



# India's economy: Some reflections on its shaky future



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## ARTICLE INFO

### Article history:

Available online 16 October 2013

### Keywords:

Indian economy  
Growth  
Industrialization  
Services  
Globalization

## ABSTRACT

Contrary to many optimistic perceptions about the Indian economy's future prospects, this paper argues that the next two decades will be a period of great uncertainty. A path pockmarked with great economic and political turmoil, rather than a sustained and smooth process of economic expansion is what is likely. These are inherent in the growth trajectory of the Indian economy – which will continue to be biased towards services and construction activities rather than manufacturing and which will bypass the majority of Indians. If there is to be any different story, it will not come from the economic trajectory endogenously producing a shift to a more stable trajectory. Rather, it is the politics of redistribution that it may give rise to that has to be the source of change. The fact that it may give rise to such a politics does not, however, mean it will.

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## 1. Introduction

In this paper, I try to look ahead at the future course of the Indian economy till 2030. I shall argue that if there is one certainty about this future it is that it is not going to be a smooth movement. Tremendous strain and instability – economic as well political – is likely to characterize the journey over this period because these are inbuilt into the current trajectory of the economy. The real issue then is whether that instability will be just instability or whether it would spur a transition to a more stable path of movement of the Indian economy.

The reasons for the choice the period being considered here rather than a longer one and the general historical perspective which informs this exercise are outlined in the first section of the paper. The second section then opens up the discussion on India's growth prospects with the next two sections highlighting important constraints. The final section preceding the short conclusion then examines the political side of the process and what implications it may have for the course of the economy. A short conclusion then sums up the argument advanced in the paper.

## 2. Speculating about the future: some considerations to be kept in mind

Change through a process of cause and effect is an inherent feature of human life. Consequently any society's past and present are different and yet are causally connected to each other. By extension the future must be also linked to the past and the present while being different. At any point of time, the process of the making of the future is not only under way but would have already travelled some distance. Yet while one may be able to explain, as historians do, how the past of so many thousands of years developed to the present, forecasting the future even when one is talking of a point of time just a few decades away is a different kind of exercise. While explaining the past may be constrained by the limits of historical data and

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information one has at one's command, forecasting the future has the added difficulty of having to be based on such past data alone. The past is certain while the future is inherently uncertain. The stabilities of the past which may be used to explain the other movements are known – we can say for instance that colonialism was a feature of Indian history for 200 years or that a liberal economic policy paradigm is associated with the period since 1991. With regard to the future everything in principle is variable and consequently fewer explanatory factors are available.

It is not of course true that any future is possible. Many outcomes can clearly be ruled out based on present conditions and tendencies. Others may be deemed highly unlikely while those that are within the realm of possibility could be identified. However, no unique possible future may arise from such an exercise. In addition, forecasting on the basis of currently observable tendencies also has to allow for the possibility that there could be in the future critical turning points producing fundamental qualitative changes in the context. In 1927, the Congress had not even adopted the demand for complete independence but it became a reality within two decades. Would anyone observing what happened in India between 1969 and 1976 – the nationalization of banks, coal and other mining, oil and general insurance; legislation of the Monopolies and Restrictive Trade Practices (MRTP) and Foreign Exchange Regulation (FERA) Acts, etc. – have imagined what was just a decade and a half away, namely the post-1991 liberalization?

Thus, there is a case for restricting our speculation about the future, even if one is making conditional forecasts, to a reasonable time limit over which some of the deep-rooted features of the present can be expected to survive. Between now and 2030, one can assume or consider highly probable that the world will not change in some fundamental ways – India will remain a single nation and its political system will survive, the US will remain the world's dominant power and the dollar the world's reserve currency and things like that. There are other elements – such as the current liberal economic policy paradigm – which too can be considered entrenched features of the present but not necessarily to the same degree as others. They are amongst the givens to start with but may also be affected more quickly and easily within the time-frame being considered by the consequences they produce. Taking a set of things as our givens and semi-givens then, one can try and deduce the likely scenarios that may result in the future. That is the approach underlying the speculation that follows.

### **3. India in the world economy: the GDP dimension**

One of the prominent features of the Indian economy's recent history has been that it has grown in aggregate terms faster than the world economy for a period of more than three decades [9,13,16]. This represented a reversal of the trend observed for over two centuries prior to that in which India's relative economic size shrunk considerably [1]. India under colonial rule was shut out of the process of rapid economic and social transformation that came to be witnessed in some parts of the world since the Industrial Revolution of the late 18th century. Things did change after independence but only to a limited extent – the Indian economy grew faster than earlier but so did the world economy. In the 1980s, India speeded up while the world economy slowed down. In the early years of this century, Indian growth rates rose to unprecedented levels. Post-global crisis, however, things have changed somewhat. However, the difference between world and Indian GDP growth remains. Thus, India's weight in the global economy measure in terms of its GDP share has been rising along with that of another big economy, China. These have led to speculations about a changing world economic order and of India's 'emergence' based on the assumption that the trends of the last few decades will continue into the future.

Changes in the world economic order will of course require more than a mere shift in the distribution pattern of world production in favour of its more populous regions. The emergence of developing country currencies as rivals to the US dollar or shifts in technological leadership, for instance, will not be automatic results of such redistribution. Even if we leave aside such things, however, there are reasons to be not sanguine about the prospects of India's rise in the world economy.

Projections about India's future growth trends have tended to fluctuate with the upward and downward movements in observed growth rates. Thus the Goldman Sachs BRICs report assumed that India's GDP growth rate would more or less be bound within the level of 6% per annum till 2050 [10]. A study that appeared soon after raised the projected level to 7% till 2025 [9]. Another Goldman Sachs study appearing a few years after the high growth phase began ratcheted up the projection to 8% [19]. A very recent forecast by the Conference Board [3], on the other hand, in its optimistic scenario visualizes India growing at 5.7% per annum between 2013 and 2018 and at 4.5% per annum thereafter till 2025. If these different forecasts are combined with alternative assumptions about world growth rates over the same period, we get a picture that India's share in world GDP could be anywhere between 9 and 18% by 2030.

The more optimistic projections of India's rising weight in the world economy usually take into account the tremendous potential for structural change – in particular the shifting of a significant proportion of the workforce from agriculture to higher productivity non-agricultural activities – that still exists in the Indian economy. They further draw a simple relationship between 'economic reforms' and the realization of this potential. However, for this scenario to unfold either of two conditions must hold – one, that the current trajectory of India's economy is sustainable over the period under consideration; or two, that India will be able to make the necessary shifts in the trajectory as and when they become necessary. Is there sufficient cause to be optimistic in this regard?

### **4. The sustainability of Indian growth: external sector constraints**

One issue of sustainability of Indian growth arises from its distinctive feature of being dominated by expansion of tradable and non-tradable services and construction activities rather than as is typically the case, by manufacturing

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