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Accelerating growth of Indian Economy

What is the issue?

An export-led backward integration strategy for manufacturing and business services is essential for accelerating economic growth

What is the projected growth of Indian economy?

- The Economic Survey and the Budget have both focused attention on the need to boost the growth rate beyond its current 6-7 per cent band.
- The goal of becoming a $5-trillion economy in five years is clearly the driving force of economic policy now.
- The share of tradeable services in areas like information technology and tourism has gone up.
- Moreover, within the aggregate number, the share of downstream industries has increased relative to the basic materials.

What are the challenges before Indian economy?

- Between 2002-03 and 2011-12, India's non-oil exports rose five-fold from $50 billion to $250 billion.
- Since then growth in the dollar value of non-oil exports has slowed to a crawl.
- At the macro level, the share of manufacturing in GDP has stayed around 17 per cent for about four decades.
- The export-weighted real exchange rate was more or less static at the 2004-05 level during the high growth phase.
- But since then the real exchange rate has risen, making exports less competitive, which must be at least partly responsible for the slow growth.
- The real problem is in trade facilitation and the administrative infrastructure of trade policymaking, clearances, border controls, and tax administration (problems in GST refunds for exporters).
- In India Domestic consumption demand cannot be the driver for economic growth because it is more likely to be a consequence rather than a cause of accelerated growth.

How India differs from Chinese model of acerbated growth?

- The Economic Survey dwells at length on the Chinese record of accelerated growth, in which export-led growth in manufacturing was the key driver.
- The Chinese approach and that of other East Asian countries to growth strategy is best described as export-led backward integration.
- Starting with the manufacture of some high-growth exportable products, based on imported technology, components and materials, domestic companies, often actively promoted by parent companies, acquired the capacity to manufacture these inputs.
- The indigenization of technology development was driven mainly by the pioneering parent companies.
- This has not happened in India. For instance, we have a pharmaceutical industry whose exports have grown quite rapidly.
- But it still depends largely on imports of the active ingredients and specialty chemicals that it uses, and much of this comes from China.
- A more recent example is the smartphone industry, which is simply an assembly operation in India.
- Another successful export sector is software services.
- But here too there has been little backward integration into software development and even less so in frontier areas like artificial intelligence and machine learning.

What factors need to be considered for accelerated growth?

- Growth in manufacturing industries can accelerate if demand growth accelerates.
- Growth rate of 10-11 per cent required for this target is possible only with a substantial increase in the production of manufactured goods and tradeable services, quite apart from radical improvements in infrastructure, capital markets, and labour mobility that would be needed.
- Given the scale of Indian requirements, public procurement of sophisticated equipment for defense or infrastructure projects like Metro rail or for public service digital networks can stimulate growth in a few sophisticated engineering industries if those responsible for the procurement have a long-term vision.
- Export-led strategies depend crucially on the following things —

    1. Adequacy and efficiency in the supply of non-tradeable inputs, particularly infrastructure services.
    2. The availability of labour with the required skills.
    3. An exchange rate that moves in line with purchasing power parity.

4. Productivity changes relative to competitors.
5. Technological dynamism.

- The availability of labour with the required skills is important but is not a precondition for exploiting export opportunities.
- In addition, relatively low cost on job training can ensure that skill availability is not the binding constraint on export growth.
- A base level of education and training is of course necessary and has been built up, though the education and training system does require significant quality improvement all the way from primary schools to higher education.
- An undervalued exchange rate can help and an overvalued exchange rate can hurt price competitiveness.
- But both the prospects for entry into a global market and the staying power will depend on meeting the minimal quality norms and keeping up with changes in these brought about by innovations.

Source: Business Standard