Creating and sustaining growth in India

Sustained growth almost certainly has to be inclusive growth. A rural-led strategy is ultimately the first step for this

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RECENTLY, THREE PROMINENT economists (Maitreesh Ghatak, Ashok Kotwal and Bharat Ramaswami) asked, "What would make India's growth sustainable?" Here, "sustainable" is not tied to environmental issues, but simply means "lasting." This is such a core question that their answer needs to be studied. To simplify their careful analysis, the authors point out that investment occurs when investors see the demand that will generate returns on investment. For many poorer countries that grew rapidly in recent decades, this came from consumers & businesses in richer countries. But, with the pandemic, and increasing protectionism even prior to that, the global situation is not as conducive to export-led growth as it once was.

The three economists suggest that India's rapid growth in the 2000s was driven by exports of software/IT-enabled services. This created all kinds of spillovers into the rest of the economy, but the core gains were going to a very narrow, already well-off segment of India's population. This is partly true. Based on sheer numbers, and the higher propensities to consume of those who are poorer and in rural areas, the argument is made for a rural-led growth strategy. The argument is that only increased demand for mass consumption goods (and not just luxury goods) will provide sufficient encouragement for robust domestic investment.

Some aspects of these ideas go back to the notion of a "big push" to raise investment, though that was not necessarily tied to rural production, merely simultaneous investment across the economy in ways that would also raise purchasing power and demand. A rural-led strategy particularly emphasizes looking for "low-hanging" fruits in agriculture. Specifically, shifting from grains to higher value-added farm products such as "fruits, vegetables, milk, eggs, meat, and fish," as well as more sophisticated products such as wine, cheese and flowers, will enhance rural incomes and increase rural demand for manufactured products, creating a virtuous cycle.

One can see hints of a rural-led strategy in some areas of some states, but the barriers are also glaringly obvious. Governments are focused on the problems of the 1960s, and their grain procurement system locks farmers into a low-risk but low-income strategy of supplying the PDS. Fertiliser and pesticide companies, credit providers, and middlemen are also happy with that lock-in. Meanwhile, there is inadequate investment in agricultural infrastructure and extension services for crops that are unfamiliar, and in support for marketing, risk management facilities, and effective entrepreneurship training. Punjab is a case study in talking about agricultural diversification for decades and accomplishing very little.

One has to be careful, though, about just focusing on agriculture and rural products, no matter how important they are as a part of a strategy of generating lasting growth. To illustrate, past increases in rural incomes (coming not from productivity gains or agricultural diversification, but from income support programs like NREGA) have gone into purchasing cheap manufactured products from places such as China.

Of course, there is a national "Make in India" initiative in place, which focuses on ease of doing business and relaxing government restrictions or speeding permissions processes. But there are some deeper issues that need to be addressed. Right now, India does not do a good job of supporting new firms, or allowing well-run smaller firms to grow. Access to investment capital and working capital is restricted, for structural reasons exacerbated by the non-performing asset problems of banks and non-bank financial companies, further worsened by the pandemic and lock-down after effects. One major problem is that large firms and governments do not pay smaller firm suppliers in a timely manner (and sometimes not at all). Small firm finance in India needs a rethinking and overhaul. This will matter in rural areas too, as some farmers transition into being entrepreneurs.

Another area where positive change is needed, not just removal of obstacles, is in marketing and access to markets. And here, one should not write off export markets. Whatever the global trend in terms of protectionism or pandemic restrictions, factors such as the desire of firms to diversify away from China for sourcing components, and new, growing markets in areas such as healthcare and environmentally friendly products will provide niches for export growth. In the context of agricultural diversification, there is nothing to prevent Punjab from making a concerted effort to serve markets in West Asia, for example, as well as Delhi and its wealthy environs.

Finally, the biggest obstacle to sustained growth may be the broader point to take away from the three economists' analysis. The big push story is based on oligopolistic supplier markets and the need to coordinate across industries. But India seems to be heading toward something that is as bad as the days of the licence *raj*, and is visible in countries like Mexico and Pakistan, where a few industrial houses dominate the economy and, indirectly, politics, in ways that prevent the growth of disposable incomes among the majority of people. Even the United States is heading in that direction, unfortunately. Sustained growth almost certainly has to be inclusive growth. A rural-led strategy is ultimately the first step in inclusive growth. But concentration of economic (and political) power is antithetical to that pathway.