India has great potential to achieve rapid economic growth in the next 20 years. It is in many ways poised to match or exceed China's overall growth performance. This is partly because China's economy will slow down compared to its rapid rates of economic growth during the past decade. But it will also be because India is likely to speed up. Yet sustaining high economic growth is not easy. Rapid growth can easily be derailed, as the east Asian crisis has reminded us. For India, one key requirement to achieve sustained high growth is an appropriate growth strategy. By this one means a strategy that recognizes India's unique situation in the world economy and that best positions India in the emerging global division of labour.

India's situation suggests a three pronged approach to an enhanced growth strategy.

The first prong is export led growth. Here the lessons of China are particularly instructive. China achieved in the past 15 years the kind of export led growth that India could have achieved but failed to do because of poor public policies. The second prong is rural improvement, especially for the vast population of the Gangetic valley. India needs a specific strategy to bring modern economic growth to rural India. This needs to be done through a concerted campaign of infrastructure upgrading and appropriate redesign of state policy. The third prong is the maintenance of macroeconomic stability, to avoid the kind of crisis that pushed east Asia into economic collapse. The macroeconomic stakes have obviously been raised in the past year. India's macroeconomic policies will be under scrutiny as perhaps never before following the east Asian financial crisis.

Consider the results of a recent global survey of business attitudes: the 1998 "Global competitiveness report" of the World Economic Forum. This report ranks India in relation to 52 other countries. These business surveys are revealing. They lay bare in a realistic way India's strengths and weaknesses for future growth and help to delineate the priorities in the period ahead.

The World Economic Forum, in conjunction with the Harvard Institute for International Development, carries out an annual survey of business leaders in 53 countries of the world to explore the comparative business environments of the major economies.

The various economies are ranked on eight broad dimensions of the economic environment, based on dozens of detailed questions each scored on a scale of one to seven, the first number being bad and the latter favourable. The eight dimensions are: openness of the economy to international markets, fiscal policy management, financial markets, quality of infrastructure, level of technology, performance of enterprise management, functioning of labour markets, quality of public institutions. The survey results are combined with other quantitative data for example, objective measures of infrastructure, saving rates, financial market depth, educational attainment and so on - to produce an overall assessment of international competitiveness. The study defines the last as the ability to achieve rapid growth over the medium term.
In the 1998 report, India ranks a relatively disappointing 50th out of 53 countries in overall competitiveness, little changed from the rank of 49th in the 1997 report.

Regarding India's areas of strength, business respondents note four areas. First, the Indian stock market is seen as an important avenue for new enterprise financing, in contrast with many other countries with smaller and less effective stock exchanges. Second, India is regarded as having strong science and engineering capabilities, with a large pool of competent scientists and engineers and strong education in basic science and math. Third, India is highly ranked for its relatively strong business schools and its vast labour force. Fourth, India is given high marks for judicial independence, including the government's compliance with court orders and the ability to challenge government decisions in court.

However, there are more areas of weakness than strength. These areas of weakness point implicitly to the most urgent points of the reform agenda.

First, despite the importance of the stock exchange, India's financial markets were generally viewed as deficient. The overall sophistication of the financial system is regarded as low, a danger in view of the east Asian financial crisis. Venture capital, which is key to the start up of new industries, is viewed as particularly weak in India.

Second, public administration is given low marks in several notable areas. Administrative regulations are viewed as strongly constraining business activities - the license raj continues. State subsidies are viewed as inappropriately protecting old industries. The civil service is viewed as unduly politicized. And tax evasion is judged to be rampant.

Third, and perhaps most strikingly, the quality of infrastructure is judged abysmal. This was true in all areas: roads, ports, power and telecommunications. India was ranked 53rd out of 53 countries in overall infrastructure, the bottom of the list. Fourth, the research and development nexus is felt to be weak. There is little collaboration between business and academia, and little success in commercializing or adopting new technologies. This poor outcome is ironic given the praise for India's science and engineering prowess.

Fifth, labour markets are judged to be ineffective, perhaps the most ineffective in the world. Business respondents not surprisingly point to the severe restrictions on hiring and firing. Finally, business respondents point to the high prevalence of irregular payments - in other words bribes - connected with permits and licences.

In a nutshell, India shows the advantages of a vast labour force with a skilled engineering and scientific community. It also shows, however, deficiency in both hard infrastructure - roads, ports, and power - as well as soft infrastructure - public administration, labour market practices and financial market depth. The question is how to turn India's advantages to best use, while overcoming its most extreme liabilities.