

The Tribune

A Hard Look at Punjab's Decline

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WHY has Punjab suffered a relative decline in the last two decades? Politicians and academics in Punjab reel out a long list of reasons but most of these turn out to be exaggerated or downright false.

Myth No. 1

India has fought several wars with Pakistan across the Punjab border and fears of fresh wars have kept industry away from Punjab

Normally, successful agriculture produces lots of consuming power for farmers and workers, and becomes a good basis for industrialisation. Punjab also has a good road network and is not too far from the major metropolis of Delhi. The state's scholars claim that industrialisation has been held back by the fact that it is a border state, next door to Pakistan, with whom India has fought three full-scale wars and several other skirmishes. Because of this, they say, New Delhi has been reluctant to allow major investments in the state, since these would be sitting ducks for Pakistani aircraft in the event of a war. This, they claim, has artificially held back the state's industrialisation and hence its GDP growth.

The claim is manifestly false. Gujarat is also a border state with Pakistan, and is the most industrialised and fastest-growing state in India. Even Rajasthan, another border state that is backward and mostly desert, seriously lacking infrastructure and agricultural potential, has grown faster than Punjab. It is worth mentioning that the original Punjab state was in 1965 split into two, with the most backward southern part forming a new state, Haryana. This once-backward portion now grows much faster than the once-advanced portion that is still called Punjab. To be fair, Haryana has a special advantage that other states don't—it surrounds Delhi state on three sides, so Delhi's urban sprawl has spilled over into Haryana.

There was indeed a time, in the 1960s and 1970s, when the central government sometimes seemed hesitant to build major public sector industrial projects in Punjab because of its location next to Pakistan. Nevertheless, it built a railway coach factory at Kapurthala, a unit of Hindustan Machine Tools in Ludhiana, and helped launch Punjab Tractors in Mohali. There have been no hostilities across India's western border with Pakistan (comprising the states of Punjab, Rajasthan and Gujarat) since 1971. In none of the three Indo-Pak wars of 1947, 1965 and 1971 was there bombing by either side of industrial factories—the focus was on military targets.

In any case the public sector has long ceased to be the driving force of industry in India and economic reform starting in the 1980s and accelerating in the 1990s have put the private sector in the driver's seat. The private sector has invested massively in two other border states, Gujarat and Rajasthan, but much less in Punjab. Clearly proximity to Pakistan is not a good excuse for Punjab's slippage in the economic

growth table. New Delhi has permitted Reliance Industries Ltd to put up the largest oil refinery complex in the world in Gujarat, within easy reach of Pakistan's Air Force. Essar Oil has built the country's second biggest refinery complex in the same state. This year, a joint venture of Hindustan Petroleum Corporation Ltd. (a central government-owned company) and Mittal Industries has commissioned a big 9-million tonne oil refinery at Bathinda in Punjab, just 100 kilometres from the Pakistan border. This disproves the thesis that New Delhi's war paranoia has held up industrial projects in Punjab. Indeed, the Bathinda refinery may soon export fuel to Pakistan.

Myth No. 2

Sikh terrorism caused Punjab's decline

Sikh militant separatists wanting to create an independent state of Khalistan were on the rampage in Punjab from the start of the 1980s to 1993. The state at one point became so ungovernable that it was placed under martial law. During the insurrection, New Delhi sought some sort of accommodation with disgruntled Sikhs, but failed dismally. Martial law also failed. Then in the 1990s a new Congress government came to power and decided to crack down on militants, using the police, not the army.... it succeeded in finally crushing Sikh militancy by 1993.

Now, it is true that in the heyday of Sikh militancy in the 1980s, industrialists were not keen on opening new factories in the state. Some industries that were located in Punjab (such as Hero Honda) built new factories in other states. But terrorism ended two decades ago, and Punjab's decline has continued nevertheless. Prof Gurmail Singh of Panjab University points out that Sikh militants had a complete grip of western districts but not of eastern districts of the state, yet industrial growth from the 1980s onwards was weak in both eastern and western districts.

Today, many Indian states face Maoist insurrections, which sometimes look as threatening as Sikh militancy once was in Punjab. In the last decade, an estimated 167 out of 600 Indian districts have suffered from some form of Maoist violence. Yet this violence has not come in the way of India achieving its fastest growth in history. The most entrenched Maoist-held areas are in the state of Chhattisgarh, which has huge forests, relatively few roads, and limited administrative breadth. The Maoists control very large areas in the state. Yet Chhattisgarh has been in the last decade one of India's fastest growing states, averaging 9.1 per cent per year between 2002-03 and 2010-11. No doubt it has the advantage of big mineral deposits but Maoists have seriously disrupted this. The contrast between economic growth in Punjab and Chhattisgarh demonstrates that terrorism does not necessarily mean economic decline, and can coexist with double-digit growth. Besides, almost two decades have passed since the end of terrorism in Punjab, so it is a poor excuse for the state's continuing weak performance.

Punjab politicians say that the state accumulated huge debts because of low revenues and the high cost of combating terrorism in the terrorist era, and claim that New Delhi has not given enough debt relief to Punjab to get rid of this historical burden.

This is disputed strongly by New Delhi. A former Finance Ministry official who dealt with Punjab's debt problems says that debt relief for the terrorist era has been given in ample measure by the Twelfth and Thirteenth Finance Commissions. The real problem, says the official, is that slow GDP growth has meant slow revenue growth and its fiscal impact has been compounded by huge non-productive subsidies, mainly for electricity. The official adds that most Punjab politicians got used to having several personal security staff in their entourage during the terrorism era of 1980-1992 and are reluctant to give these up. Punjab has a very high police/population ratio but the police are diverted massively from standard law and order operations to VIP security. This is a huge waste of public funds.

Myth No. 3

Punjab is very distant from the sea and so is unable to grow as fast as states with ports

No doubt coastal locations have their advantages. No doubt closeness to a port helps develop export industries. Yet Punjab was just as far from the sea through most of its history, including the first three decades after Independence and this did not prevent it from becoming one of India's richest, fastest-growing states. The world over, land-locked states complain that they are seriously disadvantaged, yet many of them grow fast. In South Asia, Bhutan has been the fastest-growing country and has comfortably overtaken India in per capita income. In Africa, land-locked Botswana has overtaken coastal South Africa to become the continent's richest country. After the collapse of communism in the Soviet Union and Eastern Europe, the richest of the ex-communist states has turned out to be Slovenia, which is virtually land-locked.

The lesson is clear. Geography is not destiny. Land-locked areas may have disadvantages but are capable of becoming rich and fast-growing if they follow the right policies. Just as badly land-locked as Punjab are the two neighbouring hill states of Himachal Pradesh and Uttarakhand, both of whom have grown much faster than Punjab. However, these two states have been aided by tax breaks bestowed by New Delhi. Until the 1980s, New Delhi followed a "freight equalisation policy" that enabled all states to get industrial inputs like coal and steel at the same government-ordained price. Once freight equalisation was abandoned in the 1990s, Punjab's distance from coal mines and steel plants became a disadvantage. However, many other states were just as disadvantaged in distance from coal mines and steel plants but

fared well. The best example of this was Gujarat, which became India's fastest-growing major state even as Punjab kept slipping.

Myth No. 4

Punjab has no metallic minerals or coal and so loses out to states that do

Punjab suffers from chronic power shortages and this has been an important discouraging factor for potential industrialists. Indian coal has high rock content, so transporting coal from coalfields—all of which are very distant—means transporting almost as much rock as coal, thus raising generating costs. The main mineral-bearing areas are in central and eastern India. Punjab's politicians claim that a lack of raw materials has placed the state at a serious disadvantage.

However, the mineral-rich central and eastern states have historically been among India's most backward and slow-growing. This is because minerals in India are generally found in mountainous jungle areas with few roads or other infrastructure, inhabited by tribes with some of the highest poverty, lowest literacy and worst health indicators in India.... Through history, across the globe, vibrant agriculture has been the driver of growth in rich civilisations, not minerals. That has always been true of India as a whole.

One reason for this is that minerals should not be interpreted to be just coal or metallic ores. Good agricultural soil is a form of mineral wealth and this was the driver of all great ancient civilisations from Egypt to China. And Punjab has this sort of mineral wealth in abundance—its soils are excellent for agriculture and rank among the best in India. This is one reason why its agricultural yields are the highest among any state. Mineral wealth is by no means a key determinant of either industrialisation or GDP. Maharashtra, Tamil Nadu and Gujarat are India's most industrialised states, with high GDPs. None of them has major minerals. Maharashtra has substantial coal reserves for power generation but Gujarat and Tamil Nadu do not. Looking across the globe, we find that countries like Japan, Korea and now China have shown it is possible to import minerals from across the world and yet produce internationally competitive industries and become miracle economies. Punjab itself was the fifth-most industrialised state in India in the 1980s, despite the lack of nearby minerals or coal. The reasons for its subsequent decline have to be found elsewhere.