INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ALLIED SCIENCES (IJBMAS)
A Peer Reviewed International Research Journal
www.ijbmas.in
ISSN: 2349-4638
Vol.5. Issue.S2.2018 (Nov)

INDIAN GROWTH TRAJECTORY: ISSUES AND CONCERNS

Dr.K.Padma

Reader in Economics, SGA Govt. Degree College, Yellamanchili, Visakhapatnam District

Abstract

India is sustaining high growth rate since last 25 years and hence it is considered as one of the success stories of globalization. It is also likely that India emerges as a giant economy in the 21st century. The success is measured in terms of relatively high and sustained rates of growth of aggregate and per capita national income besides near absence of major financial crisis that characterised a number of emerging markets. India's GDP growth rate accelerated from "Hindu rate" of around 3.5 percent per year in the sixties and seventies to 5.4 percent annual growth rate in eighties, 6.3 percent during the decade 1992-93 and more than 8 percent growth rate per annum between 2005-06 – 2010-11and around 7 percent growth rate on average till last year. These results are viewed as a consequence of globalization, liberalisation of the economy, as well as the sound management of the economy. Despite these positive aspects, there are important areas of concern. High rates of growth achieved by India marked increasing inequalities, stagnant agricultural incomes and all compassing agrarian crisis, deterioration in food and nutrition security for significant sections of the population. The high rates of growth failed to generate adequate opportunities for "decent work" to meet the needs of the growing labour force. The present paper studies the growth pattern of India in post reform period and also discusses the issues and concerns that accompanied high growth achieved in the country. The paper is based on secondary data for analysis and presentation.

Key words: Growth Grass Domestic product Gross Value Added inequalities Employment

Introduction

India has attained independence in 1947 and became a sovereign country after adapting the constitution in 1951. The constitution guarantees its citizens socio-economic equality and equal opportunities. Planning was adopted as an instrument to attain rapid economic development besides the set objectives in the constitution. Later, in 1990's the balance of payments crisis made the economy to introduce reforms and the country shifted to market oriented economic policies. The rate of growth of GDP up to seventies was 3.5 percent, which was termed as 'Hindu Growth Rate'. The growth rate of GDP in eighties was around 5 percent and it moved further in later part of nineties and reached to 9 percent in 2010. The Indian economy could withstand the world economic crisis in 2008 and surge ahead to attain higher growth rate. Though the world economy is reeling under economic crisis the Indian economy could achieve higher GDP on average by 3 to 4 points and it is performing better compared to emerging market economies on the one hand and China on the other. This is one side of the coin and the other side and more important side few macroeconomic variables like investment, employment, sectorial growth patterns and quality of human resources and livelihoods of people continue to bother.

Methodology:

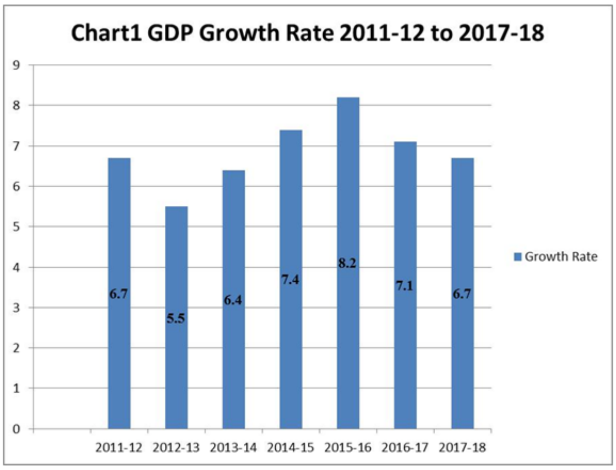
The present paper looks into the growth pattern of GVA and GDP for the period 2011-12 to 2017-18 and tries to analyse the implications of sectoral growth patterns and composition of GDP on the economy. The paper also raises few concerns with regard to human resources, livelihoods and attainment of constitutional provisions, because growth is not for its own sake but for the people. The paper depends on the secondary sources for the data and uses simple statistical tools for analysis. The paper confines to 2011-12 to 2017-18 because the base year is changed from 2004-05 to 2011-12 for estimating real GDP and the concept of GVA is introduced from 2015.

The GDP Growth Trajectory

Table1. GDP Growth Rate 2011-12 to 2017-18 at constant prices 2011-12

Year	Gross Domestic Product	Growth Rate (in crores)
2011-12	8736329	-
2012-13	9213017	5.5
2013-14	9801370	6.4
2014-15	10527674	7.4
2015-16	11386145	8.2
2016-17	12196006	7.1
2017-18	13010843	6.7

Source: Central Statistical Organisation



The India's GDP is growing above 5 percent since last seven years. The GDP growth rate in 2016-17 and 2017-18 is less than the GDP growth rate in 2015-16. The GDP growth rate in 2015-16 was 8.2 per cent. The growth rate of GDP in 2016-17 and 2017-18 was 7.1 and 6.7 respectively (Table1).But GDP in 2017-18 is higher than the average growth rate of world GDP and the growth rate of GDP in advanced economies (Table2). India is sustaining high growth rate since last 25 years and hence it is considered as one of the success stories of globalization. It is also assumed that Indian economy emerges as a giant economy in the 21st century.

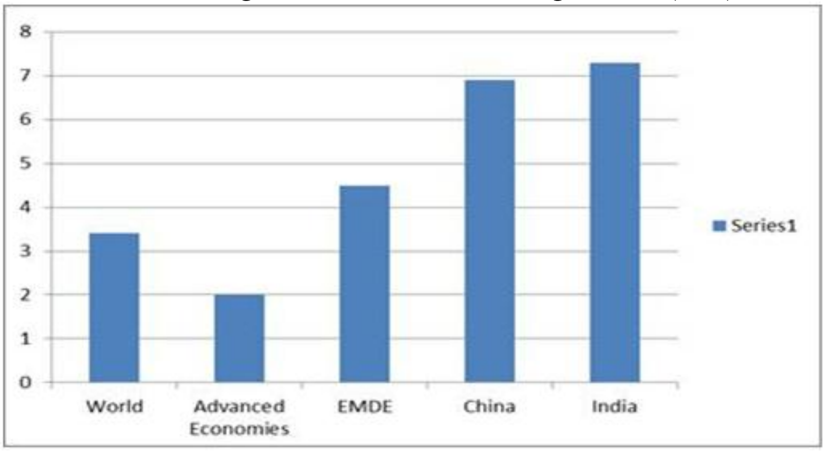
Table2. Average Growth Rate of GDP during 2014-17 (in percentage)

World	3.4
Advanced Economies	2.0
EMDE	4.5
China	6.9
India	7.3

Based on IMF's World Economic Outlook Data base (October 2017)

Source: Economic Survey 2017-18

Chart 2 Average Growth rate of GDP during 2014-17 (in %)



The share of agriculture in GVA up to 2014-15 remained at around 18 percent but it declined from 2015-16 onwards and its share was 17.1 per cent in 2017-18. The average share of agriculture was 18.4 percent for the period 2011-12 and 2014-15 and it was 17.6 percent for the three year period 2015-16, 2016-17 and 2017-18. The average share of Industrial sector was 31.3 per cent during 2011-12 – 2014-15 and the same was 29.4 per cent for the period 2015-16 and 2017-18.Within the industry sector the share of mining and quarrying, manufacture and construction has declined from 3.2 percent, 17.4 per cent and 9.6 per cent respectively in 2011-12 to 2.5 percent, 16.7 percent and 7.4 per cent respectively in 2017-18.The share of industry sector in GVA was 32.5 per cent in 2011-12 and it came down to 29.1 per cent in 2017-18. However, the share of service sector in GVA was 49.0 per cent in 2011-12 and rose to 53.9 per cent in 2017-18. The share of service sector is more than the combined share of agriculture and industry all through the period under consideration (Table3). Let us look at the sectorial composition of the output in chart 3 to have a better idea about the growth pattern of the Indian economy during the period 2011-12 and 2017-18.

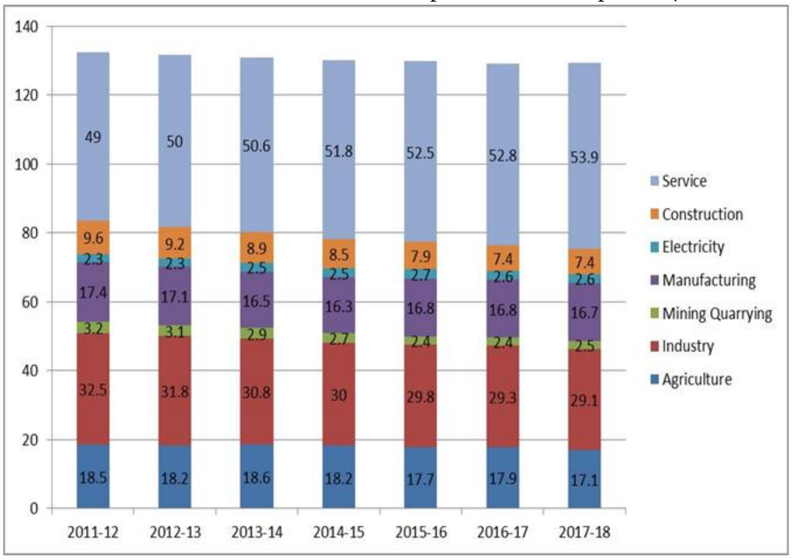
Table3**.** Sectoral Share in GVA at basic price at current prices (2011-12 series) (in %)

Industry	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
I. Agriculture	18.5	18.2	18.6	18.2	17.7	17.9	17.1
II Industry	32.5	31.8	30.8	30.0	29.8	29.3	29.1
Mining &	3.2	3.1	2.9	2.7	2.4	2.4	2.5

quarrying							
Manufacturing	17.4	17.1	16.5	16.3	16.8	16.8	16.7
Electricity, gas & water supply	2.3	2.3	2.5	2.5	2.7	2.6	2.6
Construction	9.6	9.2	8.9	8.5	7.9	7.4	7.4
III Services	49.0	50.0	50.6	51.8	52.5	52.8	53.9
GVA at basic prices	100.0	100.0	100.0	100.0	10.0	100.0	100.0

Source: Central Statistical Office

Chart 3 Sectorial Share in GVA at basic price at current prices (2011-12 series) (in %)



Agricultural sector grew on average at the rate of 2.8 per cent of GVA at basic prices at 2011-12 constant prices. The rate of growth achieved by industrial sector was 6.0 per cent of GVA basic prices at 2011-12 constant prices. The service sector grew at 8.4 per cent of GVA at basic prices at 2011-12 constant prices. The service sector outperforms when compared with the other two sectors in the economy which is a matter of concern. Within the service sector financial services, real estate and professional services grew at a higher rate compared to other services (Table4)

Table4. Growth Rate of GVA at basic price at constant prices- 2011-12 (in %)

Industry	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (P.E)	Average growth rate
I. Agriculture	1.5	5.6	-0.2	0.6	6.3	3.4	2.8
II. Industry	3.3	3.8	7.0	9.8	6.8	5.5	6.0
Mining & Quarrying	0.6	0.2	9.7	13.8	13.0	2.9	6.7
Manufacturing	5.5	5.0	7.9	12.8	7.0	5.7	7.3
Electricity, gas & water supply	2.7	4.2	7.2	4.7	9.2	7.2	5.9
III. Services	8.3	7.7	9.8	9.6	7.5	7.9	8.4
Trade, hotels, transport, communication & services related to broadcasting	9.8	6.5	9.4	10.3	7.2	8.0	8.5
Financial services, real estate & professional services	9.7	11.2	11.0	10.9	6.0	6.6	9.2
Public administration, defense and other	4.3	3.8	8.3	6.1	10.7	10.0	7.2

services							
GVA at basic price	5.4	6.1	7.2	8.1	7.1	6.5	6.7
P.E. ----provisional Estimate							

Source: Central Statistical Office

The average growth rate of consumption expenditure, which includes both private and public consumption expenditure, was 13.03 per cent for the period under consideration. The average growth rate of GFCF (Gross fixed capital formation) was 5.3 per cent for the six year period. The private consumption reached 7.4 per cent in 2015-16 but later it declined to 6.6 per cent in 2017-18. Public consumption was 12.2 per cent in 2016-17 and declined to 10.9 per cent in 2017-18. GFCF growth rate was 1.6 per cent in 2013-14 and its growth rate was 10.1 per cent in 2016-17(Table5)

Table5.GDP and growth components of expenditure on GDP at constant 2011-12 prices

	2011-12	*2012-13*	*2013-14*	*2014-15*	*2015-16*	*2016-17*	*2017-18*
GDP(In crore)	8736329	9213017	9801370	1052767	11386145	12196006	13010843
Growth							
GDP		5.5	6.4	7.4	8.2	7.1	6.7
Private Consumption		5.5	7.3	6.4	7.4	7.3	6.6
Public Consumption		0.6	0.6	7.6	6.8	12.2	10.9
GFCF		4.9	1.6	2.6	5.2	10.1	7.6
Exports		6.8	7.8	1.8	-5.6	5.0	5.6
Import		6.0	-8.1	0.9	-5.9	4.0	12.4

Source: Central Statistical Office

Concerns

The growth in GDP is not without concerns. The sustainability of growth bothers because of its nature. The GDP growth pattern is skewed. The GDP growth is highly dependent on the service sector. Fifty percent of gross value added comes from the service sector in the last six years. The service sector contributed on an average 8.4 per cent to the GVA at 2011-12 constant prices in last six years. Within the service sector, the sub sectors- Financial services, Insurance, Real estate and Professional services and Public Administration, Defence and other services contributed at a higher rate to the GVA. Their contribution to GVA is 16 percent and above during 2014-15 to 2017-18. According to CP Chandrasekhar and Jayati Ghosh 43 per cent of GVA came from finance, insurance, real estate and professional services (FIRE) and public administration, defence and other services in 2011-12 to 2017-18. The contribution of agriculture, forestry and fishing was 6 per cent and construction contributed 4 per cent to GDP in 2011-12 to 2017-18, which indicates a bubble economy (Business Line, Feb26, 2018). Bubbles can burst for many internal or external reasons. This makes the current GDP growth all the more problematic.

The service sector is providing employment to the quarter of the work force in the country. The much of the employment is in those jobs where the productivity is low and wages are low, like self –employed vendors; rather than the professional services that are expanding most rapidly in income terms (Business Line, Feb26, 2018)

The demonetisation and GST hit hard the informal sectors, which employ at least 85 per cent of the working population. The demonetisation led to collapse in employment and livelihoods of people, dislocation in productive activity and many small enterprises disappeared.

The agriculture sector whose share in GVA is around 17 per cent is providing employment to the 50 percent of the working population. Farmers' suicides, frustration and anger of farmers expressed through massive protest rallies in Maharashtra and in Delhi indicate that all is not well with the agriculture sector. The index numbers of crop production as well as agricultural GVA in both crops and livestock points out that crop production has generally languished since 2011-12, falling sharply for two years after 2013- 14 and recovering only to the level in 2016-17. The crop index is 105 and it is above 135 points for livestock. The agricultural sector shown signs of recovery because of the growth in real value added in livestock and hence the incomes of the farmers. Income from livestock accounted for 30 per cent of agricultural incomes in 2016-17. This points out that the crop production and real incomes from cultivation stagnated in a way to suggest real crisis and distress in rural areas. Besides, the livestock economy needs protection and nurturing as it has become a main source of income for the farmers to survive (Business Line Feb 26, 2018).

The other concern is that the GDP growth process, which is overwhelmingly driven by consumption expenditure. Increases in final consumption expenditure accounted for 65 per cent of the increase in GDP between 2011-12 and 2017-18, whereas increases in gross capital formation contributed 19.8 per cent. In 2016-17 and 2017-18, despite high growth, private final consumption expenditure accounted for around 56 per cent of GDP and government final consumption expenditure for another 10-11 per cent, whereas gross fixed capital formation amounted to 31 per cent. These figures contrast hugely with the Chinese case, where investment has contributed close to 50 per cent of GDP for years. Overwhelming role of less capital intensive services and the import intensity of domestic supply are the causes for low investment. The inducement to invest is lower to the extent imports service domestic demand (Business Line June 04, 2018)

In India's case, the fact that high growth has not been accompanied by higher investment levels is explained by two factors: the overwhelming role of less capital intensive services in overall growth; and the "leakage" of domestically generated demand abroad because of the import intensity of domestic supply. To the extent imports service domestic demand, the inducement to investment from domestic demand is that much lower. In the process the production and productivity are the casualties (Business Line June 04, 2018)

Services growth, triggered in part by outsourcing to India, along with consumption and investment demand financed with debt created on the liquidity base that foreign capital inflows create, are determining the nature of growth and its sectorial composition. That makes the growth process unstable and probably fragile (Business Line June 04, 2018)

Exports performance was poor in last four years particularly when the rest the developing economies were experiencing a comparatively better performance. The current account deficits were financed largely by speculative hot money inflows taking advantage of the higher interest rates in India. Such money moves out quickly at any sign of trouble. So the recent decline in the rupee cannot be attributed to the higher prices but to the systematic processes. India and Thailand were the recipients in Asia of such hot money flows. Jayati Ghosh opines "the economy is ill- prepared to deal with the instabilities and uncertainties that are clearly ahead for the world economy. The combination of falling rupee and rising oil prices create inflationary tendencies in the economy" (National Herald Sep14, 2018)

The years of high GDP in India are not accompanied by high GDS. India's GDS reached its peak in 2007-08 and it declined since then. GDS has stagnated at around 32 to 33 per cent of GDP from 2011-12 until 2014-15. Anantha Nageswaran and Gulzar Natarajan in their study' can India Grow? Challenge, Opportunities and the Way Forward: Raising Financial Resources' quoted the brokerage firm Nirmal Bang, which has estimated that gross financial savings of the Indian households declined to a twenty five year low of 9.8 per cent of GDP in the financial year ending March 2015 and expected that the GFS would fall further in 2015-16. The pattern of household savings is illiquid and unproductive. It is reported that 71% of household savings is in the form of land and gold. These contribute very little to India's investment needs. The share of equity and other non-financial investments is marginal. This is in contrast to the global trend which shows the bulk of savings is invested in financial assets.

The high growth rate in India is accompanied by rising inequalities, depletion of natural resources, environmental degradation and job losses. On the one hand increase in GDP led to accretion of wealth to few, prosperity to middle classes but on the other hand it has marginalised the vulnerable sections of the society. According to the recent Oxfam Report, 73 per cent of wealth generated in India in 2017 went to the richest one per cent and 67 crore Indians who comprise poorest half of the population had one per cent increase in their wealth. In 2016, India's richest one per cent held a huge 58 per cent of the country's total wealth.

India is placed abysmally in all social international indices even behind the neighbouring countries. India is placed at 131 in human development index 2017 out of 180 countries; 100th in global hunger index 2017 out of 119 countries; 133 world happiness index 2018; 108 Out of 144 countries in Gender Gap Index 2017; 62nd place among 103 in annual inclusive development index 2018. Credit Suisse's Global Wealth Report, 2018, the richest 10% of Indians own 77.4% of the country's wealth, says and the bottom 60%, the majority of the population, own 4.7%. All these indicate that development has gone awry with rich getting richer and poor becoming poorer.

Conclusion

Indian economy is growing at higher growth rate and emerged as the third largest economy in the world. But the distribution of the benefits of growth is skewed. Top ten per cent of population benefitted at the cost of bottom sixty per cent of the population. The major macroeconomic variables like savings, investment, employment and output are neither consistent nor encouraging. Recent quarterly growth in GDP and its contributing sectors made some to be jubilant to expect that the Indian economy marches ahead with higher growth rate in coming years. As the above discussion throws light on various concerns the economy faces in spite of high growth rate, it is necessary to address these concerns to attain sustained and equitable growth. The basic need is to reorient the policies in favour of poor people who constitute major chunk of the population. Public investment on education, health and infrastructure need to be increased to improve the quality of human resources and production and productive capacity of the country. Besides, there is also need to expand the access and modes of savings so that the household savings will be available to productive investment. Steps to overcome the agrarian crisis and to nurture the growing livestock sub sector of the agriculture are essential to subside the anger and frustration of the farmers. Similarly it is necessary to improve the productivity and living conditions of the workers working in the informal sector at very low wages and poor working conditions through improving their skills and creating opportunities for high wage employment.

References:

1. Chandrasekhar CP and Ghosh Jayati(2018) 'National Income in India: What is really growing' Business Line February 26
2. Chandrasekhar CP and Ghosh Jayati (2018) 'The misplaced growth discourse'
3. Business Line June 04
4. Economic Survey 2015-16
5. Economic Survey 2016-17
6. Economic Survey 2017-18
7. Ghosh Jayati(2018) ' Indian economy not at all in good shape' National Herald,
8. September 14 09.00 PM
9. Nageswaran Anantha V and Natarajan Gulzar (2016) 'Can India Grow? Challenges, Opportunities and the Way Forward, Carnegie India, pp 29-43