

Country Roads

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India could be an Asian tiger with a proper economic growth strategy. Such a strategy would have three prongs: export led growth, rural improvement and macroeconomic stability. This article takes a closer look at the second prong: rural improvement.

There is no doubt geography heavily influences economic performance. In China, for example, real economic success has been in the coastal provinces which benefit from export led growth. The interior has done much less well. Gross domestic product growth in the hinterland has lagged behind the coastal states by several percentage points per year. The discrepancy in performance is leading inevitably to massive internal migration. Perhaps 100 million or more Chinese are migrating from rural to urban areas, most of them from the interior of China to the coastal states.

In India it is likely a successful growth strategy will also result in differing performances among India's very disparate regions. Not all regions, for example, will be able to profit from export led growth to the same extent. As a general matter, coastal states will have an advantage over interior states, just as in China.

We might expect that the populous, mainly rural and inward oriented Gangetic states, especially Uttar Pradesh and Bihar, would lag behind the more outward oriented coastal states such as Gujarat, Maharashtra and Tamil Nadu in export led growth. It is too early to draw strong conclusions about relative economic performance since the start of India's market reforms at the beginning of the Nineties. Nonetheless, the early evidence is tantalizing. If we look at the rise of domestic output per capita between fiscal year 1990-91 and 1994-95, the most recent state level data available, the all India figure in rupees went up from Rs 5,073 to Rs 8,399, a rise of 65.5 percent. In Uttar Pradesh the increase was 52.3 per cent, in Bihar 25.9 percent, in Gujarat 78.8 per cent, in Maharashtra 78.0 per cent and in Tamil Nadu 76.3 per cent.

Fortunately, a vast amount of economic reform can be carried out to improve conditions in rural India, especially in the Gangetic valley. There is no reason for expensive and counterproductive charity for these great northern states, and still less a case for holding back the fast growing coastal regions.

Perhaps the key step in the Gangetic plain is to improve the most basic infrastructure so that the vast rural populations can take part in more rapid national economic growth. They will do so through increased exports to coastal states and greatly improved productivity for local production. It should be stressed that while China's hinterland has lagged behind the coast, the Chinese hinterland too has enjoyed rapid economic growth.

The 1998 "Global competitiveness report" highlighted one of the great liabilities of India as a whole, and of rural India in particular: the disastrous state of physical infrastructure. Once again, the comparison of the Gangetic states and the others is telling. In every infrastructure dimension,

the northern interior states are in dreadful condition. Per capita power consumption in kilowatt hours in 1994 was 82 in Bihar and 181 in Uttar Pradesh.

This compares with 549 in Gujarat, 483 in Maharashtra and 393 in Tamil Nadu. Unsurfaced roads were an astounding 62 per cent of total road length in Bihar in 1994 and 45 per cent in Uttar Pradesh. In comparison, the figures are 12 per cent in Gujarat, 27 per cent in Maharashtra and 32 per cent in Tamil Nadu. In telecommunications, there were three telephone lines per 1,000 people in Bihar in 1995 and five in Uttar Pradesh. This compares with 18 in Gujarat, 29 in Maharashtra and 17 in Tamil Nadu.

Of course, these differences did not emerge in 1991. They have a long legacy. For example, in 1991, literacy rates in the Gangetic states lagged far behind the others. The figures were 38.4 per cent in Bihar and 41.6 per cent in Uttar Pradesh. This compares with 61.3 per cent in Gujarat, 64.9 per cent in Maharashtra and 62.7 per cent in Tamil Nadu. The differences are likely to grow unless adequate policy reforms are undertaken.

Rural India needs a new social contract in which there will be a reliable infrastructure supplied at commercial prices rather than given for free. The government's commitment, at the national and state levels, should be that every village will be assured clean water, a road to the regional market, reliable power and minimal telephone services. In return, every village will be responsible for covering the commercial costs of those services on a normal user fee basis. Recent technological changes in each of these areas-telephony, water, road building and maintenance, and power - allow these key sectors to be organized on the basis of competitive, private sector producers. The latter will provide the initial financing of the investments in return for a stream of user charges over time.

In telephony, for example, microwave transmission via cellular or satellite based transmission will allow low cost commercial provision of telephone service to rural areas in ways not possible just a few years ago. As a result of massive worldwide deregulation and privatization of telecommunications, combined with technological changes, fixed line telephony is being overtaken by microwave and satellite telephony. Worldwide experience has shown that these services are best provided by competitive private carriers rather than a state monopoly.

In power, the regulatory trick has been to separate power generation, transmission and distribution. Generation can be provided by competitive private producers, who then sell their electricity into a common transmission grid. The grid must be regulated by the government to ensure fair access for independent power producers.

India has made little progress in commercializing key infrastructural sectors. In power, most electricity continues to be a public sector monopoly run by state electricity boards. The SEBs are responsible for generating and distributing power, setting tariffs and collecting revenues. Almost all of the SEBs make losses. Some are unable to pay for coal or the power they purchase. This is because SEBs implement social subsidy policies of state governments, leading to inefficient patterns of energy consumption and even to non recovery of their own costs. Also, there is considerable theft of power from the distribution networks.

The availability of infrastructure services, such as power, telecom and roads in rural India can significantly help develop rural industry in India. Lessons from China are once again relevant here, especially the boom in China's township and village enterprises. These are a mix of collective and privately owned enterprises in rural China. These enterprises operate outside of the state plan, and largely without funds from state banks. Therefore, they are subject to quite rigorous market competition and hard budget constraints.

China's experience demonstrates that establishing small townships to link the countryside with urban areas is a successful strategic policy for development. This facilitates the transportation of goods between rural and urban areas, and rising income and productivity in rural areas. As for urban enterprises, this link would open up a bigger market and help in diversifying or restructuring, something currently constrained by area limitations.

Rural enterprises can also compete in the cities. Their products have the advantage of relatively low labour costs. In this way, they will help absorb surplus labour locally, thereby resulting in less rural to urban migration. Populations in urban areas, and especially in larger cities, such as Calcutta, Chennai, New Delhi and Mumbai have reached levels far above what these cities can efficiently accommodate given their capacity to provide urban infrastructure services. Urban enterprises will, also provide more employment opportunities since they would have a larger market. In addition, the linkage will benefit the rural industries in the form of technology and information flows.