

Introduction

Supported by wide-ranging reforms, India has experienced rapid growth by most standards over the past decade (averaging about 6 percent per year between 1992/3 and 2003/4). The external position of India's economy has also improved dramatically. The rapid growth of information technology (IT) service exports and high remittances have resulted in current account surpluses. Together with modest capital inflows, this has generated a substantial increase in external reserves, which now exceed US\$100 billion. Low levels of short-term external debt give the country a further cushion to counter any speculative attack.

In parallel with this faster growth, India has made impressive progress towards reducing income poverty, an important element of the MDGs. Continued progress has also been made on many social indicators, particularly literacy, which rose from 52 percent in 1991 to 65 percent in 2001². These improvements are both real achievements for India - and achievements of global significance.

However, while India's economic and social performance has been impressive on many accounts, it has also been uneven and has fallen behind the performance of a number of countries in East Asia. Despite the emergence of tens of millions from poverty during the 1990s, average incomes across India remain low and there has been little movement on some critical social indicators. A great concern is that both maternal and under-five mortality have hardly improved. In addition, HIV/AIDS is spreading quickly, with risk factors that put the country in danger of a growing epidemic.

Though Gol and UNAIDS estimate that less than one percent of the adult population is currently infected with HIV - with a population of more than one billion people, India will soon have more people infected with HIV than any other country in the world. HIV/AIDS clearly has the potential to upset much of the good progress that India has made.

In India today, there also remains a substantial and persistent disparity of opportunity, particularly in the education, health and economic prospects of women and other vulnerable groups such as the Scheduled Caste/Scheduled Tribe (SC/ ST) populations. A symptom of this disparity is the strikingly low ratio of girls to boys, which, rather than improving with India's development progress, appears to be worsening. A growing gulf has emerged as well in growth between the richer and poorer states within the country - with the result that poverty is increasingly geographically concentrated. Today, almost half of India's poor, approximately 133 million people, live in Uttar Pradesh (UP), Bihar or Madhya Pradesh (MP). Over three quarters of the poor live in rural areas.

Given these disparities, and the increasing concentration of poverty by region and by state, it can be said that India occupies two worlds simultaneously. The first, where economic reform and social changes, such as improved education for girls, have begun to take hold and where growth has had an impact on people's lives and opportunities - and the other, where citizens appear almost completely left behind by public services, employment opportunities and brighter prospects. Bridging the gap

² National Statistical Survey (NSS), Office of the Registrar General, India.

between these two worlds is perhaps the greatest challenge faced by Gol today.

Doing so will require continued high economic growth to underpin increased incomes into the future. It will also require greater focus on ensuring that the fruits of growth are shared more evenly. Sustaining the growth of the recent past and India's progress in poverty reduction will also require dramatic improvements in basic infrastructure and the investment climate. Major changes will need

to be made to ensure effective delivery of basic services, such as improved health and education, to all of India's citizens. And these improvements will need to be achieved within the context of the longer-term strategic challenges that India faces: ensuring environmental sustainability in the context of diminishing water availability, increasing pollution and global climate change; the demographics of continued, albeit slower, population growth; a reduced girl/boy ratio; and the possible course of HIV/AIDS.