Meeting economic growth agenda
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India should try to achieve rapid growth via the export route as it has the resource base, the entrepreneurship, access to the sea coast, a vast labour force, everything except the interest of the government which has neglected this for long. It must also leverage areas where it has comparative advantage especially information technology where it is an acknowledged leader. And, obviously, it must give top priority to infrastructure, which is now abysmal.

Investments in health and education will have direct and beneficial effects on economic growth, by fostering a healthier, better educated, and therefore more productive labour force. But social investments are not enough. Social investments must be combined with a large improvement in the business environment in India in order to promote a more rapid rate of economic growth.

History has shown that export-led growth is a crucial component of overall economic growth. Without rapid export growth, there cannot be rapid growth of imports. But imports are necessary to obtain the modern technologies that have been developed abroad. Thus, rapid export growth is a sine qua non for rapid economic growth.

Rapid export growth can only be achieved in areas of Indian comparative advantage. These include labour-intensive manufacturing sectors such as apparel and textiles, automotive components, footwear and leather goods, jewellery, processed food, and electronics assembly. They also include hi-tech areas in information technology and biotechnology (for example, pharmaceuticals) that rely on India's tremendous scientific and engineering capacity.

India has achieved some success in export led-growth, but much less than many other Asian countries, notably China. China's exports grew from around $20 billion per year in 1980 to around $200 billion in 2000, that is up roughly ten-fold. India's exports, by contrast, grew from around $17 billion in 1980 to around $35 billion in 2000, or roughly doubling.

India has the resource base, it has the entrepreneurship, it has the access to the sea coast, a vast labour force, and it has everything that coastal China has had except the interest of the government, which neglected this for a long time. India has underemphasised the role of industrial facilities, underemphasised the role of infrastructure, of land area, of effective port facilities that are crucial to be able to compete with China in this area.

But it is, we believe, a place where one can find tens of millions of jobs over the next few years in real, significant foreign exchange earning private sector activity. This would require a change of attitude, a real promotion of these sectors both at the Central and State government levels.

There are several barriers to more rapid export growth. Fortunately, most of these can be overcome by regulatory changes and private investments rather than public money. Some of the crucial steps needed for a faster growth of exports include: First, reform of labour laws to ensure
the right of enterprises to hire and fire workers for economic cause, subject to the normal rule of law (for instance, prevention of arbitrary dismissals in retribution for union activity).

Second, improvement of infrastructure, mainly ports, telecommunications, airports, power, and roads. Third, elimination of remaining administrative barriers to foreign direct investment in export-oriented sectors (elimination of need for government approvals). Fourth, much more active use of special economic zones and export processing zones as incentive schemes for export-oriented enterprises. States and private enterprises should be free to establish export processing zones according to general legislation, and finally, elimination of remaining reservations for small-scale enterprises, especially in export-oriented sectors but also generally in the economy.

**Improvements in infrastructure**

India’s infrastructure is notoriously bad. The road networks are insufficient and in very poor quality. Ports are completely inadequate, so that most exports must be transshipped through Singapore or Sri Lanka, rather than shipped directly from Indian ports. Airports are insufficient and the airspace is reserved for just a few carriers. Telecommunications are notoriously poor in quality and coverage. Electricity supplies are irregular, scarce, and of low quality. Water supplies are scarce in many areas, and insufficient for key industries (such as chemical processes) as well as household use.

And, in general, neither the government at the Centre nor those in the States can afford to upgrade these infrastructure systems out of budgetary funds. Indeed, many of these sectors already impose huge fiscal costs as government provides overt and hidden subsidies to these key sectors.

Fortunately, India could enjoy a major -- indeed fundamental -- improvement in infrastructure quality without major budgetary increases. The key is regulatory change, involving two main steps. First, regulatory and oversight responsibilities for almost all infrastructure should be devolved to the State-level. This includes areas now under Central control, such as major ports and airports, and telecommunications. The States have a much better idea of their specific infrastructure needs than do the bureaucracies at the Centre.

Second, infrastructure should be provided mainly by privately financed projects without State guarantees. The entire cable TV industry in India has grown up without government subsidy, precisely because it was not regulated. Other key areas -- telecommunications, Internet, water, power -- would similarly expand dramatically if private investors were allowed to enter and compete.

Each sector requires its own reforms. Reforms in telecommunications have begun, especially with the end of the VSNL monopoly by 2002 and the intention to disinvest a majority part of the government holding in the state company. Still, the regulations on local telephony and Internet services are blocking a substantial growth of such services throughout the country. Similarly, barriers to building new airports and to licensing new aviation companies have stymied the development of an efficient and low-priced network of domestic and international flights.
The Centre should, therefore, take the following steps in infrastructure: First, devolve major regulatory responsibilities to the States in the following areas of infrastructure: Ports, airports, power, telecommunications (international long-distance, domestic long-distance, local, data transmission, wireless), Internet service, water and sanitation. States should have the powers to liberalise these sectors, permit entry of private firms, and admit foreign investors.

Second, the Centre and the States should set goals for specific areas of infrastructure, including: universal village access by 2010 to telephony, electric power, Internet connectivity, and roads to major towns and cities, and, finally, open each infrastructure sector to private sector competition, including rights of entry in service provision, by both foreign and domestic providers.

IT and Decade of Development

In addition to a strategy of export-led growth that we have outlined, we are also of the view that India's growth strategy should also focus heavily on information technology. The IT sector is one where India can play a much bigger role at the global level than it has so far and benefit immensely from the on-going IT revolution. Service sector export based on IT is another area where government's policy could do much more to spur export growth. India is becoming one of the most important players of the world in the IT sector and it is the fastest growing foreign exchange earner for India.

We believe that the Government could do more for this industry, not through direct subsidies necessarily, but actually through liberalisation of telecom, allowing for lower priced telecommunication services, by allowing new entry of major international players in telecom. These companies could lay down a tremendous optical fibre network and increase the bandwidth available for to businesses and put India even more closely to the international scene.

We would like to see the Government find some resources to support basic science and R&D in this sector to some extent because India has world-class engineers and scientists who have already brought India up in an important way in this sector and could keep India in the very forefront of this new technology.

The IT sector will have three critical roles in India's development process. First, IT will be a major private-sector industry, providing India with the largest single source of foreign exchange earnings. Second, IT will be critical input into the efficiency of the private sector. India's exporting firms will require low-cost high-quality connectivity to ensure their international competitiveness. This is true in the whole range of export activities, from the labour-intensive sectors, such as horticulture and apparel, to the most sophisticated high-tech sectors, such as machinery and pharmaceuticals. Third, IT will be a critical input into the social process, as it will support effective provision of public services (for instance, e-governance), health (telemedicine), and education (distance learning).

India is blessed with world leadership in IT, with world-class and world-famous entrepreneurs stretching from Silicon Valley to Chennai, Bangalore and Hyderabad. But within India, the IT sector continues to be hampered by unnecessary regulation (for example, the VSNL monopoly
until 2002), low bandwidth, and low take up of IT by government agencies, including the health and education sectors.

India needs a specific IT strategy to address the key areas of e-governance, e-commerce, e-health, and e-education. The following steps could be considered. First, the State governments should be given much more freedom to adopt and adapt key technologies (for example, the wireless-in-local-loop technology, developed by Chennai IIT). And the Centre and States should adopt goals to ensure IT connectivity in all villages in India by 2010. A Central fund should be established to provide matching grants to States for programmes to support rural IT connectivity.