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On the hunt for inclusive growth

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All agree that Asia is on the move. With the Chinese economy showing a major rebound (despite **muted** concerns whether it is for real) and India too staying firmly on the growth track, there is a different question that is being posed: is the development process generating 'Inclusive Growth'?

The classical models of economic development have always contrasted the benefits from the communist/socialist model versus the conventional western capitalistic model. While the United States was the predominant exemplar of the latter, the erstwhile Soviet Union was the centerpiece archetype for the communist thinkers.

One can argue that India could not make up its mind about which model to follow. Euphemistically, the model chosen by the Government of India post-independence was the "Mixed Economy", a path that permitted a mix of sectors, largely governed by the state (the commanding heights of the economy) with a few sectors open to private enterprise.

After years of snail-paced growth, the government decided to liberalise the economy in stages, beginning in 1991. More industrial sectors were opened to private enterprise, and this has reached a stage where public private partnership is being touted as the way forward for social and economic development.

The benefits of this move are widely known, with the expectation that even in this fiscal year, ending March 2010, the GDP growth is expected to be over 7 percent. While the economy is not really on steroids, the constant expectation for Inclusive Growth continues.

The term means various things to various people. Simply put, economists use it to refer to "the intention that in a developing economy, as economic development progresses, there ought to be benefits that will accrue to all sections of the society." This has been a major concern because studies have shown that growth has been lumpy in parts and has caused rise in inequalities. A study by the Asian Development Bank had found that there were three dimensions for this uneven growth: 'First, growth has been uneven across subnational locations (i.e., across provinces, regions, or states). Second, growth has been uneven across the rural and urban sectors.

Finally, growth has been uneven across households, such that incomes at the top of the distribution have grown faster than those in the middle and/or the bottom. In particular, the growth of incomes has tended to be the highest for the best educated.'

This awareness has triggered some corrective actions. While growth has brought multiple benefits to the urban sections, businessmen in India believe that 'bringing the other India' into the economy would not only build new business for them but also enable fulfillment of the government's larger social agenda.

From a policy framework perspective, it is useful to consider the four attributes for inclusiveness outlined by Subir Gokarn, a well known economist and currently deputy governor in the Reserve Bank of India. They are: Opportunity -Is the economy generating more and varied ways for people to earn a living and increase their incomes over time? Capability: Is the economy providing the means for people to create or enhance their capabilities in order to exploit available opportunities? Access: Is the economy providing the means to bring opportunities and capabilities together? Security: Is the economy providing the means for people to protect themselves against a temporary or permanent loss of livelihood?

Meeting this challenge is not an easy one by any means. While a recent report about Brazil states that economic growth has brought about a reduction in social inequality, this needs more empirical study.

A look at the scenario on the African continent is certainly educative. Building infrastructure (both hard & soft) is not only imperative for development, but also essential as this becomes a force multiplier in the economy. One of the fundamental tools that have become a good transformational bridge in society is the mobile telephone which has brought about not only economic but also cultural, social and civilisational changes, according to the head of a large Indian telecom company recently. All over the developing world, the cell phone has become an empowering tool providing access of to a new world of opportunities.

One can argue whether all infrastructural developments should be in government hands, but the good news is that whether by design or accident, governments today have largely opened the telecom sector to private enterprise. The reach of multinational telecom companies across Africa is large (but not sufficient yet), and I believe that this would serve as a springboard for change in society. Moreover, the presence of multiple players will work towards the benefit of the ordinary consumer, provided the government prevents cartelisation.

The spread of information and easy access to markets which potentially becomes possible to rural producers who use the new telecom network, can genuinely bridge the gap between the urban and rural populations. This can therefore become the first step towards creating an avenue for inclusive growth.