

Policy

Reforms must for 8% growth

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NEW DELHI: Globalisation is essential for India's growth to continue at the present 8% rate, according to Michael Spence, Nobel Prize winner in economics and member of the International Commission on Growth and Development. The commission, promoted by the World Bank, also includes Planning Commission deputy chairman Montek Singh Ahluwalia.

Mr Spence told an Assocham seminar on Thursday that reforms cannot be gradual, if the economy wants a high GDP growth rate. Instead an economy has to build on a platform provided by the global economy. "All economies that have moved on high growth rates have leveraged on the world economy," he said.

The economist said the government may, however, build in tax breaks and ensure low volatility in exchange rates for high-growth sectors to prosper.

According to him, since it was not possible to push growth rates if reforms were kept gradual, as high growth rates rarely happen in a closed economy. He added that there was no reason to provide safeguards for sectors like small and medium enterprises.

He said protecting these sectors would still not provide enough domestic demand to keep up the present growth rates. "India is a vast economy and has a significant domestic demand, but even for that size and scale the protection would not be enough," he said. Pointing out that South Korea had to give up that route, he said this should also be accompanied by flexible labour laws.

The economist said the present phase of high growth rates in India and China will change the economic picture of the world. "Everybody (in the world) has a stake in what is going on in these two countries," he claimed.

Mr Spence was accompanied by Danny Leipziger, vice-president of the World Bank. Mr Leipziger put the Indian and Chinese growth rates in context saying no economy in the world has sustained such high growth rates for over a decade.

Mr Leipziger said the World Bank would support subsidy from rich nations to countries like India and China for transfer of technology, to promote cleaner power technology.

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