Issues and priorities

1.60 The current year is the first year of the Tenth Five Year Plan (2002-07), which envisages an average annual growth rate of 8 percent. While the growth performance in recent years has been lower than this target, international evidence, as well as India's own experience, demonstrate that the target is indeed feasible. Malaysia, Republic of Korea, and Thailand, among other East Asian countries, sustained annual growth rates at levels equal to, or higher than what India is seeking to achieve in the Tenth Plan, for several years, before the outbreak of the East Asian crisis. The People's Republic of China, a large country like India in terms of both area and population, has been one of the best performers among the major economies of the world during the 1980s and 1990s, and has been maintaining high growth (7 percent plus) despite the recent slowdown in global economic activity. Furthermore, the acceleration in growth in these countries from fairly modest initial levels took place rapidly, almost in the manner of a jump-start.

1.61 The experience of India in terms of growth acceleration is also similar to that of countries in East Asia and China. The decadal average annual growth rate of the Indian economy, after fluctuating around 3½ percent for the decade of the 1950s, 1960s and 1970s, took a quantum leap to 5.65 percent in the decade of the 1980s (Figure 1.3). Similarly, after hitting a low of 1.3 percent in 1991-92 in the aftermath of the balance of payments crisis, the annual rate of growth rapidly accelerated to around 7½ percent during 1994-95 to 1996-97 (Figure 1.4).

1.62 The drivers of change and rapid growth acceleration have to be technology and competition, together with benchmarking to the best international practices. India is now taking advantage of all three factors. Technology is getting upgraded rapidly and competition in the market place has become fierce. The IT revolution, and the vibrant IT industry in the country, have been critical factors in making information available about state of the art technology and in bridging the technological divide in some sectors. With quantitative restrictions on imports a thing of the past, customs duties progressively coming down, and foreign investment - both direct and portfolio - liberalized, integration of India into the global economy is also progressing. Buoyant export performance, a surplus in the current account, and the strong balance of payments position demonstrate the success of the country in this integration process.

1.63 There is an intimate and virtuous interaction among the drivers of change mentioned earlier. This is best illustrated by the consumer goods, automobiles and telecommunications industries in the country. Previously under quantitative restrictions, consumer goods can now be imported freely upon payment of customs duty. While some foreign consumer products have appeared in shops, particularly in up-market segments, their presence is limited. However, there has been a remarkable improvement in the quality of domestic consumer products, with convergence towards the best international practices.

1.64 The automobile sector, previously under a strict licensing regime, has been a direct beneficiary of competition and technology in the new liberal regime. Not only has automobile output grown at double digit compound rates, but the sector has become a sizeable exporter. Major international auto-companies now have operations in India, and are increasingly using the country as a platform for export-oriented production. There is also a strong set of upstream firms, producing ancillaries for, and providing design consultancy to the automobile industry. The telecommunications sector provides another illustration of a virtuous interaction between technology and competition. While mobile telephony is rapidly raising teledensity, price competition between two technologies, namely Global System for Mobile (GSM) and Code Division Multiple Access (CDMA), has yielded price benefits to the consumer.

1.65 It is vital that this virtuous interaction among technology, competition, and benchmarking to the best international practices is extended to agriculture. While the spectacular growth in production of cereals has been instrumental in ensuring the country's food security, there is a need to accelerate the trend towards growing diversification in agriculture.

1.66 The principal focus in the past five decades was to maintain foodgrains growth abreast of population growth. India has been successful in this regard. All the facets of agriculture policy so far have been guided for meeting shortages as it was considered risky for a country of India's size to depend on imports for meeting critical shortages in essential commodities like foodgrains and sugar. However, there remain vital areas, which in the process have remained rather neglected. India's advantage lies in owning the asset of the largest arable land area next only to U.S.A., and ranking first in irrigated area in the world. Most importantly, the country is characterised by a variety of agro-climatic regions that enables production of all possible kinds of tropical, semi-tropical and temperate agriculture products. The focus, therefore, has to shift towards improving productivity in horticultural products that encompass a variety of fruits and vegetables, which would have a global market if only these products are properly graded, processed, packaged and transported under fast and modern transit systems. Value addition in horticulture, floriculture, and sericulture, as well as in food processing can yield rich dividends to farmers and expand the scope for quality employment. Whereas success stories have been reported in competing in the global market for export of flowers and fruits from Maharashtra, Andhra Pradesh, and even Uttar Pradesh, the vast potential for exports of value added horticultural products can be realised only when there is appropriate infrastructure specific to processed agri-product exports available in the country. There are many ports which do not have mechanical loading facilties for fast moving products. India currently produces 145 million tonnes of fruits and vegetables, of which less than 2 percent follow the processing route thus depriving Indian producers of the benefits of value addition, and access to global markets.

1.67 What is needed in addition is not only improved seed technology and modern irrigation systems, but also processing industries specific for various agriculture products. Unlike cereals and oilseeds, fruits and vegetables are perishable. Cold storage is essential for their preservation. There is some acceleration noticed in expanding cold storages in the current year. But irregular and poor quality of power supply has been acting as a serious barrier to growth in cold storages. The key to value addition in agriculture, and consequent income and employment growth in rural areas, lies in building up the required infrastructure. Public-private partnership can play a vital role in promoting this infrastructure. The earlier emphasis on raising irrigation potential has to be renewed with greater vigour, especially through watershed development. Access to water - potable drinking water, and ordinary water for irrigation - is an absolute necessity and should constitute an integral part of the strategy for rural infrastructure development.

1.68 Water will increasingly emerge as a scarce resource. The vulnerability of Indian agriculture to monsoon failures has focused renewed attention on how best to utilise this scarce resource. It is also time to rethink whether the country can afford the practice of irrigation through field flooding, which is basically wasteful, and evaluate more economic methods of irrigation. The Accelerated Irrigation Benefits Programme (AIBP), aiming to help states in establishing irrigation facilities through Central Loan Assistance (CLA), has assured full central assistance to approved major and medium irrigation projects being completed within a year, under its fast track programme from February 1, 2002. A new initiative, `Hariyali', intending to strengthen the technical capabilities of panchayati raj institutions (PRIs) for implementing the existing watershed development programmes like Integrated Wasteland Development Programme (IWDP), and Drought Prone Area Programme (DPAP) — has been launched on January 27, 2003. What is important, however, is a mechanism for more efficient cost recovery to not only ensure adequate funds for operation and maintenance, but also to promote a sense of user participation and water conservation.

1.69 The flow of institutional credit to agriculture has witnessed a sharp increase of 21 percent in 2001-02 compared with 14 percent in 2000-01. This seems to have had a positive impact on capital formation in agriculture in 2001-02. Under the Kisan Credit Card (KCC) scheme, more than Rs 64,000 crore has been sanctioned till September 2002. The scheme intends to cover all eligible farmers by March 31, 2004, and is also extending personal insurance cover (for accidental death, permanent disability etc.) to its beneficiaries. The National Agricultural Insurance Scheme (NAIS), which extends to all food crops, had covered more than 20 million farmers till rabi 2001-02. Implementation of NAIS will soon be taken over by the Agriculture Insurance Company of India Ltd., which is now awaiting registration with the Insurance Regulatory and Development Authority (IRDA). This new corporation, set up with an authorised capital of Rs 1,500 crore by the General Insurance Corporation (GIC), NABARD, and four public sector general insurance companies, also aims to cover other rural/agricultural risks in addition to crop insurance. There is a strong case for utilizing the services of self-help groups and other micro-credit institutions and, with proper regulatory systems, enlisting the support of local persons with knowledge of local conditions to efficiently lend money from banks to farmers, while reducing transactions costs and minimizing the risk of default. Participation of private insurers in agricultural insurance will also provide the benefits of a competitive market.

1.70 Despite the vast variety of agro- products produced, the country's annual agro-exports are valued at less than US $ 6 billion with marine products alone accounting for 20 percent. Exploiting the country's untapped export potential in agriculture requires removal of regulatory inefficiencies like prohibitive food standards laid down by the Prevention of Food Adulteration Act, the Food Products Order, the Meat Products Order and the Bureau of Indian Standards. During the current year, the number of commodities under the Essential Commodities Act have been reduced to eighteen. The restrictions on movement and stocking of six agricultural products have also been removed with the objective of establishing a common market in the country. Futures trading in agriculture has been extended to 42 commodities including sugar and tea. However, in order to promote diversification in agriculture by enabling producers to directly access new markets, it is essential to amend the Agricultural Produce Marketing Committee (APMC) Act. This would, however, require urgent action on part of States since agriculture is a State subject. The reform measures adopted in the current year are likely to create new avenues for private investment in agriculture and lay the foundation for value addition besides improving quality of agro-products for global markets.

1.71 The virtuous interaction among technology and competition in India, while benchmarking to the best international practices, will need an enabling environment and will need to be facilitated by three factors: appropriate social and physical infrastructure, a suitable regulatory framework and an efficient tax system, and macro-economic stability.

1.72 Amongst the priority areas requiring focussed attention are the elimination of illiteracy, reduction in infant and maternal mortality rates, eradication of diseases such as malaria and polio, provision of quality transportation facilities in the form of roads, railroads, ports and airports, reliable and reasonably priced power supply, and safe drinking water and sanitation. There is a need to encourage public-private partnership in promoting infrastructure to leverage public funds, improve quality of service delivery and ensure better value for money. The success achieved under the NHDP launched by the Prime Minister in October 1998 indicates that there is considerable scope for new methods of financing and public-private partnerships in this area. It is essential to build on the limited success achieved in promoting public-private partnerships in the field of power generation, transmission and distribution, and accelerate reforms to remove an important bottleneck on the country's development. There is considerable scope for improving the delivery of social services, such as health care, by promoting community and private sector participation. What is required is a change in the paradigm of the public sector to `providing' public goods and services, without necessarily "producing" them itself.

1.73 Considerable progress has been made in the area of regulatory framework and a suitable tax system.

For example, the Telecom Regulatory Authority of India (TRAI), State Electricity Regulatory Commissions (SERCs), Insurance Regulatory and Development Authority (IRDA), Securities and Exchange Board of India (SEBI), have been functional for some time. The Competition Bill, 2001 has also been passed by the Parliament. However, what is needed is an overhaul of the regulatory regime in agriculture. A closely related issue is the question of labour market reforms and small-scale industry (SSI) reservation. The country should seek to sell to the global market consumer goods of quality, at competitive prices, produced in large-scale establishments operating under flexible labour-markets. Furthermore, it is essential to restructure the tax system with a move to an impersonal and efficient tax administration with a minimum interface between the assessee and the tax official, and a system with minimum of exemptions in the field of central excise and States sales tax, and a move to a value added tax (VAT). The proposed move to VAT by the States from April 1, 2003 will be an important landmark in establishing an efficient and self-enforcing domestic tax system with minimal cascading effects. A reduction in the rate of Central Sales Tax (CST), and its elimination over time will be important steps towards the establishment of a unified Indian common market.

1.74 India is moving towards macro-economic stability through the pursuit of a suitable combination of fiscal and monetary policies. While sluggish growth suggests counter-cyclical policies, there is a need to step up progress in the field of fiscal consolidation. The fiscal deficit, as a proportion of GDP, has gone up from 4.1 percent in 1996-97 to 5.9 percent in 2001-02 for the Central Government, and from 9.5 percent in 1999-2000 to 10.0 percent in 2001-02 for the general government (i.e. consolidated Centre and States). While the rate of interest continues to be below the rate of growth of the economy, high primary deficits (fiscal deficit less interest payments) have led to progressive increases in both the deficit to GDP and debt to GDP ratios. Increases in debt, with the associated high interest payments, have resulted in pre-emption of a very large proportion of revenue receipts, both of the Centre as well as of the States, by interest payments, wages and salaries, and pensions. Given the indices of growth recovery already visible, without fiscal consolidation, there is a risk that the preemption of resources by the general government will crowd out the nascent recovery in private investment.

1.75 Fiscal consolidation requires a two-pronged strategy of augmenting revenues and restraining expenditure. An efficient, computerized, and impersonal tax system is critical for increasing the tax-GDP ratio. In non-tax revenue, there is a clear need for better cost recovery through appropriate user charges. On the expenditure front, it is critical to contain the growth of wages, salaries and pensions. There is a need to revise the rate of interest on small savings mobilised by the government in line with movements in market related interest rates. Any successful expenditure rationalization and reprioritization programme must address the issue of subsidies, through a rationalization of the prices of food, fertilizers, LPG and kerosene. There is a need to look into the whole issue of federal fiscal transfers, including the role of the plans, gross budgetary support for the plans, and why plan expenditure affects the path of fiscal deficit and debt adversely, and how.

1.76 With India emerging as a surplus producer of a number of exportable agricultural products, including foodgrains, in recent years, efficient management of the country's food economy has become a major policy issue. The comparative and regional advantage of some crops, has, however, been distorted by minimum support prices (MSP) for rice and wheat, thus generating both surpluses (sugar, rice, wheat) and shortages (oilseeds, pulses and fibres). Accumulation of large food stocks has posed serious issues with regard to the effect of current food management policy, not only on agricultural growth and diversification, but also on the fiscal deficit. The merits of the MSP in achieving the objective of food security is established. So is the general consensus that some food subsidy is absolutely essential for providing income support to the country's poor and vulnerable. Apart from providing subsidised foodgrains to the Below Poverty Line (BPL) population (over 30 crore), a most significant and innovative measure to address abject poverty is the Antyodaya Anna Yojana, which enables a section of the poorest (about 6 crore) to obtain 35 kg foodgrains per month at the low price of Rs.2/- per kg for wheat and Rs.3/-per kg. for rice. It is important, however, to recognize that our procurement methods have begun to seriously distort, and also eliminate the role of private trade in foodgrains, thus aggravating the subsidy commitment of the Central Government. There is a need to economise on buffer carrying costs, as also procurement costs, which may be possible by involving state participation in procurement. FCI is faced with serious diseconomies of scale, since it is now procuring and stocking almost three times the normal volume of grains.

1.77 The last quarter of the current financial year has seen rapid escalation of tensions in the Persian Gulf. The possibility of hostilities breaking out in the Middle East has cast doubts over the pace of global recovery in 2003. With global crude oil prices rising, there are serious concerns regarding the growth prospects of emerging market economies, particularly those in developing Asia, in the coming months. Apart from large food stocks held in the central pool, the huge volume of foreign exchange reserves held by the country provide comfort in an uncertain global situation. With reserves rising to more than US$73 billion, India is now one of the top reserve-holding, emerging market economies. The country is capable of financing higher import bills in the event of steep escalation in global oil prices or other exogenous developments. However, a prolonged conflict in the Middle East is likely to affect the export prospects of several economies of developing Asia, due to their heavy dependence on the US economy. Notwithstanding a marginal compression in export prospects, the overall growth performance of the Indian economy in the coming months is unlikely to be seriously affected by the developments in the Gulf, due to the clear signs of revival in domestic demand, and the resultant buoyancy imparted to domestic economic activity. Nevertheless, there is an imperative need to address the three issues of infrastructure, regulatory and tax reform, and fiscal consolidation, to establish the foundations of robust growth on a sustained basis.