Executive Summary
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U.S.–India Relations: Ensuring Indian Prosperity in the Coming Demographic Boom

Derek Scissors, Ph.D., and Michelle Kaffenberger

India may be in the midst of an expansion that would position it as one of the three largest economies in the world. The challenges to sustained, rapid Indian growth are being broadly understated, though, especially during the national election season. India's young population is a clear long-term economic strength and projected population growth over the next two decades will all but guarantee a decent rate of economic growth. "Decent," however, does not translate into a meteoric rise up world rankings, nor will it satisfy voters' very high expectations.

To meet these expectations, India must use its burgeoning labor force properly. This makes basic education and training needs even more pressing. There is already a pronounced shortage of adequately skilled workers. In addition, constant state interference curbs property rights and places firms and industries at a competitive disadvantage, suppressing employment.

The new Indian government, and the next several governments, should, therefore, make education and liberalization the highest economic priorities, even above infrastructure development. Otherwise, the oncoming demographic wave will lead to large-scale underemployment, rather than innovation and rapid growth. Political parties will be blamed for a flawed development agenda rather than credited for leading India to the economic pinnacle.

A strong India is important to America for many reasons. First, a vibrant Indian economy would benefit the U.S. and all of Asia. Second, India is an indispensable partner in security issues in South Asia. Third, its political example is a model for the universality of democratic values—an appeal that constitutes America's greatest foreign policy strength. India's rise is a new dynamic factor in a geostrategic equation most prominently featuring China.

Although the U.S. has played only a small role in the Indian economy, it can do more to help India fulfill its promise, benefiting the U.S. in the process. The Bush Administration established a firm diplomatic and institutional basis for strengthening and extending the U.S.–India partnership. The Obama Administration should build on it.

Two Possible Futures. One quarter of India's 1.1 billion people are under the age of 15, more than half are under age 25, and more than two-thirds are under age 35. Almost 90 million people—more than the combined labor forces of Britain, France, and Italy—are expected to join the workforce by 2013. By 2025, India's population is projected to overtake China's population, and the expansion will be concentrated among people of working age. In less than 20 years, the population

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could increase by as many as 370 million, with four-fifths of the increase between 15 and 59 years old. This will give India the largest national workforce on the planet and by far the youngest age profile among the large economies.

The explosion in the Indian workforce is typically presented as marvelously good news, all but guaranteeing rapid growth for a full generation. To some extent, this is true. More workers inevitably add to production, consumption, saving, and GDP. However, in the not too distant past, the challenge of productively employing that many people would have been viewed as frightening.

Demographic expansion will not automatically bring large net benefits. Many tens of millions of jobs that genuinely contribute to the economy will need to be created. One assessment estimates that a successful year for the economy requires 7 percent real growth and creation of a staggering 15 million new positions. If job creation is impeded or workers are ill-prepared, the demographic blessing will become a curse, leaving tens of millions underemployed and reducing to a crawl improvement in per capita measurements of economic well-being.

What the U.S. Should Do. The Obama Administration should use the U.S.–India Education Foundation—or a new organization—to assist India with basic education and training for its expanding labor force. In addition, U.S. government agencies should offer to assist their Indian counterparts in identifying the elements of market-oriented reform most effective for unleashing the Indian economy. The private sectors in both countries should be core participants in these discussions, which should focus on efficient use of capital and other resources to complement labor abundance to achieve sustained rapid growth.

The U.S. and India already have more than 20 bilateral dialogues, of which about one-third deal primarily with economic issues. The changes in the leadership of both countries can be an opportunity to build on previous successes. The existing U.S. role, what America has to offer, and the important opportunity to maximize India's economic potential argue for policy initiatives in education and market reform.

Conclusion. There is a mismatch between the general assessment of India's economic strengths and weaknesses and generally prescribed policies. Better infrastructure is certainly a priority, but touting the advantages of a very young and rapidly growing workforce immediately points to the primacy of basic education. In addition, state intervention in the economy often directly or indirectly discourages employment. In contrast, most market reforms would cost federal and local governments almost nothing, while producing significant benefits.

While these are sensitive areas, they are also areas in which the U.S. can be quite helpful. The improved U.S.–India relationship has created a conducive setting for America to reach out to an important and rising nation.

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Talking Points

- A stronger India would be a major boon to the United States. The U.S. could help to identify crucial areas for economic liberalization and establish channels for private education financing.
- Indian economic performance under reform has been excellent, but continued success is not assured. The anticipated large influx of young workers could be either a major spur or a potential threat to future economic performance.
- Demographic and economic conditions make primary and secondary education vital to India's future. With the public education system in tatters, the government needs to allow private education to contribute far more.
- Government intervention discourages expansion of existing firms and creation of new ones. Further reforms would create the framework for much higher employment.
- The state has clearly failed to provide adequate infrastructure and should instead enhance private and foreign participation in this area.

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political example is a model for the universality of democratic values—an appeal that constitutes America's greatest foreign policy strength. India's rise is a new dynamic factor in a geostrategic equation most prominently featuring China.

Although the U.S. plays a smallish role in the Indian economy, it can do more to help India fulfill its promise, benefiting the U.S. in the process. The Bush Administration established a sound diplomatic and institutional basis for extending the U.S.–India partnership.

The Obama Administration should build on this by using the U.S.–India Education Foundation—or a new organization—to assist India with basic education and training for its expanding labor force. In addition, U.S. government agencies should offer to assist their Indian counterparts in identifying the elements of market-oriented reform most effective for unleashing the Indian economy. The private sectors in both countries should be core participants in these discussions, which should focus on efficient use of capital and other resources to complement labor abundance to achieve sustained rapid growth.

Two Possible Futures

In 1998, China had the seventh largest economy in the world, less than one-eighth the size of the U.S. economy. In 2008, it had the world's third-largest economy, one-fourth the size of the U.S. economy and still closing. American policymakers were caught largely unaware by the speed of China's ascent onto the world economic stage.

India could be next. In 2008, India had the world's 12th largest economy, less than 1/12th the size of the U.S. economy. From 2003 to 2007, the Indian economy grew at an average annual rate of 8.9 percent. The global financial shock has slowed the rate of expansion, but it may not slow India's rise up global rankings. If India continues to outperform, it could become the eighth-largest economy as soon as 2011. Adjusting for purchasing power, India recently passed Germany for fourth in the world. It could conceivably pass Japan in 2013.

Many Indians seem to be taking this for granted, expecting the economy to resume and sustain its high-speed trajectory after the global financial crisis eases. They assume 2011 to 2026 will simply replicate the impressive results of the reform era 1992–2007, with nearly 8 percent annual growth in real terms. Yet during the crisis, pre-reform statist policies have again become vogue and pre-reform economic performance has been forgotten. If India reverts to statist development, real GDP growth would revert to something like the 3.7 percent annual gains of 1951–1980.[1] This would generate a much different profile.

Changing demographics could function as either an engine for sustained 8 percent growth or a brake holding growth below 4 percent. Many factors determine economic growth, but in the long term, policy and business cycle fluctuations fade away and human capital becomes predominant.[2] This will be especially true for India, where a much larger labor force can dramatically affect development positively or negatively, depending on the level of education and training attained.

India in 2025, Two Scenarios

	Average Annual GDP Growth Beginning 2010	Global GDP Rank	Per Capita GDP	Annual Inward Direct Investment	Trade Volume With U.S.
Demographic Boon	8.1%	4th	$6,100	$145 billion	$420 billion
Demographic Burden	3.8%	9th	$2,400	$70 billion	$140 billion

Sources: Heritage Foundation projections.

Table 1 • B 2274 heritage.org

1. Government of India, Ministry of Finance, "Economic Survey 2007–2008," at *http://indiabudget.nic.in/es2007-08/tables.htm* (April 22, 2009).
2. For example, see Stefan Bergheim, "Global Growth Centers," Deutsche Bank Research *Current Issues*, August 1, 2005, at *http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000190080.pdf* (April 22, 2009).

One quarter of India's 1.1 billion people are under the age of 15, more than half are under age 25, and more than two-thirds are under age 35.[3] Almost 90 million people—more than the combined labor forces of Britain, France, and Italy—are expected to join the workforce by 2013.[4] By 2025, India's population is projected to overtake China's population, and the expansion will be concentrated among people of working age. In less than 20 years, the population could increase by as many as 370 million, with four-fifths of the increase between 15 and 59 years old.[5] This will give India the largest national workforce on the planet and by far the youngest age profile among the large economies.[6]

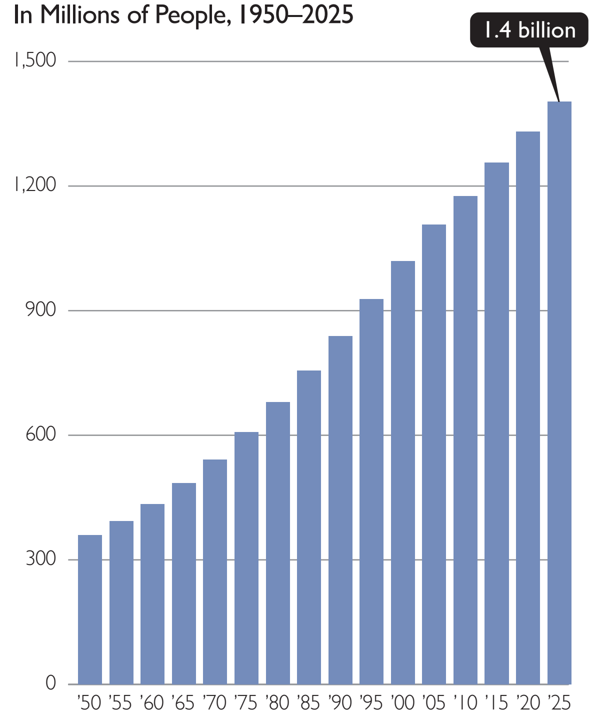
The explosion in the Indian workforce is typically presented as marvelously good news, all but guaranteeing rapid growth for a full generation.[7] To some extent, this is true. More workers inevitably add to production, consumption, saving, and GDP. However, in the not too distant past, the challenge of productively employing that many people would have been viewed as frightening.

Demographic expansion will not automatically bring large net benefits. Many tens of millions of jobs that genuinely contribute to the economy will need to be created. One assessment estimates that a successful year for the economy requires 7 percent real growth and creation of a staggering 15 million new positions.[8] If job creation is impeded or workers are ill-prepared, the demographic blessing will become a curse, leaving tens of millions underemployed and reducing to a crawl the improvement in per capita measurements of economic well-being.

Agriculture clearly illustrates both the possibilities and the perils of demographic expansion. Finding genuine employment in industry or services for more than 60 million redundant agriculture laborers would boost GDP by one-fourth in just five years[9] and far more over the course of their working lives. Yet agriculture is able to absorb less than 15

India's Growing Population

In Millions of People, 1950–2025



Sources: P. N. Mari Bhat, "Indian Demographic Scenario, 2025," Institute of Economic Growth, Population Research Centre, June 2001, at *http://www.iegindia.org/dispap/dis27.pdf* (May 6, 2009), and Government of India, Ministry of Finance, "Economic Survey 2007–2008: Statistical Tables," at *http://indiabudget.nic.in/es2007-08/tables.htm* (May 6, 2009).

Chart 1 • B 2274 heritage.org

3. David Karl, "Three Events Tell a Tale of Two Indias," Center for Strategic and International Studies *PacNet* No. 67, December 23, 2008, at *http://www.csis.org/media/csis/pubs/pac0867.pdf* (April 22, 2009).
4. Central Intelligence Agency, *The World Factbook*, at *https://www.cia.gov/library/publications/the-world-factbook* (April 22, 2009).
5. TeamLease Services, "India Labour Report 2008: The Right to Rise; Making India's Labour Markets Inclusive," at *http://www.slideshare.net/tlblogger/india-labour-report-2008-by-teamlease-services* (April 22, 2009).
6. Population Reference Bureau, "The World's 15 'Oldest' Countries and the U.S.," 2006, at *http://www.prb.org/presentations/gb-aging_all.ppt* (April 22, 2009).
7. MSN News, "Upbeat Mukesh Ambani Says 21st Century Will Be India's," March 8, 2009, at *http://news.in.msn.com/business/article.aspx?cp-documentid=1917408* (April 22, 2009).
8. Bibek Debroy, "India's Vicious Downward Cycle," *Far Eastern Economic Review*, March 6, 2009, at *http://www.feer.com/essays/2009/march/indias-vicious-downward-cycle* (April 22, 2009).

percent of the additional workers expected through 2013. If additional employment cannot be found, the government will need to spend massive and increasing sums to support the rural poor. This is a daunting prospect given the precarious state of government finances both now and over much of the past five decades.

Without both training and job creation, demographic trends could spoil what should be causes for celebration. For example, higher agricultural productivity will raise farm incomes and reduce rural poverty, but also reduce the number of workers that can be usefully employed in agriculture. This will add still more workers to the lines of those seeking non-agricultural positions. Rural incomes could stagnate or tens of millions of unprepared workers could flock to cities unprepared to employ them, creating gigantic slums and straining municipal and state governments both fiscally and politically.

India can avoid this future. Indeed, it can create a different future, featuring a powerful and unique role in the global economy played by a large, young, well-trained, and productive workforce. The keys are to prepare those workers and to implement market reforms that will generate high-quality positions for them.

Education

Perhaps the single biggest obstacle to long-term prosperity is the education system. India will have the world's largest unskilled labor force for an indefinite period. Better education would raise productivity, encourage rural–urban migration, reduce underemployment in agriculture, and boost manufacturing and exports. The state's ability to accomplish this is in doubt, however. Partial deregulation in education, especially primary education, is crucial if India is to compete broadly at the global level.

Making Demographics Work. Poor primary and secondary education has led to a growing "workforce" that is often unqualified to work. Each instance of an unfilled or poorly filled job equates to lost economic growth. For each job that goes unfilled or is filled by an unqualified worker, some productivity is lost, potential wages are unpaid, and some consumer spending does not occur. Such losses weaken the positive connection between the demographic boom and faster growth.[10]

While higher education receives the most attention, significantly improving primary and secondary education is essential to tapping the potential of the growing workforce. The majority of the forthcoming influx of workers will likely be poorly educated. Between 2009 and 2013, 58 million secondary school dropouts could join the workforce. Sharpening the challenge, 60 percent of the new working-age population is concentrated in five of the poorer states.[11] Their access to education may be severely limited, especially if they remain in rural areas.

In addition to shortages in capacity, even high-quality schools and institutions are often failing to teach the skills needed in a rapidly developing economy. Two elements are at work. The economy has changed rapidly, featuring a thriving services sector and multinational conglomerates of many stripes. Many educational institutions have not kept pace with developments. This otherwise common occurrence has more serious implications given the oncoming demographic wave.

Further, there is a pronounced lack of communication between education institutions and industry, and this is recognized by the central government. The Parliamentary Standing Committee on Human Resource Development reports that employability of students graduating even from the growing number of technical institutes is "a matter of serious concern."[12] Educational institutions and industry need to open a dialogue to ensure that extra resources applied to training workers are not wasted.

9. Confederation of Indian Industry and Boston Consulting Group, "India's Demographic Dilemma: Talent Challenges for the Services Sector," December 4, 2008, cited in "India Faces Huge Manpower Crunch: Study," *Business Standard*, December 29, 2008, at *http://www.business-standard.com/india/news/india-faces-huge-manpower-crunch-study/22/31/344626* (April 22, 2009).
10. Karl, "Three Events Tell a Tale of Two Indias."
11. Confederation of Indian Industry and Boston Consulting Group, "India's Demographic Dilemma," and "India's Economy," *The Economist*, February 1, 2007, at *https://www.economist.com/finance/displaystory.cfm?story_id=8625681* (April 22, 2009).

A significant skills deficit is building. Health care is just one example. Because of the growing population and spreading affluence, India will need 300,000 more doctors and 600,000 more nurses by 2012. The medical education system presently can produce only 31,000 professionals annually.[13]

The market response to shortage is higher prices, in this case higher wages for the wide variety of professions in which the numbers of properly educated or trained workers are inadequate. If wages are suppressed in any field, it reduces the individual's incentive to seek the education or training that would benefit the economy as a whole. However, wildly rising wages hurt competitiveness. Indian companies must often pay developed-world salaries to attract and retain skilled workers.[14] The solution to this dilemma is a larger supply of qualified workers, which requires more and better education and training.

More and Improved Schools and Teachers. Until now, attention has focused on technology and the need for the most highly trained labor.[15] However, technology cannot absorb tens of millions of additional unskilled workers. They can only be accommodated with basic education oriented toward broader manufacturing—an area that is sorely lacking.

India's literacy rate is only 64 percent, and there are no compulsory education requirements. This compares poorly with China's literacy rate of 90 percent and nine years of compulsory education. A study by ASER, a nongovernmental organization, found that half of 10-year-olds in village schools could not read at the six-year-old level.[16] These shortfalls persist despite large increases in education spending. Between fiscal year (FY) 2003[17] and FY 2007, the budget for the Department of School Education and Literacy, which oversees primary and secondary education as well as adult literacy programs, grew by almost 400 percent.[18]

Although it has been unsuccessful, the government continues to focus on spending more on public education. An additional $4 billion has already been allocated toward a goal of universal access to secondary education by 2020, up from barely half enrollment in 2005. Initially, most of the money will go toward school construction.[19] While certainly worthwhile, this by itself will only spread the failings of the education system farther and wider.

Existing schools have performed disastrously poorly. According to the World Bank, 25 percent of teachers are "absent from work," and only 50 percent actually attempt to teach while at school. Yet only 1 of every 3,000 head teachers has ever fired a teacher for absenteeism.[20] There are significant rents, particularly in terms of job assignments, in local oversight of education.

Local schools' failure to teach reading and arithmetic obviously hinders villagers from mov-

12. "Concern over Employability of Tech Students: Panel," *The Economic Times*, December 14, 2008, at *http://economictimes.indiatimes.com/articleshow/3836375.cms* (April 22, 2009).
13. Confederation of Indian Industry and Boston Consulting Group, "India's Demographic Dilemma."
14. "Information Technology in India: Gravity's Pull," *The Economist*, December 13, 2007, and "Asia's Skills Shortage: Capturing Talent," *The Economist*, August 18, 2007.
15. Shailaja Neelakantan, "Rapid Expansion Strains Elite Indian Institutes," *The Chronicle of Higher Education*, January 30, 2009, at *http://www.viet-studies.info/IIT_Expansion_CHE.pdf* (April 22, 2009).
16. U.S. Department of State, "Background Notes: India," January 2009, at *http://www.state.gov/r/pa/ei/bgn/3454.htm* (April 22, 2009); U.S. Department of State, "Background Notes: China," January 2009, at *http://www.state.gov/r/pa/ei/bgn/18902.htm* (April 22, 2009); and "Creaking, Groaning," *The Economist*, December 11, 2008, at *http://www.economist.com/specialreports/displaystory.cfm?story_id=12749787* (April 22, 2009).
17. The Indian government's fiscal year runs from April to March and is typically identified by the beginning and ending calendar year (for example, 2003–2004). For simplicity, only the beginning year will be provided in this paper.
18. Government of India, Ministry of Finance, *Expenditure Budget, 2003–2004*, Vol. 2, pp. 113–114, at *http://indiabudget.nic.in/ub2003-04/eb/sbe56.pdf* (April 22, 2009), and *Expenditure Budget, 2007–2008*, Vol. 2, pp. 132–134, at *http://indiabudget.nic.in/ub2007-08/eb/sbe56.pdf* (April 22, 2009).
19. Press Trust of India, "Scheme to Ensure Universal Access to Education by 2020 Cleared," *The Wall Street Journal*, at *http://www.livemint.com/2009/01/02162114/Scheme-to-ensure-universal-acc.html* (April 22, 2009).

ing beyond agriculture, which is absolutely necessary for the flood of new workers to lead more productive, rewarding lives. Primary education is clearly insufficient. Sixty percent of the population is still employed in agriculture, and there are no signs of an ongoing, large-scale movement into manufacturing.

To ensure that students receive a basic skill set, India must ensure that teachers show up and teach. The federal government should move teacher accountability to state and local governments—a reform that has already proven effective where it has been tried. For example, Bihar, one of India's poorest states, cut teacher absences in half by making teachers locally accountable.[21]

Increasing the number of workers with basic skills will also increase the number able and interested in pursuing higher education, assisting with labor needs in technology. Only 7 percent of the college-age population reaches college, half the number in some other Asian countries.[22] Often only the wealthy have access to college. In the short term, the service sector will account for the majority of new jobs created,[23] further increasing demand for skilled workers.

While the federal government has had notable successes elsewhere, it has failed in education. The literacy rate and teacher performance make that clear. "This time we'll get it right" is not an adequate response to demographic change that could make or break India's emergence as a global economic power. There must be some deregulation.

Instead, the government actively restricts private education. Opening a private institution requires years of fighting with the infamous Indian bureaucracy—a price the economy cannot afford if new workers are to lift the economy higher.[24] The private sector must be allowed to share what is an increasingly heavy education burden. Four avenues show promise.

Evidence suggests that the very poor are better served by extremely low-cost private education. Schools with very little funding, provided almost entirely by poor parents unsatisfied with the government's options, have sprouted and fare well in comparison to much better funded public schools.[25] This kind of innovation may not be very extensive and is certainly not sufficient on its own, but it could play an expanding role as demographics sharpen the education challenge.

Firms must also be permitted, even encouraged, to provide more far-ranging technical education for the tens of millions of school dropouts who could contribute more to the economy. The government needs to remove regulatory restrictions and, to the extent affordable, provide tax credits to those companies that prove successful.

For the longer term, the government should shift resources away from spreading dysfunctional public schools toward a voucher system that would enable the poor to attend private schools, encouraging them to spread. Compared to current plans and results, this would provide better quality and cost less.[26]

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20. The World Bank, "Teachers Skipping Work," at *http://go.worldbank.org/T4N6N4RZX0* (April 22, 2009). As reported by parents in Hyderabad, only one of six classes assigned to an individual teacher is taught. Jay Mathews, "The Hidden Flaws in China and India Schools," *The Washington Post*, January 23, 2009, at *http://www.washingtonpost.com/wp-dyn/content/article/2009/01/23/AR2009012300781_pf.html* (April 22, 2009).
21. "Creaking, Groaning," *The Economist*.
22. Karl, "Three Events Tell a Tale of Two Indias."
23. "India Faces Huge Manpower Crunch," *Business Standard*.
24. The situation is worse for private universities in particular. They must partner with often stagnant public universities and cannot record profits. "Creaking, Groaning," *The Economist*.
25. James Tooley, *The Beautiful Tree: A Personal Journey into How the World's Poorest People Are Educating Themselves* (Washington, D.C.: Cato Institute, 2009).
26. For evidence that vouchers produce superior educational achievement, see Centre for Media Studies, "Delhi Voucher Project: First Assessment Report," February 19, 2009, at *http://www.schoolchoice.in/events/DVPFirstAssessmentReport.pdf* (April 22, 2009).

As a final, auxiliary step, the government should make it easier for foreign education institutions to meet India's needs. Foreign institutions interested in collaborating with Indian institutions or opening Indian campuses are often blocked.[27] In higher education, especially, foreign participation could broaden access.

Liberalization Is Indispensable

While education is the most important factor in determining India's economic future, economic liberalization is also critical. Among other things, enhancing property rights, promoting competition, lowering transaction costs, and otherwise reducing state intervention would create employment opportunities and sustain high growth.

India's recent, rapid GDP growth is the result of two waves of market-oriented reform in 1991 and, roughly, 2002. The first wave was a startling innovative break with India's socialist past, which had yielded chronic underperformance. The second wave quickly generated not only growth, but improved budget and payments balances.

The present crisis clouds the future of reform. The second wave began to stall in 2005 against entrenched state interests. The state role has since been trumpeted as a vital shield against the crisis. In fact, liberalization brought India the success it enjoyed prior to the crisis, and liberalization will keep it on the path to becoming one of the world's largest economies.

There are many possible roads forward. Foreign observers usually focus on trade and investment reforms, which would be valuable. However, internal economic reforms would be still more valuable, especially a subset that would cost almost nothing to implement. Their starting point is stronger property rights, particularly control over corporate-specific assets.

Free Growth: Internal Liberalization. The high level of entrepreneurial capability in India has long been recognized.[28] This entrepreneurship has been unleashed to some extent, stimulating growth. A higher proportion of private investment in gross fixed capital formation has been strongly correlated with faster growth periods over the past 15 to 20 years. Continued rapid capital formation will be even more important over the next 15 to 20 years to enable the economy to make full use of the rapidly growing labor force. Unsurprisingly, private investment has been very sensitive to reform efforts.

Regrettably, entrepreneurs are severely restricted, and the government shows little sign of loosening the restrictions. Firms often have limited control of their own assets and behavior due to pervasive government intrusion. Government intrusions range from changing directors on airline boards to barring all but the smallest textile-makers from certain product lines.[29] Violations of personal and corporate intellectual property are certainly not government policy, but preventing them is not a domestic priority. External pressure from the World Trade Organization (WTO) and the U.S. has been necessary to enhance regulation and enforcement, despite the acknowledged importance of the technology sector.[30]

Foreign companies, in particular, face barriers to ownership and even the basic right to compete with local firms.[31] An especially harmful restriction allows foreigners only to invest in single-brand retail stores, meaning even partial ownership of

27. Sarah Jewell, "University Challenge: India Takes a More Insular View," *The Guardian*, at *http://www.guardian.co.uk/universitychallenge/india* (April 22, 2009).

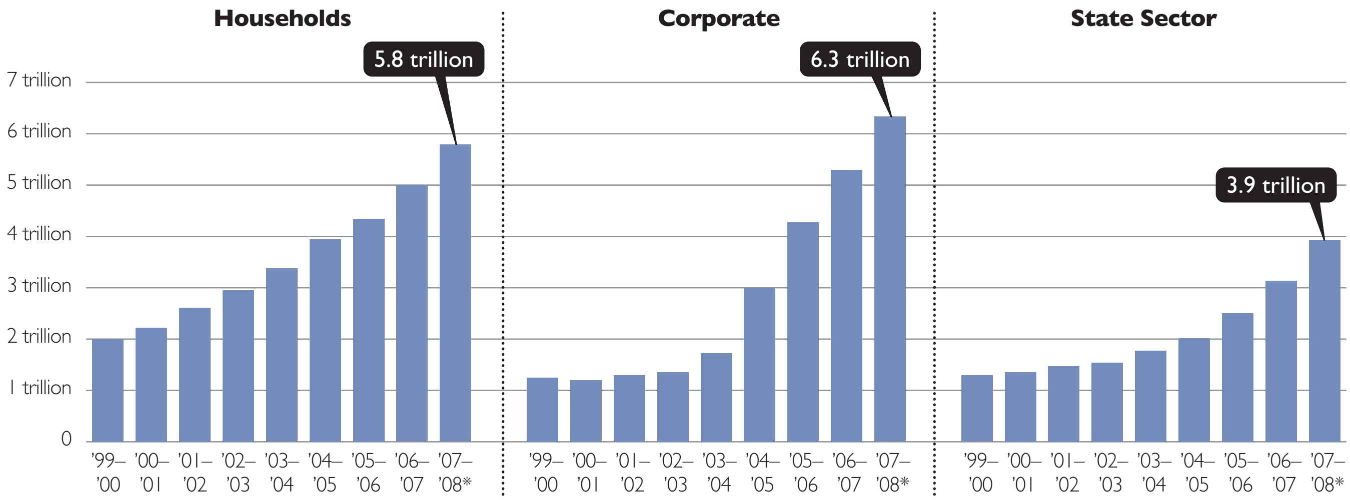
28. Zhang Minqui, "Excellent Entrepreneurship in Private Enterprise in India," draft, at *http://www.adb.org/Documents/Events/2008/PRC-India-Emerging-Lessons/Paper-Zhang-Minqiu.pdf* (April 22, 2009).

29. Rediff.com, "It's Absolutely Easy to Turn Around Air-India," interview with S. P. Varma and K. R. Singh, October 24, 2000, at *http://in.rediff.com/money/2000/oct/24air.htm* (April 22, 2009), and T. Thomas, "Can India Dress the World?" Rediff.com, August 26, 2005, at *http://in.rediff.com/money/2005/aug/26guest.htm* (April 22, 2009).

30. Tanuja Garde, "India's Intellectual Property Regime," Center on Democracy, Development, and the Rule of Law *Working Paper* No. 99, February 2009, at *http://iis-db.stanford.edu/pubs/22419/No_99_Garde_Indiasintellectualproperty.pdf* (April 22, 2009), and Manik Mehta, "When Will India Put Intellectual Property Protection in Place?" *World Trade Magazine*, July 1, 2004, at *http://www.worldtrademag.com/Articles/Feature_Article/fb66cf5149af7010VgnVCM100000f932a8c0* (April 22, 2009).

India's Sources of Gross Fixed Capital Formation

In Rupees, at Current Prices



* Estimate

Source: Reserve Bank of India, "Sector-Wise Gross Capital Formation," October 8, 2008 at *http://www.rbi.org.in/scripts/PublicationsView.aspx?id=10534* (April 20, 2009).

Chart 2 • B 2274 heritage.org

supermarkets, department stores, or any other multi-product store is prohibited. This has left consumers underserved, harming agriculture and other sectors that could supply a larger retail industry.

Liberalization efforts have often been blocked by internal government bickering, preserving not only quantitative restrictions on behavior, but also an environment of uncertainty.[32] New rules announced in February 2009 will considerably simplify foreign investment, if unaltered, but they are only a small step forward. They were still greeted with political suspicion.[33]

Limitations on the control of private companies extend well beyond foreign firms. The state infringes on the most fundamental business decisions concerning the size and growth of all companies, making India one of the most difficult places in the world to do business.[34] The most glaring example is a law that requires firms with more than 100 employees to obtain government approval to fire anyone.[35] Thus, hiring becomes nearly irreversible, deterring firms from expanding.

At the micro level, firms cannot possibly operate at anything approaching peak efficiency with such a

31. "Unshackling the Chain Stores," *The Economist*, May 29, 2008, at *http://www.economist.com/business/displaystory.cfm?story_id=11465586* (May 6, 2009).

32. Deepshikha Monga, "RBI Nixes Move to Allow FDI via Share Options," *The Economic Times*, February 4, 2009, at *http://economictimes.indiatimes.com/articleshow/4072593.cms* (April 22, 2009).

33. "New FDI Rules Raise Eyebrows," *The Economic Times*, February 13, 2009, at *http://economictimes.indiatimes.com/articleshow/4121202.cms* (April 22, 2009).

34. The World Bank ranks India 122nd out of 181 countries on this measure, a prohibitively poor result for a country with aspirations to global economic leadership. World Bank Group, "Economy Rankings," at *http://www.doingbusiness.org/economyrankings* (April 22, 2009).

35. Rediff.com, "India Must Rework Its SEZ Policy," February 23, 2007, at *http://www.rediff.com/money/2007/feb/23sez.htm* (April 22, 2009), and "India's Economy," *The Economist*.

draconian limitation of their most important resource. Essentially, every firm in the economy contributes less than it could. At the macro level, facing two decades of expansion of an already vast workforce, labor-market flexibility must be greatly enhanced for the economy to sustain high growth rates.

Directly connected to labor-market flexibility is economic integration among Indian states—the flows of goods, capital, and people across state borders. While certain metropolitan areas generate much growth, policy is set at the state level, and state policies inhibit the movement of people, goods, and money. For example, for some goods, companies must pay an exit tax when moving goods out of one state and a separate entrance tax when moving them into another state. For capital, the tax on securities transactions is set by individual states, acting as a barrier to bond market integration.[36] The result is perverse: During the reforms of the 1990s, the economic performance of individual Indian states does not appear to be positively correlated with each other and may actually be negatively correlated.[37] The barriers between states do not appear to have fallen in the 1990s and may even have risen.

Just as greater integration in the world economy would benefit India as a whole, greater integration among Indian states would benefit all participants. Perhaps more relevant, integration among Indian states should not provoke nationalist objections or be as vulnerable to claims of the rich coercing the poor. Knocking down economic barriers between states is another element of liberalization that would speed growth considerably, but require no new spending.

The federal government is not much more helpful than the states. India suffers from the problems of public ownership that exists in all economies with pervasive state sectors. Huge corporations, such as the largest energy enterprise ONGC, "belong to the people." In practice, this means that no one has final responsibility. Any movement toward privatizing even a few of these firms would spur growth at no cost.

Of course, promoting growth by limiting the scope of government can save large sums. The government distorts competition—the major driver for growth in the medium term—with subsidies across nearly all sectors, especially in agriculture. Explicit subsidies totaled more than $25 billion in FY 2009, five times more than in FY 2001. These subsidies will cost at least as much in the current fiscal year. Other subsidies, particularly in energy, are not included in government balance sheets.[38]

Extending Outward. The last major reform priority is trade. While a successful Doha Round of trade negotiations among countries of the WTO would be a valuable development globally, progress at Doha is just one of several options available to India. Delhi's rejection of Doha terms, while regrettable, should not be permitted to morph into a broad rejection of trade liberalization.

Open trade is vital to encouraging competition, extending it both internally and externally. The magnitude of the effect is determined by how important trade is in an economy, and here there are misconceptions. While India is typically portrayed as relatively isolated from the global economy, trade volume equaled 35 percent of GDP in FY 2008, two-thirds higher than a decade earlier.[39] For example, this is a notably higher portion than in the U.S. economy. Indian exports are labor-intensive, tied directly or indirectly to nearly 150 million jobs.[40]

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36. "Unshackling the Chain Stores," *The Economist*, and Deepshikha Sikarwar, "Centre Pitches for Uniform Stamp Duty in All States," *The Economic Times*, May 19, 2008, at *http://economictimes.indiatimes.com/articleshow/msid-3054498.cms* (May 12, 2009).

37. K. L. Krishna, "Patterns and Determinants of Economic Growth in Indian States," Indian Council for Research on International Economic Relations, September 2004, at *http://www.icrier.org/pdf/wp144.pdf* (April 22, 2009).

38. Press Trust of India, "Subsidy Bill Soars to Record Levels in 2008–09," *The Economic Times*, February 16, 2009, at *http://economictimes.indiatimes.com/articleshow/4138966.cms* (April 22, 2009), and "What's Holding India Back?" *The Economist*, March 6, 2008, at *http://www.economist.com/opinion/displayStory.cfm?Story_ID=10808493* (May 6, 2009).

39. Cherian Thomas, "Global Recession Becomes Stumbling Block for India," *The Wall Street Journal*, December 31, 2008, at *http://www.livemint.com/2008/12/31203324/Global-recession-becomes-stumb.html* (April 22, 2009).

Beyond trade, outsourced services have been the spearpoint of the economic advance. The government recognizes this, pressing to clear the way for further outsourcing.[41] In the past decade, the ratio of combined trade and capital flows to GDP has more than doubled from 0.47 to 1.15.[42] External liberalization thus promises very considerable gains.

This makes recent Indian trade policy self-defeating, perhaps dangerously so. Delhi is gaming world trading rules. Shortly after pledging to fight protectionism at the autumn 2008 G-20 meetings, India imposed new import taxes on steel, pig iron, and crude soybean oil. It scrapped the soybean oil tax in March 2009 before the bureaucratic wheels of trade complaints could begin to turn. Similar action was taken and then retracted on Chinese toys.[43]

This kind of temporary discrimination may have short-term benefits for certain interests, but is exceptionally unwise for a country that depends on trade. The World Bank ranks India first in the number of new anti-dumping measures imposed in 2008 at a full 25.[44] In the absence of clear WTO authority, which India is actively undermining, these measures are far more likely to provoke retaliation regardless of their ostensible legitimacy. Retaliation could cost a great number of Indian jobs.

Where trade has been liberalized, the results speak for themselves. Goods trade, where there is more government interference, is running a widening deficit. In contrast, India is a modest net exporter of services, and such exports lead the economy both in terms of technology and high-income employment.[45] Services have thrived on greater transparency and fewer subsidies than are provided in the agriculture and manufacturing sectors.

Infrastructure: Who Should Lead?

Next in priority is infrastructure. It is often the first issue mentioned by analysts and businessmen. The need for better and more extensive infrastructure is not in doubt, but the state's ability to provide infrastructure is very much in doubt. The federal and state governments have proven incapable of identifying and implementing projects that create true public goods, and additional funding is highly unlikely to remedy the situation.

A superior option would be to reduce the pro-state and anti-foreign bias by allowing domestic and foreign private companies to identify projects with commercial, rather than political, value. Private–public partnerships offer some promise in this regard, but the track record indicates the public side will still mishandle project selection and implementation guidelines. The private sector must, therefore, lead or the pattern of ineffective spending will continue.

Inadequate power supply and transport capacity clearly constrain economic growth. The higher costs of doing business caused by weak infrastructure hurt all firms, including agriculture firms, encouraging capital to leave for greener pastures.

40. Press Trust of India, "Export Units to Axe 10 mn Jobs by March," ExpressIndia.com, January 6, 2009, at *http://www.expressindia.com/latest-news/Export-units-to-axe-10-mn-jobs-by-March-Report/407332/* (April 22, 2009).

41. Press release, "WTO Negotiations in Services—India Emphasises Need for Removal of Barriers in Modes 4 & 1," Government of India, Ministry of Commerce and Industry, Department of Commerce, June 26, 2003, at *http://commerce.nic.in/PressRelease/pressrelease_detail.asp?id=318* (April 22, 2009).

42. Prem Shankar Jha, "Economic Slowdown: Where India Went Wrong," *The Economic Times*, April 1, 2009, at *http://economictimes.indiatimes.com/articleshow/4342198.cms* (April 22, 2009).

43. "Govt Levies 5% Import Duty on Steel Products," *Business Standard*, November 18, 2008, at *http://www.business-standard.com/india/storypage.php?autono=49732&tp=on* (April 22, 2009); Pratik Parija and Thomas Kutty Abraham, "India Scraps 20% Import Duty on Crude Soybean Oil," *Bloomberg*, March 19, 2009, at *http://www.bloomberg.com/apps/news?pid=20601012&sid=a2vARdFcNKzk* (April 22, 2009); and Reuters, "India Eases Ban on China Toys, Wants Safety Stamp," Yahoo Finance, March 2, 2009, at *http://uk.biz.yahoo.com/02032009/323/india-eases-ban-china-toys-wants-safety-stamp.html* (April 22, 2009).

44. Press Trust of India, "India Next to US in Anti-Dumping Measures," Rediff.com, March 9, 2009, at *http://in.rediff.com/cms/print.jsp?docpath=//money/2009/mar/09india-next-to-us-in-anti-dumping-measures.htm* (April 22, 2009).

45. G. Srinivasan, "Rise in Indian Services Exports Less Than Global Average," *Business Line*, April 17, 2008, at *http://www.thehindubusinessline.com/2008/04/18/stories/2008041850551000.htm* (April 22, 2009).

The Indian Council for Research on International Economic Relations estimates that since the 1990s reforms, industries that rely more heavily on infrastructure have grown 10 percent less than those that are less dependent. When asked in the World Bank's Investment Climate Survey for the "single most important obstacle" to expansion, 36 percent of firm managers cited infrastructure.[46]

Power. Within infrastructure, managers cited electricity as the largest issue, and government intervention is at the heart of the problem. Many states provide heavily subsidized, even free, power to rural customers for political reasons. This has dubious net benefits and either forestalls production of power plants or makes them immediately unprofitable.[47]

Economic growth is rapidly increasing the strain on the power supply as businesses and households significantly increase power usage. Demand for power is expanding by 11 percent annually, but infrastructure has not kept pace. Power output rose 7.2 percent in 2006, but only 6.6 percent in 2007. The ensuing deficit between demand and supply often leaves 10 percent of demand unfulfilled and up to 15 percent during peak usage.[48]

With such a substantial deficit, rationing is the only option. Firms then must either go without or fill the gap themselves. The World Bank found that manufacturing firms are losing an average of 8 percent of annual sales due to power cuts.[49] India would benefit greatly from economies of scale if private power companies could be formed rather than leaving individual firms forced to produce their own *ad hoc*.

Transport. The other major constraint on the economy is transport. Rail transport is in fairly good shape. Indian Railways actually generates an annual cash surplus, a global rarity. The system has experienced an impressive turnaround over the past five years, and plans are in place to upgrade track speed and modernize customer service. There are flaws, including the tariff and subsidy system, which overcharges freight shipments to subsidize passenger travel.[50]

Roads are a major barrier to commerce. Forty percent of the 600,000 villages are not connected to roads.[51] India's size and dispersed population make road and rail links more important than for most economies. Only 38 percent of the population lives within 100 kilometers (km) of the coast or navigable waters, compared to 90 percent in Japan and the European Union.[52] As in power, not only is the supply of roads inadequate, but road construction is flagging. In 2007, the national road-building program added only 800 km of roads, versus 2,500 km in 2005.[53]

Some cities suffer obvious efficiency losses. In Bangalore, roads are so appallingly congested that workers can sit in traffic four hours per day. Rush-

46. Poonam Gupta, Rana Hasan, and Utsav Kumar, "What Constrains Indian Manufacturing?" Indian Council for Research on International Economic Relations *Working Paper* No. 211, March 2008, pp 12–14, at *http://www.icrier.org/publication/WORKING%20PAPER%20211.pdf* (May 6, 2009).

47. Shenggen Fan, Ashok Gulati, and Sukhadeo Thorat, "Investment, Subsidies, and Pro-Poor Growth in Rural India," International Food Policy Research Institute *Discussion Paper* No. 716, September 2007, at *http://www.ifpri.org/PUBS/dp/ifpridp00716.pdf* (April 22, 2009).

48. Oxford Analytica, "India: Energy Shortfalls Put Growth at Risk," June 19, 2008, p. 15.

49. "India's Economy," *The Economist*.

50. James Lamont, "India Goes Ahead with Railway Investment," *Financial Times*, February 13, 2009, at *http://www.ft.com/cms/s/0/e93dedae-f9ea-11dd-9daa-000077b07658.html* (May 6, 2009), and The World Bank, "India Transport Sector," at *http://go.worldbank.org/FUE8JM6E40* (May 6, 2009).

51. Reuters, "World Bank to Aid India Banks in New Lending Plan," December 15, 2008, at *http://in.reuters.com/article/topNews/idINIndia-37031220081215* (May 6, 2009).

52. The Economist Intelligence Unit, "On the Road: India's Transport System Needs a Massive Upgrade," *The Economist*, May 16, 2007, at *http://www.economist.com/agenda/displaystory.cfm?story_id=E1_JTSRRVS* (May 6, 2009).

53. Zanele Hlatshwayo, "Infrastructure Development: India's Achille's heel?" India Frontier Advisory *India Business Frontier*, September 2008, at *http://www.frontier-advisory.com/wp-content/uploads/2008/09/india-business-frontier-september-2008.pdf* (May 6, 2009).

hour speeds in urban areas often drop to 10 km per hour due to congestion.[54]

Rural infrastructure improvement would be still more valuable. Infrastructure weakness pushes the price of farm goods higher even as it reduces the return to farmers. Good roads to cities would allow villagers to transport crops to market more easily. Along with agricultural storage facilities, transportation would be a great boon to rural income. Permitting greater foreign ownership in retail would encourage private investment in related infrastructure, such as cold storage for farm goods heading to large markets.

In addition, transport difficulties inhibit the development of nascent rural industry. Better road and rail would allow firms to diversify factory locations. This would permit significant portions of the 60 percent of the workers employed in agriculture to move into more productive employment in manufacturing.[55] Such movement will be an absolute necessity during the demographic wave. However, rural infrastructure projects, especially in agriculture, do not have the profile valued by national and local political figures.

Port infrastructure is the last crucial area holding back economic expansion. In the 1990s, port traffic more than doubled as India opened to external trade. In FY 2004, ports handled 521 million tons of traffic. They are expected to process 900 million tons per year by FY 2011.[56]

Improvement and expansion of ports have not matched increased use. The main port in Mumbai handles 60 percent of India's container traffic, but has only nine berths for cargo vessels, compared with Singapore's 40 berths.[57] In addition, exporters lose an average of 15 days waiting for products to clear customs.[58] This increases costs unnecessarily and discourages trade growth. Poor port infrastructure is obscuring India's true place in the global economy. The extra time required to move goods is essentially a tax on all port traffic that disrupts supply chains.[59] The poor quality of ports acts as a tax on every import and export, hurting competitiveness and integration.[60]

Government Is Not the Answer. State control over infrastructure has produced this outcome. The federal government talks endlessly of infrastructure development, but as with so many of its projects, the actual results are poor.[61] The government has reported average cost overruns of 40 percent in more than 100 current large infrastructure projects. The delays are worse. "[I]mportant social sector infrastructure projects" have been delayed by more

54. "Information Technology in India," *The Economist*, December 13, 2007, at *http://www.economist.com/business/displaystory.cfm?story_id=10286436* (May 6, 2009), and The World Bank, "India Transport Sector."
55. Central Intelligence Agency, *The World Fact Book*, s.v. "India," updated February 24, 2009, at *https://www.cia.gov/library/publications/the-world-factbook/geos/in.html* (May 6, 2009).
56. The World Bank, "India Transport Sector."
57. "Creaking, Groaning," *The Economist*.
58. Sanjay Kapoor, "India Has 'Exciting Growth Potential' But Must Work Harder: Goldman Sachs," *International Business Times*, June 18, 2008, at *http://in.ibtimes.com/articles/20080617/goldman-sachs-ges-economy-growth-india-infrastructure-agriculture-education-trade-governance-market_all.htm* (May 6, 2009).
59. Jo Johnson, "A Tether That Keeps Potential in Check," *Financial Times*, May 8, 2007, at *http://www.ft.com/cms/s/0/618a89ee-fd57-11db-8d62-000b5df10621,dwp_uuid=d96e2c9a-f965-11db-9b6b-000b5df10621.html* (May 6, 2009).
60. Airports also need improvement. The number of air passengers has grown 30 percent annually for the past two years, causing significant capacity issues for airports. "Creaking, Groaning," *The Economist*.
61. In addition to building infrastructure, the government has proven inadequate in other tasks. The expiration of the Multi-Fibre Arrangement offered unprecedented opportunity in textiles, but three years after the Scheme for Integrated Textile Parks was launched, only three of 40 approved projects had been completed. Eleven projects are less than 40 percent complete and another eight are less than 60 percent complete. The original estimate called for completion of at least 25 projects by the end of 2007–2008. The government now expects to complete only 10 by spring 2009. Praveen Kumar Singh, "Three Years On, Only 40 SITP Projects Take Off," *The Financial Express*, December 4, 2008, at *http://www.financialexpress.com/news/three-years-on-only-40-sitp-projects-take-off/394041/0* (April 22, 2009).

than five years. Some transport projects have been delayed eight years.[62]

Expecting more federal spending to solve infrastructure problems is irrational. Yet restrictions continue to severely limit the ability of private entities to participate. For example, under the jurisdiction of the federal government, the Port Trust of India runs 11 of 12 major but inadequate ports.[63] Restrictions on private infrastructure activity range from caps on the number of projects for individual companies to frequent rule changes in the middle of project bids and the endless project approval process.[64]

Restrictions extend to foreign assistance. While capital needs for infrastructure are colossal, external commercial borrowing is capped at $500 million per year.[65] If debt is undesirable, then raising foreign ownership limits in financials from 26 percent to 49 percent would retain domestic control and bring in billions more that could then be used to finance infrastructure projects.

India's illiberal labor laws particularly hinder infrastructure improvement. Successful infrastructure developers require the flexibility to hire large numbers of workers for the fixed durations of projects, as is common in construction. The rule that companies with more than 100 employees must secure government permission to reduce their workforce obviously discourages engineering and construction companies from hiring, so as to avoid paying for a large workforce when the number of active projects is low.

Elsewhere, the problem is not bad laws, but poor enforcement.[66] For example, electricity is commonly stolen, and the thieves are rarely caught. Astonishingly, in a environment of constant shortage, companies are paid for only about half of the power they generate.[67] In this context, the lack of adequate investment is not surprising.

The overarching problem is intrinsic to government-led infrastructure development. If the goal is to encourage long-term economic growth, projects with the greatest long-term commercial return should be chosen. The state has demonstrated neither the incentive nor the capacity to identify and implement such projects on a regular basis.

The private sector is ready and willing to lead when government restrictions are removed. In 2007, $15 billion was pledged for power-related projects in special economic zones, and $5 billion was directed toward special purpose vehicles, a new method for attracting private investment for infrastructure.[68] One estimate suggests that streamlining project regulations would increase foreign direct investment in manufacturing, including infrastructure, from $3.4 billion in 2007 to $12 billion by 2013.[69]

62. Nirbhay Kumar and Subhash Narayan, "Delay in Big-Bang Infrastructure Projects Costs Another Bomb," *The Economic Times*, March 11, 2009, at *http://economictimes.indiatimes.com/articleshow/4251744.cms* (April 22, 2009).

63. AsiaTradeHub.com, "Ports," at *http://www.asiatradehub.com/India/ports.asp* (April 22, 2009).

64. In August 2008, the government limited individual companies to bidding for only 15 highway projects and permitted a bidder to be short-listed for only eight. This inhibits the development of economies of scale. As a result, by November, firms had already withdrawn more bids than required because the projects were no longer commercially viable. The federal government wants to improve infrastructure, and private firms want to help, but such restrictions discourage them from doing so. Manika Gupta, "Bidders Withdraw from Highway Projects," *The Times of India*, November 17, 2008, at *http://timesofindia.indiatimes.com/Business/Bidders_withdraw_from_highway_projects/articleshow/3720250.cms* (May 6, 2009).

65. The Economist Intelligence Unit, "On the Road."

66. Kapoor, "India Has 'Exciting Growth Potential' But Must Work Harder."

67. "India's Economy," *The Economist*.

68. One possibility is infrastructure zones along the lines of existing special economic zones. "India Pushes Anew for Special Economic Zones," *The Economist*, July 9, 2007, at *http://www.economist.com/displaystory.cfm?story_id=9462984* (May 6, 2009). Rather than a massive, inevitably wasteful government splurge on infrastructure, the government could designate zones where the private sector would lead under a much lower regulatory burden. This would boost private infrastructure development in the zones while still permitting the government a heavy hand in projects elsewhere. Private identification and implementation of infrastructure projects would contribute more efficiently to long-term sustainable growth, and the government would save considerable money.

What the U.S. Should Do

Notwithstanding the potential for foreign investment in infrastructure, the U.S. has played a relatively unimportant role in the Indian economy. If education and internal liberalization are properly emphasized, India's economic development and growth will surge, but the U.S. role could still remain minor. This would be a mistake on America's part.

The U.S. has significant interests in encouraging and assisting India's economic success. Most mechanisms to do this are already in place, but require reorientation and perhaps a kick-start. Institutional ties expanded in 2002 and again in 2005. The U.S. and India already have more than 20 bilateral dialogues, of which about one-third deal primarily with economic issues. The changes in the leadership of both countries can be an opportunity to build on previous successes.

The chief initial obstacle is a lack of U.S. government focus on primary and secondary education in bilateral relations and Indian sensitivity in this matter. If and when bilateral cooperation in primary and secondary education can be achieved, the emphasis can then shift to traditional economic concerns. While the notion of a strategic economic dialogue has been tainted by the lack of concrete results from the U.S.–China strategic dialogue, U.S.–India economic relations would ideally grow in importance and scope to the point that an overarching framework would be necessary to address issues of growing importance ranging from agriculture to visas.

The existing U.S. role, what America has to offer, and the important opportunity to maximize India's economic potential argue for policy initiatives in education and market reform. Specifically, the U.S. and India should:

- Create a U.S.–India education organization—or modify the U.S.–India Education Foundation—to emphasize primary and secondary education to develop skills in the most workers. Elements of the dialogue should include curriculum development and other best practices, but also cooperation in seeking financial assistance. Through this organization, the U.S. government should coordinate with the Ministry of Human Resource Development to introduce U.S. education associations, institutes, and foundations to private Indian education entities.
- Establish an educators forum in concert with this bilateral education organization, paralleling the existing U.S.–India CEO Forum on the business side.
- Emphasize voucher and micro-lending programs to assist in establishing or improving private schools where public schools have not flourished.[70]
- Use the Private Sector Advisory Group, an adjunct to the U.S. Trade Representative's U.S.–India Trade Policy Forum, as a forum for the private sectors to make recommendations to both governments on enhancing property rights, competition, and other elements of a market economy.
- Use the U.S.–India CEO Forum in a similar role, focused on removing restrictions on industry and competition. One important shared goal of the two should be to continue progress on a comprehensive U.S.–India Bilateral Investment Treaty (BIT), especially with regard to the tax issues being reexamined in the American model BIT.
- Initiate an expanded dialogue between the Indian Ministry of Labour and Employment and the U.S. government on liberalizing labor regulations in a manner consistent with Indian political constraints.
- Conduct bilateral consultations on sharpening the commercial aspects of infrastructure programs, if both federal governments insist on heavy spending on infrastructure. The U.S. Departments of Transportation and Treasury have already taken small steps in this direction.
- Invigorate the U.S. Department of Commerce's U.S.–India Commercial Dialogue by including

69. Reuters, "FDI in India Manufacturing Can Touch $12 bln a Year—Survey," January 1, 2009, at *http://in.reuters.com/article/economicNews/idINIndia-37250920090101* (May 6, 2009).

70. This has been done elsewhere on a small scale. For example, see U.S. Agency for International Development, "USAID/Benin—Success Stories," January 9, 2002, at *http://www.usaid.gov/regions/afr/success_stories/benin.html* (April 22, 2009).

the U.S. Trade Representative. The dialogue should be reoriented toward identifying principal trade and logistical barriers, with Indian accession to the WTO's government procurement agreement as one goal.

- Revive the Economic Dialogue involving the U.S. National Economic Council and the Indian Planning Commission as an overarching framework for bilateral economic relations. This framework could be upgraded as the economic relationship matures, eventually encompassing advanced discussion for a BIT and preliminary discussion of a free trade agreement. It should eventually include the U.S. Department of Homeland Security, the Indian Ministries of Labour, Tourism, and Overseas Indian Affairs, and regular discussion of long-term visa access for Indian citizens.

Conclusion

There is a mismatch between the general assessment of India's economic strengths and weaknesses and generally prescribed policies. Better infrastructure is certainly a priority, but touting the advantages of a very young and rapidly growing workforce immediately points to the primacy of basic education. In addition, state intervention in the economy often directly or indirectly discourages employment. Most market reforms would cost federal and local governments almost nothing, while producing significant benefits.

While these are sensitive areas, they are also areas in which the U.S. can be quite helpful. The improved U.S.–India relationship has created a conducive setting for America to reach out to an important and rising ally.

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