
The Hindu : Development and goal-setting

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Development and goal-setting - II

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THE “DECADE of development” cannot rest on an unstable fiscal base. India has seen too often how bold objectives can be pushed aside through financial crisis. It is extremely important to bring down fiscal deficits mainly through budget cuts and privatisation revenues to reduce the ratio of public debt to national income to avoid future macroeconomic destabilisation. Unless substantial fiscal consolidation is achieved, continued fiscal deficits pose the greatest risk of future destabilisation in India.

Despite several years of fiscal consolidation efforts, large and persistent fiscal deficits remain. As a matter of fact, except for the first year of fiscal stabilisation - when the fiscal deficit was reduced from 8.3 per cent of the GDP in 1990-91 to 5.9 per cent in 1991-92 - the performance on the fiscal front has been disappointing. In the year 1999-2000, the net borrowing requirements, that is the fiscal deficit, are going to be over Rs. 1,00,000 crore. The fiscal deficit is thus likely to increase to 5.6 per cent of the GDP from the Budget target of 4 per cent. In terms of interest payments next year, this implies an additional outflow of Rs. 10,000 crore.

The Government needs to promote exports through greater emphasis on export processing zones, the elimination of product reservation for the small-scale industry, the encouragement of the IT sector, the elimination of administrative barriers to foreign direct investment (FDI), and the elimination of tax

and tariff structures that are anti-export. India could have achieved what China has achieved in export growth, but it failed in basic policy strategy. At the centre of China’s export strategy were the special economic zones (SEZs) in which favourable export conditions were assured. These SEZs, along China’s coastline, were designed to give foreign investors and domestic enterprises favourable conditions for rapid export promotion. All key aspects of the export environment were secured. Exporters, for example, were allowed to import intermediate products and capital goods duty free. They were given generous tax holidays. The exporters were assured decent physical infrastructure, often through the provision of land, power, physical security, and transport to the ports, within specially created industrial parks.

In China, the major responsibility for the SEZs rests with local and provincial governments, whereas in India, the responsibilities remain heavily with Delhi. Under these circumstances, many State Governments have actually been averse to the idea of locating EPZs in their areas. Some of the initiatives announced by the Government recently in the Exim policy for 2000-01, such as establishing, as in China, SEZs in different parts of the country and fully involving the State Governments in the export efforts, are welcome steps. While these measures will undoubtedly provide great impetus to India’s export efforts, it is critical for India to abolish product reservation for the small-scale industry and to liberalise labour laws if it is to attain and sustain high rates of export growth.

India’s labour laws make it very costly to fire workers in enterprises of more than 100 employees. The result is that formal-sector firms (those that are registered and that pay their taxes) are loath to take

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on new employment, and the vast majority of India's employment is informal, in small, tax-evading, inefficient enterprises. Equally remarkably, India's legislation continues to restrict the entry of large firms, or the growth of small firms into large firms, in several areas of potential comparative advantage. Thus, garments, toys, shoes and leather products continue to be reserved, to a varying extent, for small-scale producers.

Service-sector export based on information technology (IT) is another area where the 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 which is the fastest-growing foreign exchange earner for the country. The Government could do more for this industry, not through direct subsidies necessarily but actually through liberalisation of telecom, allowing for lower-priced services, by allowing new entry of major international players. These companies could lay down a tremendous optic fibre network and increase the bandwidth available for Indian business. The Government should 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 it in the very forefront.

The continuing state monopoly of VSNL in international telephony as well as in internet provision within the Indian market raises the costs of telephone and IT services and is doing considerable damage to India's international competitiveness in the IT sector. India's telephone density is abysmally low; international telephone calls originating in India are among the costliest in the world, largely due to lack of competition. Physical infrastructure for data transmission within India (e.g. optic fibre cables) remains underdeveloped despite some recent progress. Restrictive policies on FDI have kept international chipmakers out of India, and have indirectly

raised the prices of PCs in the Indian market. The lack of enforcement of intellectual property laws inhibits inward investments in IT sectors. All of these problems are remediable through further deregulation of telecom and FDI, as well as effective law enforcement in a more liberalised and competitive environment.

The engine of growth of the booming Indian IT sector is the software industry which has grown at an average annual rate of 60 per cent between 1992 and 1999. The Indian software industry, which today employs 160,000 professionals, has zoomed from a mere \$ 20 million 10 years ago to \$ 4 billion in 1998-99, of which \$ 2.6 billion was exported. This industry has clearly emerged as a major export earner for the country, contributing to 8 per cent of total merchandise exports. It has also achieved a worldwide reputation for providing excellent quality: many local software firms have earned ISO 9000 as well as SEI-CMM certification, with five of them having reached Level 5 (only 9 firms worldwide have reached this level). India has achieved this feat by leveraging its most valuable resource: highly skilled manpower. The country today boasts of the second-largest English-speaking pool of scientific manpower in the world and graduates 70,000 computer professionals every year, in addition to the graduates from the Indian Institutes of Technology (IITs).

Economic reforms by themselves are not sufficient to achieve India's development goals. A growing body of economic evidence suggests that social progress - such as increased life expectancy, reduced disease burdens, lower fertility rates, and improved educational attainments - is as important as the narrower economic policies in meeting economic goals of higher growth and living standards. Thus, social goals are crucial not only in themselves, but also for what they contribute to economic dynamism.

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India's circumstances at the start of the new century are unenviable. Life expectancy is around 63 years, compared with 78 years in the high-income countries. Literacy of adult women is notoriously low, at some 40 per cent. Under-5 mortality rates of children remain above 100 per 1000 births. The AIDS epidemic is gathering force and could gravely undermine many of the social and economic gains of recent years unless it is decisively curbed through aggressive health policies, including much greater education of the population about the dangers. The vital social goals cannot be met unless they are elevated to the highest priority in Government policy.

(Concluded)

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