Germany, and the UK combined, the world's three largest non-Asian economies. Of course, no one knows for sure but likely, apart from Russia at position 5, the world's largest accumulation of foreign reserves and gold are held in Asian central banks, with India in position 6, Singapore in position 8, and ... Germany and the US coming in only at positions 9 and 10.

Policy needs to embrace the largeness and the benefit of participating in the global economy, and to allow businesses to compete relentlessly in knowledge

industries. India is already good at that. Economic growth overall is achieved by having a nation's best performers lead; and economic growth overall is the most powerful and consistently reliable force we have yet discovered for lifting the poor out of grinding poverty. India must not lose sight of these larger goals by drowning in the minutiae of smaller problems.