ECONOMIC GROWTH OF INDIA: PAST, PRESENT AND FUTURE

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Abstract
The present paper is an attempt to evaluate the growth of Indian economy. India is an emerging economy which has witnessed unprecedented levels of economic expansions alongside China, Russia, Maxico and Brazil. Further it points out that the global crisis did not dent India's growth prospectus the way it dented the prospectus of the mature economies. India today is well positioned to sustain 8.0-8.5 percent annual GDP growth over the next few years. Much of this amount has been invested into several businesses including knowledge process outsourcing industries. India's foreign exchange reserves have gone up in last few years. Capital markets of India are doing pretty well.

Key Words: Growth of Indian Economy, Emerging Economy, GDP Growth.

INTRODUCTION

India has certainly become a country of worldwide attention over the past decade or so, mostly because of its high economic growth and outsourcing hub for major US and European corporations. Everywhere 'Indianness' is the buzzword that has captured the spirit of democracy, hope and prosperity for the future. India's economy has undergone many changes over the last six decades. The process of development depends on various aspects, namely socioeconomic linkages, cultural and political ideologies, class–clan structures and climatic conditions. Policies adopted by the government in New Delhi and at the sub-national level vary according to the characteristics and the nature of the political parties operating at that specific point in time, and those of the different stakeholders and interest groups. Hence the evolution of the Indian economy over the decades reflects considerable variety in economic policies and has subsequently prompted differences in the levels of growth.

The beginning of the 12th Plan was welcomed with slowdown in economy. 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 5.0 per cent per annum. In first quarter of 2013-2014 the rupee got senior citizenship depreciating against the dollar. Real economic growth in the first three decades of Independence was a miserly 3.5 percent a year which shows that the Indian economy reverted to the old "Hindu rate of growth. India's GDP growth was around 3-4 percent till liberalization of the economy witnessed 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 percent compared with India's 3.2 percent. The ration of exports to GDP for Pakistan in 1990 was 15.5 percent against India's 7.1 percent.

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 indicating a balanced and sustained growth. The meitdownof 2008 no doubt has applied a sudden brake to the growth story of the country. After clocking an annual growth of 8.9 percent which though above the growth rates of many countries, is much lower than those of the previous five years. The year FY14 saw a sharp deterioration in macro-economic environment with GDP growth registering the decade's lowest growth of 5.0 percent per annum.

OBJECTIVES

1. To study the Growth of Indian economy.
2. To analyse the sustained growth of Gross Domestic Product (GDP).

OUTLOOK OF SEVEN ASIAN COUNTRIES

The global economy faces a number of challenges caused by the continuance of an economic crisis half a decade long. The sovereign debt crisis and the danger of a banking system meltdown in peripheral euro one countries remain. Added to this, global growth turned weaker in 2012 with falling demand in advanced economies adversely impacting growth emerging market and developing economies. All in all, global output growth slowed down to 3.2 percent in 2012 from 4 percent in 2011.

The global economy has shown passive growth during major part of the financial year 2012-13. The year 2012 had been a year of slow growth world over and as per IMF forecast Global economy However, there is a renewed surge in US and Japan and this has resulted in FH's pulling out funds from emerging markets. Doubts have surfaced as the sustainability of

Quantitative Easting programmes in the US which has led to further pull out funds by FHs from emerging markets. Almost all emerging market currencies, including that of India, are depreciating against the dollar.

However, data from European Union is also disappointing with the manufacturing purchasing Manager Index (PMI) at 46.5. Well below 50- the borderline situation. The European Central Bank at the meeting on May 2, 2013 cut key benchmark rate by 25 bpt from 0.75 percent to 0.50 percent.

International Monetary Fund (IMF) forecasts world output growth to be 3.25 percent and 4.0 percent for the year 2013 and 2014 respectively. Diffusion of two of the biggest threats to the global recovery i.e a breakup of the euro area and a share fiscal contraction in the United States caused by a plunge off the "fiscal cliff" through appropriate policy initiatives by advanced economics has reignited the prospects of recovery. The new momentum is led by Financial and Monetary conditions. IMF's Global Financial Stability Report of April 2013 has mentioned that global finance market conditions have improved in the past six months due to monerty stimulus and liquidity support. The improvement in global financial conditions is supportive of global growth prospects for 2013.

The Financial Year 2011-12 had been a challenging year. The Global Economies witnessed a modest recovery with accelerated GDP growth in US. However concerns persisted with regard to the sustaining of the momentum. The uncertainty in the EURO zone primarily because of the sovereign debt crisis even after large scale infusion of liquidity buy the European Commercial Banks has resulted in the negative GDO growth in the fourth quarter. The increase in oil prices which are mainly fuelled by uncertainties of supply have raised concerns on escalation of global inflation. The emerging market economies which are viewed as growth engines of the world economy world over have also slowed down due to tightening of the monetary conditions to tame the rising inflation.

INCLUSIVE GROWTH

India's government has made "inclusive growth" a key element of their policy platform, stating as a goal: "Achieving a growth process in which people in different walks in life… feel that they too benefit significantly from the process." (Ahluwalia, 2007). How a country may achieve a self-sustaining transition from traditional to industrial economies has been addressed by many contributions to development theory. Economic growth models do not establish or suggest, however, an explicit causal-effect relationship between a country's rates of economic growth and the resulting poverty reduction, although policymakers often assume an implicit connection. The current literature provides some guidelines about conditions under which economic growth might be 'inclusive' or 'pro-poor', although how these concepts should be defined remains controversial. One view is that growth is 'pro-poor' only if the incomes of poor people grow faster than those of the population as a whole, i.e., inequality declines (e.g., Kakwani and Pernia, 2000). An alternative position is that growth should be considered to be pro-poor as long as poor people also benefit in absolute terms, as reflected in some agreed poverty measure (Ravallion, 2004).

Ravallion and Chen (2007) would accept growth to be pro-poor so long as the poor also benefit from growth .This is because by their definition, growth is still pro-poor, even if it results in greater inequalities. Indeed, that is precisely what has happened in India; the rich have benefited more than the poor from economic growth since 2000.

STRATEGY FOR MORE INCLUSIVE GROWTH

The empirical evidence about the relationship between economic growth and poverty reduction suggests that no particular development model is uniquely pro-poor and that the relationship can only be considered empirically, at the case-by-case level. Nonetheless, it should be possible to draw some general conclusions regarding the major sources of pro-poor growth. The international evidence suggests that the rates of poverty reduction have been helped by rapid growth in agriculture, public expenditure on social services, particularly education and health, infrastructure and the quality of governance. For example, Ravallion (2008) concludes that China's success would not have been possible without strong state institutions implementing supportive policies and public investments: "China has had a tradition of building and maintaining the administrative capacities of governments at all levels, including the countless villages that were the frontline for implementing the crucial rural reforms that started in the late 1970s." (p.17). He further adds that promoting agriculture and rural economy is crucial to pro-poor growth, particularly in the early stages, given the potential for small-holder farming to rapidly absorb unskilled labour." Policies targeting social capital development and market reforms to address institutional and socio-cultural constraints should be adopted.

CAPITAL FORMATION, INCREMENTAL CAPITAL OUTPUT RATIO AND GROWTH RATE

A high rate of capital formation is an essential condition for growth of national and per capita income. Growth of capital

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formation which is the same thing as increase in the rate of investment lead to additions to productive capacity of a nation and thus results in a large flow of goods and services thereby increasing the growth rate of economy. In India the rate of capital formation or net investment as percentage of GDP has been stepped from about 10.66 percent in the First Plan to about 23.2 per4cent in the Seventh Plan. This has obviously resulted in growth of national income has been much slower than the increase in investment ratio. In India, while the rate of capital formation of investment rate has gone up substantially over the past four decades of planning, the capital output rate too has increase, thus giving a slow rate of growth of GDP.

UNDERPERFORMING EVEN IN GOOD TIMES

In the post-1979 period, India grew slower than all seven Asian countries. Evidently, even Indian dynamisms under-whelms its Asian counterpart. More strikingly, India grew slower than every country. Thus on a convergence adjusted basis, its performance was worse than the simple numbers suggest. For example, Korea and Taiwan grew three percentage points faster than India on average despite being 2.5 to 3 times as rich at the take – off point. In recent years, the Chinese growth story has attracted all the attention. But the Korean, Taiwanese, and even Singapore growth episodes seen more impressive, because they poster comparable growth rates to China's despite being much richer.

We can compute that India's growth rate should have been had been had it behaved like the rest of Asia in terms of catching up, taking account of the starting point. on this metric ,India should have grown by 7.2 per cent per year rather that 4.1 it actually posted. This underperformance of 275 per cent implies that India's GDP should closer to $15,000 rather than $4,000.

During the go-go years India's performance improved considerably. The average growth rate climbed from 4.1 per cent post -1979 to 6.2 per cent post-2002. But as column 2 of table 2 shows , India still grew slower during the period-2012 that every other Asian countries (ecept Thailand0) did during its first 10 year of rapid growth. On a convergence-adjusted basis, India grew slower than five out of the seven countries.

The simple comparison suggests that India underperformed by close to one per cent a year. On a convergence-adjusted basis, India underperformed by about 0.6 percent per year. These numbers are important in providing perspective to the recent growth experience. Over the longer period, India growth was utterly unremarkable compared to Asian peers. But even the India Shining years seem less glossy. In real time, the impression was one of India outperforming all countries except

China. Properly measured, India did well but not as well as the Asian tigers during their comparable growth spurts (Subramanian, 2013)

ANALYSIS OF INDIAN ECONOMY

India is the 8th largest economy in world in terms of National GDP, and 3rd largest by purchasing Power parity (PPP). India is one of the fastest Developing Economic Superpower with potential to become the world's 3rd largest economy by 2020. India is the 16th largest exporter and the 8th largest importer in the world.

ECONOMIC GROWTH OF INDIA:PAST SCENARIO

In ancient, India was called 'Sone ki Chidiya' (the golden bird) because India occupied a pre- eminent position in the world economy in ancient period as it has been unearthed by the International investigators on the History of Economic Development 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 if Western Europe combined. The beginning of the Common

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 ad 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.

After three centuries of relative and often absolute poverty, India has in recent decades begun to return to its previous position as a global economic power, and this process has accelerated over the last few years. Growth in the Indian economy was quite low in the first 30 years of planning after Independence — from 1950 to 1980. Despite some fluctuations in the

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next two decades gradual but sustained improvement produced an average rate of growth of 5.7% per annum for the 20 years to 2000. Building on that base, the economy appears to have achieved take-off into a higher growth plane, with real GDP growth averaging 8.1% per annum in the three years 2003-04 to 2005-06, and the target growth rate of 8.5% over the 11th Five Year Plan period, 2007-12.

ECONOMIC GROWTH OF INDIA: PRESENT SCENARIO

The fiscal year 13 saw a sharp decade's lowest growth of 5.0 percent annum. This was mainly due to the protracted weakness in industrial activity aggravated by domestic supply bottlenecks, and slows down in the service sector reflecting weak eternal demand. The agricultural sector too posted subdued growth due to deficient rains. Despite the Overall weakness in the economy, the headline inflation (WPI) through decelerated; it continued to remain elevated at levels above the RBI comfort zone. The economy slowed to around 5.0 percent for the 2012-13 fiscal year compared with 6.2 percent in the previous fiscal year. India's GDP grew by 9.3 percent in 2010-11; thus the growth rate has nearly halved in just three years. GDP growth rose marginally to 4.8 percent during the quarter through March 2013 from about 4.7 percent in the previous quarter.

Growth in mining stayed weak at -0.6 percent, the manufacturing growth weakened from 2.7 percent in 2012 to 1.0 percent in 2013, growth in power generation, construction and major services like trade, hotels, transports, and 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 poor supply. The slowdown in consumption demand affected the growth of industrial sector, in general consumer goods like motor vehicles, food products and apparel industries. Inflation rate moderated to an average of 7.3 percent in 2013 from 8.9 percent in the previous year. However, food price inflation remained sticky at the elevated level. Upward revisions in the administered prices of the fuel components and the pass- through of high international crude prices to freely priced items.

On account of weak global demand, India's merchandise exports contracted by 1076 percent to US$300.6 billion during fiscal year 2013, while imports rose by 0.44 percent to US$ 190.88 billion in fiscal year2013. Engineering goods, petroleum products, textiles and iron ore export decline. While the economy faced 'stagflation', the other biggest risk faced by the economy was the sharp increase in current account deficits to 6.7 percent of GDP due to the high trade deficit.

Eleventh five- year plan emphasized faster growth with more inclusiveness, setting an ambitious target of 9 percent GDP growth and a significant reduction in the rate of poverty. However, the economy actually expand at 7 percent and preliminary data suggested

ECONOMIC GROWTH OF INDIA: FUTURE SCENARIO

The initial draft of the approach paper to the 12th plan had set a target of 9-9.5 percent growth, depending on the global economic scenario. However, this was later cut to 8.2 percent. Now the Planning Commission has cut the target for annual growth in gross domestic product (GDP) in the 12th five year plan to eight percent. The draft Twelfth Plan articulates three alternative scenarios for the economy; a scenario with 'strong inclusive growth' which results in rasing the overall GDP growth in the plan period to 8 percent; a scenario of 'policy logjam' which can result in the growth rate dropping to 5-5.5 percent.

As far as prospect of this targeted annual GDP in 12th pan in three scenarios, it is believed that new goal, too, is difficult to achieve, given the uncertain global economic environment and the late start to reforms process. For achieving first scenario (8 percent GDP growth) by getting an average fixed investment to – GDP ratio of 32.6 percent in the plan period as per the study of Shashank Bhide $& Purna Chandra Parida. Second scenario will take place and if the fixed investment to GDP ratio drops to an average of 28.7 percent, this leads the third scenario i.e. an average of less than five percent.

The Projected real GDP of 10 largest counties in 2030 and 2050 ($billion) obviously, India cannot be complacent, since higher growth rates cannot be sustained if there are systemic supply constraints caused by inadequate infrastructure, inefficient agriculture and shortage of skilled human resources. We will need to stay focused on maintaining internal security along with enhancing transparency in land acquisition and licensing of mining. At the same time, political capital has to be expended on pushing reforms in labour laws, energy pricing and banking.

The Carnegie study projects that even in 2050 about 4 percent of India's population would be living on less than $2 a daily, we need to provide employment opportunities, and to provide for those living at the margins of urban agglomerates, since

higher population will be located in urban areas by 2050.

If India aspires to grow along the lines of this report, it would need a widening and depending of the private sector, including a large increase in the number of small-medium size enterprises (SMEs). To move from the big picture of this report to small issues to overcome the problem we need to ensure that financial and accounting statement provide picture of the company or institution concerned. Similarly, financial services group Citi mentioned in a report that “China should overtake the US to become the largest economy in the world by 2020… then be overtaken by India by 2050”

CONCLUSION

The Indian economy has been catching up quickly in the past two decades, and weathered the global recession well. Wide-ranging reforms and increased investment have lifted potential growth to almost 9%, the highest in Indian history, helped by improvements in infrastructure. The government should step up efforts to restructure public expenditure; reduce the fiscal deficit; relax some of the constraints facing the financial sector and further promote international integration. The Indian economy has continuously recorded high growth rates and has become an attractive destination for investments. According to Ms.Pratibha Patil, the former Indian President, "India's growth offers many opportunities for mutually beneficial cooperation. Today India is among the most attractive destinations globally, for investments and business and FDI had increased over the last few years”. The International Monetary Fund (IMF) and the World Bank in a joint report have forecasted that India will register a growth of 6.4 per cent in 2015, due to renewed confidence in the market brought about by a series of economic reforms pursued by the government. Only India is anticipated to witness better growth momentum among the BRIC bloc whereas other member countries are expected to see stable growth momentum, according to Organization for Economic Cooperation and Development (OECD). India could become the world's seventh biggest nation in terms of private wealth, with a 150 per cent increase in total, from US$ 2 trillion in 2013 to US$ 5 trillion in 2018, as per a recent study by the Boston Consulting Group (BCG).

Furthermore, the new 'Make in India' initiative is expected to be a vital component in India's quest for achieving wholesome economic development.

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