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Indian Economy: The Extreme Swings

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Prologue

Economic growth is important if businesses are to grow and prosper. Hunger, mortality and poverty decrease as GDP per capita rises. If managed properly, economic growth enables an increase in resources for important public services like education and health care. Economic growth enables an increase in social spending without an increase in tax rates. Economic growth has the indirect potential to alleviate poverty, as a result of a simultaneous increase in employment opportunities and labour productivity (Claire Melamed, Renate Hartwig and Ursula Grant: 2011). Economic growth is essential to reduce government's budget deficit. In brief, we can say that businesses, hunger, mortality, poverty, living standard of people, employment all are affected by the growth rate in the economy. Clearly, growth rate matters. So it is pertinent to evaluate the growth trend of India.

Even if one expects the government to spend in social and other sectors, growth generates revenue. While distribution of gains from growth is important, any suggestion that inclusion should be interpreted as lower growth, unless gains are proportionately distributed, is a no-brainer. Without getting into debates about poverty lines and NSS data, with the same poverty line, around 1950, 50 per cent of India's population was below the poverty line. Around 1980, it continued to be 50 per cent. As a trend, poverty began to drop when growth began to pick up in the 1980s.

Indian economy witnessed the trends of booming in ancient India but gloom or near stagnation in real GDP growth till the late 1970s. A closer review of the performance of the Indian economy, however, suggests a continuous increase in real GDP growth over each decade since Independence, interspersed with an interregnum during the 1970s. In 1991, India stared at a sovereign default: foreign exchange reserves had dwindled to less than two weeks' worth of imports. After the introduction of globalization, liberalization and privatization, India registered a blooming period of growth rate but now again, the Indian economy is in the doom phase. During the period from 1992 to 2011, the Indian economy experienced the situation of growing, growing and then the situation of groaning.

The first Financial Year 2012-13 of 12th Plan was marked by a sharp deterioration in macro-economic environment with the GDP growth registering the decade's lowest growth of 4.5 per cent per annum. In the first quarter of 2013-14 the rupee equalled senior citizenship, crossing the Rs 60 per dollar threshold, depreciating against the dollar.

India's Growth: Blooming Period from 1AD to 1913 AD

In ancient times, India was called 'Sone ki chidiya' (the golden bird) because it occupied a pre-eminent position in the world economy then. In the ancient period as it has been revealed by the International investigators on the History of Economic Development in India, India was world's largest economy in 1 AD with China as number two. India's GDP was not only higher than that of China but that of Western Europe combined. In the beginning of the Common Era until the early 19th century, China and India accounted for half of the global GDP. India and China led the world until Evolution's Wave 3 (1500-1850 AD) incubated by industrial revolution as described in John Naisbitt's book "Mega Trend" relating to theory of Evolution.

The economic historian Angus Maddison has estimated that in 1700 AD, towards the end of the Mughal Empire, India's GDP was not only higher than that of China, but that of western Europe combined. In terms of productivity and technology, however, it had already begun to fall behind Europe. Roughly at par in 1000 AD, per capita GDP in India and China had fallen to roughly half the average European level by 1700. It was this growing gap between Europe and the rest of the world that fuelled European expansion to other parts of the globe.

Table 1: Share of World's GDP in per cent

	India	China	Japan	USA	Europe	Rest of World
1 AD	33	27	1	0	14	25
1500 AD	25	25	3	0	21	26
1820 AD	15	33	3	2	27	20
1870 AD	12	17	2	9	38	22
1913 AD	8	8	4	21	39	20
1950 AD	4	5	3	28	31	29

Source: World Economy- A millennium perspective: by Meddison Angus 2003 World Development Report 2008

The impact of public works was to slightly increase per capita income, which had largely stagnated or declined since Robert Clive's conquest of Bengal in 1757. According to Meddison's estimates, per capita income in British India rose by approximately 1% per annum between 1885 and 1910, by which time the impact of developmental works was exhausted. While there was on average a marginal decline in the per capita growth rate thereafter, it is nevertheless intriguing that per capita income growth during the high noon of India's post-Independence command-and-control autarchy was not appreciably higher than that between 1885 and 1910, as the table 2 indicates.

Table 2: Average Annual Real GDP Growth Per Capita

Decades	Average Annual Real GDP Growth Per Capita in %	
1885-90	1.00	1885-1910= 1.07
1891-00	0.60	
1901-10	1.60	
1911-20	-0.70	1911-1950= -0.20
1921-30	1.40	
1931-40	-0.5	
1941-50	-1.00	1951-1980= 1.48
1951-60	2.04	
1961-70	1.54	
1971-80	0.87	
1981-90	3.50	1981-2000= 3.55
1991-00	3.60	
2000 +	5.60	5.60

Source: Pre 1950 data: Angus Maddison

India's Growth: Stagnant, Interregnum and Glooming Period (From 1951 to 1991)

It is widely believed that the Indian economy witnessed near stagnation in real GDP growth till the late 1970s. A closer review of the performance of the Indian economy, however, suggests a continuing increase in real GDP growth over each decade since Independence, interspersed with an interregnum during the 1970s (Table 1). During 1984-85 to 1987-88 growth averaged just 4 per cent. The slowdown of growth witnessed during the 1970s was reversed during the 1980s; the pick-up benefited from the initiation of some reform measures aimed at increasing domestic competitiveness. Since the early 1990s, growth impulses appeared to have gathered further momentum in the aftermath of comprehensive reforms encompassing the various sectors of the economy. There was some loss of the growth momentum in the latter half of the 1990s which coincided with the onset of the East Asian financial crisis, setbacks to the fiscal correction process, quality of fiscal adjustment, slowdown in agriculture growth affected by lower than normal monsoon years, and some slackening in the pace of structural reforms.

Real economic growth in the first three decades of Independence was a miserly 3.5 per cent a year which shows that the Indian economy reverted to the old “Hindu rate of growth. India's GDP growth was around 3-4 per cent till liberalization of the economy and financial sector reforms were introduced in early nineties. The Indian economy witnessed a dismal scenario with a chaotic fiscal scenario, a difficult balance of payments situation, spiraling prices, a fall in industrial production and bearish stock market. Till 1990, both Pakistan and Sri Lanka performed better than India. Pakistan's average annual economic growth rate between 1965 and 1980 was 5.8 per cent compared with India's 3.2 per cent. The ratio of exports to GDP for Pakistan in 1990 was 15.5 per cent against India's 7.1 per cent.

Table 3: Growth Rate at constant prices from 1951-1990

Period	1951-56	1956-61	1961-66	1969-74	1974-79	1980-85	1985-90
Plan	1st Plan	2nd Plan	3rd Plan	4th Plan	5th Plan	6th Plan	7th Plan
GDP Growth Rate	3.6	4.3	2.8	4.7	3.1	5.1	6.3

India in 1991 was a poor, misgoverned country, derided as a bottomless pit for foreign aid. Today it is called a potential economic superpower, backed for UN Security Council membership by the US and set to overtake China to become the fastest growing country in the world. Now India has become a miracle economy; social and welfare spending are at record levels; and Indian business have not only held their own but become multinational themselves (Aiyar: 2011).

India's Growth : Blooming Period (From 1991-2012)

Thus, India's economic opening up in 1991 created the basis for India's re-integration with not just the global economy but also its own wider Asian neighbourhood. While India's political freedom is 60 years old, its economic freedom dates to 1991 when the government abandoned the planned economy in favour of the free market. Since then it has become one of the fastest growing economies in the world (7%-9% annually with moderate inflation except 2008) compared to the earlier 'Hindu rate of growth' (3.5%. or less).

Dr. Manmohan Singh introduced liberalization, globalization and privatization and started reforms in 1991. The reforms started yielding results and the country was able to double its GDP growth rate consistently. Almost all sectors of the economy were showing growth.

The year 2000-01 registered the growth rate of 4.4 per cent and since then the growth rate had been showing an uptrend till 2007-08 except 2002-03. Indian economy had grown at an average rate of about 8.5 per cent per annum during 2004-08. The country's GDP growth rate in 2007-08 was placed at 9.3 per cent. But, the meltdown of 2008 no doubt applied a sudden brake to the growth story of the country. The financial markets around the globe had witnessed turbulence due to the sub-prime crisis in the US. Rising oil prices with resultant upward drive on commodity prices as well as inflationary pressures were witnessed in the domestic market. After clocking an annual growth of 8.9 per cent during 2003-08, the country registered a

GDP growth of only 6.8 per cent in 2008-09. After that GDP growth rate gained momentum and the year 2009-10 was marked by recovery and revival. In India, the economy exceeded expectations to record an impressive 8.0 per cent GDP growth rate. In 2010-11, the overall growth in GDP clocked 8.5 per cent. (Table: 4).

The Index of Industrial Production was negative for a few months during the last part of 2008. The services sector which was a growth engine for the Indian economy during last five years too was affected adversely. For the first time in seven years, exports declined for eight months in a row during October 2008 to May 2009

Table 4:Annual GDP Growth Rate (in %) at constant price

1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
6.7	6.4	4.4	5.8	4.0	8.1	7.0

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
9.5	9.6	9.3	6.7	8.6	8.9	6.7

Source: Economic Survey of India of different years.

Indian Growth Trend: Dooming Period

(2012-13 to 2013-14)

A look at recent World Bank data on GDP growth in 2013 shows that we have been overtaken not just by China but by a host of countries: Cambodia (7.3%), Philippines (6.9%), Indonesia (6.2%), Mynamar (6.8%), Vietnam (5.1%), Sri Lanka (7.0%) and Bangladesh (5.8%) and possibly Pakistan as well (Bhusnurmath: 2014).Growth gambit is going wrong. The question arises why the Indian economy has had a 1991 relapse? Growth is at low level, trade and current account deficits are at record highs, fiscal deficit is high and retail inflation is in double digits. At first glance, India's current economic environment looks similar to that on the eve of the 1991 economic crisis. The Indian economy has not been spared either by the cascading effect of global turmoil with GDP growth slipping to sub six levels in the financial year 2012-13. The year FY12 saw a sharp deterioration in macro-economic environment with the GDP growth registering the decade's lowest growth of 5.0 per cent per annum. At 4.7 per cent growth, quarter-on-quarter, not only has GDP clocked sub-5 per cent growth for the fifth successive quarter but the likelihood of the economy growing is at even 4.9 per cent in 2013-14 as projected by the CSO in its advance estimates earlier. GDP which had slipped to 4.4 per cent in the first quarter of FY14, rose marginally to 4.8 per cent in the second quarter of FY14 and further decelerated to 4.7 per cent in the third quarter of FY14. . This was mainly due to the protracted weakness in industrial activity aggravated by domestic supply bottlenecks and slow down in the service sector reflecting weak external demand. The agricultural sector too posted subdued growth due to deficient rains. Despite the overall weakness in the economy, the headline inflation (WPI-based) though decelerated; it continued to remain elevated at levels above the Reserve Bank of India's (RBI) comfort zone. While growth in mining stayed weak at -0.6 per cent in FY13, the manufacturing growth weakened from 2.7 per cent in FY12 to 1.0 per cent in FY13. Even the growth in power generation, construction and major services like trade, hotels, transport, finance etc., declined in the band of 60 bps to 310 bps during the year under review. A slew of factors responsible for this weak performance were poor global demand, weak supply linkages, high input costs, sluggish investment activity, regulatory and environmental bottlenecks, and lack of reliable power supply. Furthermore, the slowdown in consumption demand affected the growth of industrial sector, in general and of consumer goods like motor vehicles, food products and apparel industries, in particular.

Inflation measured in terms of WPI moderated to an average of 7.3 per cent in FY13 from 8.9 per cent in the previous year. However, food price inflation remained sticky at the elevated level. Furthermore, upward revisions in the administered prices of the fuel components and the pass-through of high international crude prices to freely priced items, also kept food inflation on the higher side. On account of weak global demand, India's merchandise exports contracted by 1.76 per cent to US$ 300.6 billion during FY13, while imports rose by 0.44 per cent to US$ 491.48 billion leaving a huge trade deficit of US$ 190.88 billion in FY13. According to the commodity wise data released by the DGCI&S, merchandise export decline was mainly observed in items like engineering goods, petroleum products, textiles and iron ore.

While the economy faced 'stagflation', the other biggest risk faced by the economy was the sharp increase in Current Account Deficit to 6.7 per cent of GDP Q3, FY13, primarily due to very high trade deficit. At this level, the CAD, is historically the highest and well above the sustainable level of 2.5 per cent of GDP.

The country's economy grew 4.7 per cent in the quarter ended December (Q3) of 2013 slower than the previous quarter's Q2 of FY13 4.8 per cent. (Table 5). Gross domestic product (GDP) growth in the third quarter of the financial year was at a sub five per cent level for a seventh straight quarter. It had expanded to 4.4 per cent in the third quarter of the previous year (2011-12)

Table 5: Annual GDP Growth Rate (in %) at constant price

2012-13	Q_1 of FY14	Q_2 of FY14	Q_3 of FY14
4.5	4.4	4.8	4.7