



Economic development in India: A Study on growth outlook & challenges

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Abstract

Economic growth is very essential for estimating the progress of a country. India is facing many challenges to hike economic growth during last few years. Since the early 1990s, when reforms began, growth rates have been higher and more stable, the economy has become more modern and globally integrated, macroeconomic stability has improved. Yet an economic deceleration in the last few quarters has generated worried observations about India's growth potential. The questions being raised are: What is the "new normal" for India's growth potential? What sets of policies, structural or cyclical, might be needed to revive growth? In this paper, we take a long-term perspective on India's growth outlook. Looking back at the last 30 years, we note that India's average growth has accelerated slowly but steadily across sectors - agriculture, industry and services - and become more stable. During this time, all sectors contributed to accelerating growth, including investment, and exports. The emergence of the deceleration to growth rates below 7 percent between 2016–17 and 2017–18 was a deviation, attributed to temporary disruptions in economic activity due to the twin policy events, for implementation of the Goods and Services Tax (GST) and the economy adjusted to demonetization.

Keywords: growth rate, economic development, challenges, gross domestic product (GDP), agricultural development, industrial development, employment rate

Introduction

The journey of economic development in India over the last 74 years, after the independence has been marked by significant milestones and reforms that enabled it to achieve substantial progress in many areas including rise in growth, literacy, life expectancy, income levels and a wide variety of other economic indicators. India has emerged as the fastest growing economy in the world and is expected to be one of the top three economic powers in the world over the next 10-12 years. The United Nations has raised India's growth forecast to 7.5 per cent for calendar year 2021, marking a 0.2 per cent increase from its projection in January, but said the country's outlook for the year relies highly fragile. India's real GDP at current prices stood at Rs. 195.86 lakh crore (US\$ 2.71 trillion) in FY21, as per the second advance estimates for 2020-21.

The year 2020 threw at the world a pandemonium of novel COVID-19 virus, threatening all that was taken for granted – safety, and a normal life itself. This, posed the most formidable economic challenge to India and to the world in a century. The imperative of flattening the disease curve was tangled with the livelihood cost of an imminent recession, which derived from the restrictions in economic activities from the lockdown required to contain the pandemic. Governments and central banks deployed a range of policy tools to support their economies such as lowering key policy rates, quantitative easing measures, loan guarantees, cash transfers and fiscal stimulus measures. India recognised that the pandemic impacts both supply and demand in the

economy.

Growth in Income levels and standards of living

India has achieved tremendous progress in raising growth, income levels and standards of living. The GDP increased from Rs 2,939 billion during 1950-51 to Rs 56,330 billion during 2011-12 (2004-05 constant prices). In 2018-19, India's GDP was valued at an estimated Rs 1, 40,776 billion (2011-12 constant prices). At the same time, the average Indian citizen earned an income of around Rs 7,513 during 1950-51 which increased to Rs 41,255 during 2011-12 (2004-05 constant prices) and further to Rs 92,565 during 2018-19 (2011-12 constant prices). The per capita income increased in real terms despite a significant increase in the population of the country.

Growth in Agriculture and allied sectors

The agricultural sector continues to be an important sector in the Indian economy. The real gross value added by the agriculture, forestry and allied sectors went up from around Rs 1,502 billion in 1950-51 to around Rs 22,263 billion as per the 2011-12 computations. The advent of the Green Revolution during the 1960s was a game-changer for the country. It saw the adoption of modern technology and methods to produce high yield variety seeds that significantly raised agricultural productivity and increased food grain production. The net production of food grains in India increased from around 48 million tonnes during the 50s to a massive 241 million tonnes during 2017. India continues to be one of the largest producers of rice, wheat and various fruits and vegetables in the world

and is also the leader in milk production.

According to the Economic Survey 2021 and report published in Outlook India on 29.01.2021, share of agriculture and allied sectors in India's GDP has risen to 17.8% for the fiscal year 2019-20. "India's agricultural sector has shown its resilience amid the adversities of Covid-19 induced lockdowns. The Agriculture and Allied activities clocked a growth of 3.4 per cent at constant prices during 2020-21 (first advance estimate)," says the Economic Survey 2020-21. Also, the livestock sector grew at CAGR of 8.24 per cent during 2014-15 to 2018-19. As per the estimates of National Accounts Statistics (NAS), 2020 for sector-wise Gross Value Added of Agriculture and allied sector, the contribution of livestock in total agriculture and allied sector GVA (at Constant Prices) has increased from 24.32 per cent (2014-15) to 28.63 per cent (2018-19). Livestock sector contributed 4.19 per cent of total GVA in 2018-19. Fish production too reached an all-time high of 14.16 million metric tons during 2019-20. Further, the Gross Value Added (GVA) by the Fisheries sector to the national economy stood at Rs.2, 12, 915 crores, constituting 1.24% of the total national GVA and 7.28% of the agricultural GVA.

In 2019-20, India's agricultural and allied export was approximately Rs. 252 thousand crores. The many agriculture and related products exported from India were marine products, basmati rice, buffalo meat, spices, non-basmati rice, cotton raw, oil meals, sugar, castor oil and tea. Paddy procurement in Kharif Marketing Season (KMS) 2020-21 until January 10, 2020, reached over 534.44 lakh metric tonnes (LMT), an increase of 26.24% against the last year corresponding purchase of 423.35 LMT. In November 2020, the planting of winter crops exceeded by 10% compared with the last year and witnessed 28% increase in area under pulses. The total area acreage under pulses increased to 8.25 million hectares from 6.45 million hectares last year.

Industrial growth and development

India has also made significant paces in terms of industrial development since Independence. The Industrial Policy of 1991 formed a major economic reform and was introduced to reinvigorate the industrial sector. The policy dismantled the system of industrial licensing and opened the greater private sector participation as well as foreign investment.

In terms of real gross value added, manufacturing, electricity, construction, gas and water supply sector stood at around Rs 401 billion during 1950-51. Currently, the sector is valued at around Rs 36,684 billion (2011-12 series). Many sectors gained pace in the manufacturing scenario. The automotive sector attracted global multinationals and built up a range of products of global quality standards. In pharmaceuticals, India is now a major producer and undertakes research to develop new drugs. Engineering and electrical machinery goods have evolved to global benchmarks as well.

In services, new sectors such as Information Technology have transformed the landscape, creating new opportunities such as e-commerce and startups. Services industries have also expanded, with financial services, tourism and hospitality, and retail changing in multiple ways and gaining share in the economy. The real gross value added for the services sector

comprising of trade, transport, communications and hotels increased from around Rs 308 billion during 1950-51 to Rs 14,023 billion during 2011-12 (2004-05 series) and is estimated at around Rs 24,711 billion during 2018-19 (2011-12 series).

Employment

India's labour force is growing by 2.5% every year, but employment is growing only at 2.3% a year. Official unemployment exceeds 9%. Approximately 30% of workers are casual workers who work only when they are able to get jobs and remain unpaid for the rest of the time. The approximately 458 million workers, 394 million (86%) operate in the unorganised sector (of which 63% are self-employed) mostly as informal workers. Around 10% of the workforce is in regular employment. The comparative growth of informal employment was more rapid within the organised rather than the unorganised sector.

Children under 14 constitute 3.6% of the total labour force in the country, 9 out of every 10 work in their own rural family works. Around 85% of them are engaged in traditional agricultural activities. Child labour is a complex problem that is basically rooted in poverty. The Indian government is implementing the child labour elimination program, with primary education. Many non-governmental and voluntary organisations are also involved.

Infrastructure and roads networks

India has also made significant development in infrastructure and has worked over the years to establish a vigorous transport network. The length of roads increased from around 0.4 million km during the 1950s to around 5.9 million km post 2016-17. Length of national and state highways have also increased significantly while the number of registered vehicles has gone up from 0.31 million during 1950-51 to approximately 253 million during 2016-17. Civil aviation has also witnessed enormous growth, with number of passengers increasing from only 10.74 million during 1980-81 to an estimated 345 million during 2018-19.

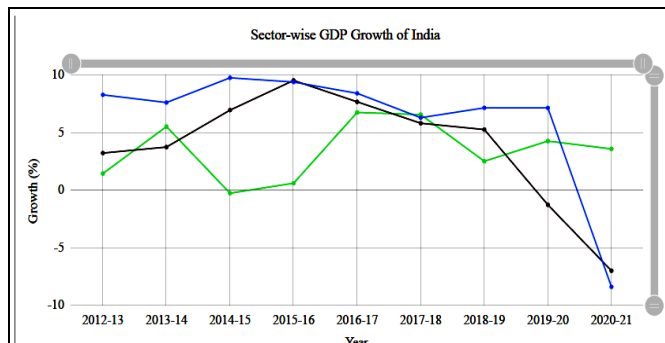
India's power sector

India's power sector has also diversified considerably and made significant progress since Independence. The total energy generated by the thermal, hydro, and nuclear sectors increased from only 5.1 billion KWH during 1950-51 to 1,303.5 billion KWH during 2017-18. India's installed plant capacity went up from a mere 2.3 thousand MW during 1950-51 to 399 thousand MW as of 2017-18.

Sector-wise GDP Growth of India

At 2011-12 prices, GVA growth rates of Agriculture, Industry, and Services sector are 3.63%, -6.96%, and -8.36%, respectively in the year 2020-21. At current prices, growth rates are Agriculture (6.56%), Industry (-5.61%), and Services (-4.86%). At 2011-12 prices, India has registered the highest growth of 3.63% in the 'Agriculture, forestry & fishing' allied sector and the lowest -18.2% in 'Trade, hotels, transport, communication, and services related to broadcasting' sub-sector.

(Source: Ministry of Statistics and Programme Implementation (08.6.2021)).



Source: Statistics Times.com

Fig 1

Table 1

Sector	GVA (Rupees in Crore) at constant prices								
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1 Agriculture Sector	1.49	5.57	-0.22	0.65	6.80	6.61	2.56	4.31	3.63
1.1 Agriculture, forestry & fishing	1.49	5.57	-0.22	0.65	6.80	6.61	2.56	4.31	3.63
2 Industry Sector	3.27	3.79	7.00	9.58	7.72	5.86	5.31	-1.23	-6.96
2.1 Mining & quarrying	0.60	0.19	9.72	10.15	9.84	-5.02	0.28	-2.54	-8.53
2.2 Manufacturing	5.45	4.97	7.90	13.06	7.93	7.53	5.28	-2.44	-7.15
2.3 Electricity, gas, water supply & other utility services	2.66	4.16	7.24	4.72	9.97	10.61	8.01	2.05	1.90
2.4 Construction	0.35	2.66	4.30	3.60	5.91	5.22	6.34	0.98	-8.61
3 Services Sector	8.33	7.66	9.81	9.44	8.46	6.34	7.20	7.19	-8.36
3.1 Trade, hotels, transport, communication and services related to broadcasting	9.77	6.51	9.42	10.24	7.71	10.34	7.14	6.40	-18.20
3.2 Financial, real estate & prof servs	9.74	11.15	11.05	10.66	8.64	1.77	7.16	7.27	-1.50
3.3 Public Administration, defence and other services	4.26	3.85	8.31	6.12	9.33	8.35	7.39	8.29	-4.62
GVA at basic prices	5.42	6.05	7.15	8.03	7.97	6.23	5.90	4.14	-6.16

Source: Statistics Times.com

At current prices, India has registered the highest growth of 6.56% in the 'Agriculture, forestry & fishing' sub-sector and the lowest -17.91 in the 'Mining & quarrying' sub-sector.

Table 2

Sector	GVA (Rupees in Crore) at current prices								
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1 Agriculture Sector	11.53	15.00	8.68	6.40	13.07	12.35	6.59	12.52	6.56
1.1 Agriculture, forestry & fishing	11.53	15.00	8.68	6.40	13.07	12.35	6.59	12.52	6.56
2 Industry Sector	10.94	9.15	8.06	9.22	8.78	10.54	10.03	-1.26	-5.61
2.1 Mining & quarrying	9.50	3.48	4.29	-4.69	11.16	2.85	12.22	-5.66	-17.91
2.2 Manufacturing	11.55	8.94	9.62	14.26	8.74	9.98	9.30	-3.32	-4.67
2.3 Electricity, gas, water supply & other utility services	15.37	20.81	8.50	18.67	6.19	19.68	5.85	7.33	0.17
2.4 Construction	9.27	8.49	6.25	1.23	9.06	11.06	12.44	1.40	-6.33
3 Services Sector	15.98	13.94	13.66	10.37	11.68	10.85	12.46	10.75	-4.86
3.1 Trade, hotels, transport, communication and services related to broadcasting	17.75	12.65	12.44	8.87	10.66	13.38	11.16	8.75	-15.48
3.2 Financial, real estate & prof servs	16.05	16.48	14.20	11.12	10.86	7.41	13.28	10.54	0.89
GVA at basic prices	13.52	12.61	11.01	9.30	11.06	11.03	10.68	7.58	-2.96

Source: Statistics Times.com

The Industry sector was the fastest growing sector in one year and the Agriculture sector was the fastest-growing sector in two years. Growth of the Agriculture sector has been fluctuating: lowest -0.22% in 2014-15 to highest 6.80% in 2016-17. Performance of Agriculture sector is much better in current prices as it has attained highest growth rate among all three sectors in five years since 2012-13. The services sector

has been the highest growing sector in six years. First time in 2020-21, the Services sector has the lowest growth rate among the three sectors. The average growth rate between 2012-21 at constant 2011-12 prices are Agriculture (3.49%), Industry (3.82%), and Services (6.23%). At current prices, growth rates are Agriculture (10.30%), Industry (6.65%), and Services (10.54%). (Source: Ministry of Statistics and Programme Implementation (08 Jun 2021)).

Significant footprint in the global economy and Development growths

The process of liberalization was started during the 1990s to make the Indian economy more open to trade and external flows gained pace. The objective was to improve the efficiency of the Indian economy through reduction in trade barriers such as import tariffs. Today, India has developed a important footprint in the global economy. In services exports, India has emerged as the top exporter of IT services.

The value of exports of goods and services stood at just around USD 0.1 billion during 1950-51 while merchandise exports were valued at USD 330 billion in 2018-19.

Literacy rates have increased significantly, from 18.3% during 1950s to 52% during 1990s to 73% during 2011. In healthcare, the advent of sophisticated and modern technology has led to reduced prevalence of diseases and increased longevity.

Households' access to safe drinking water at the all-India level improved from 81.4% during 1991 to 91.4% during 2011. This has been major improvements in other socio-economic indicators such as increase in the gross enrollment ratios in school and rise in the number of recognized educational institutes in the country.

All these promises to contribute to an ever growing and ever evolving economy and spur further economic growth. The reform pace continues at a fast pace with major reforms such as the introduction of the landmark Goods and Services Tax, the Insolvency and Ease of Doing Business reforms.

Economic slowdown onset of the COVID pandemic

As per the report of World Bank (31.3.2021), India has made remarkable progress in reducing poverty, since the 2000s. Since the year 2007, the economy of India has developed by around more than 9%. This growth rate has improved the per capita income and poverty has reduced by around 10% and the standard of living. Between 2011 and 2015, more than 90 million people were lifted out of extreme poverty. During the same time, the industrial sector grew by around 10.63 % and contributed around 29% to the GDP. The manufacturing sector experienced a growth of around 12% which was a significant leap from the 8.98% in the year 2005.

After growing at high rates since 1991, India's economy had already begun to slow down before the onset of the COVID-19 pandemic. The COVID-19 pandemic has reversed the course of poverty reduction. Between the year 2017 and 2020, growth decelerated from 8.3 percent to 4.0 percent, with weaknesses in the financial sector. After March 25, 2020, when a national lockdown was implemented, economic activity slowed sharply.

The informal sector, where the vast majority of India's labour

force is employed, has been particularly affected. Real GDP is estimated to have contracted by 8.5 percent in FY21 overall, but it has become positive again in the second half of the year. The economic slowdown triggered by the outbreak is believed to have had a significant impact on poor. A national lockdown to contain the health emergency was complemented by a comprehensive policy package to mitigate the impact on the poorest households as well as on small and medium enterprises. The implementation of a national lockdown on March 24, 2020, brought economic activity to a halt, affecting both production and consumption. As a result, growth was negative in the first half of the fiscal year 2020 and only modestly positive in the second half. Over the entire FY21, India's economy is estimated to have contracted by 8.5 percent.

India is currently facing setback to its economic development in decades as a result of COVID-19. The pandemic has severely affected near-term economic activity and exacerbated existing vulnerabilities in the Indian economy. It will take some time for the Indian economy to recover. The Government and the Reserve Bank of India took several monetary and fiscal policy measures to support vulnerable firms and households with increased spending on health and social protection.

Conclusion

The economic development in India after the independence has been marked by significant milestones and reforms that enabled it to achieve substantial progress in many areas including rise in growth, literacy, life expectancy and income levels. India has emerged as the fastest growing major economy in the world.

Since 1990s, when reforms began, growth rates have been higher and more stable; the economy has become more modern and globally integrated. In the last few quarters has generated worried observations about India's growth potential. We note that India's average growth has accelerated slowly but steadily across sectors - agriculture, industry and services. All sectors contributed to accelerating growth, including investment, and exports.

The year 2020 was predominated by the COVID-19 pandemic, posing the most formidable economic challenge to India and to the world, since the Global Financial Crisis. India enforced an intense lockdown at the onset of the pandemic, characterizing a unique response in several ways driven by the findings from both epidemiological and economic research. India's humane policy response focused on saving human lives, recognising that the short-term pain of an initial, stringent lockdown would lead to long-term gains both in the lives saved and in the pace of the economic recovery.

The outbreak of COVID-19 has been the largest shock to economic activity in India. The current crisis will exacerbate pre-existing vulnerabilities, including a lack of fiscal space and a high level of non-performing loans, and this could impede the pace of the near-term recovery. Nevertheless, India's economic outlook continues to be supported by a range of favourable structural factors. India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers in the world over

the next 10-15 years, backed by its robust democracy and strong partnerships.

Agriculture sector has remained the silver lining while contact-based services, manufacturing, construction were hit the hardest. Inflation, mainly driven by food prices, remained above 6 per cent for much of the year, given supply disruptions. The softening of CPI inflation recently reflects easing of supply side constraints that affected food inflation.

India recorded the real GDP (gross domestic product) growth of 0.4% in the third quarter of FY21, as per the NSO's (National Statistical Office) second advance estimates. This rise indicates V-shaped recovery progression that started in the second quarter of FY21.

India's overall exports from April 2020 to February 2021 were estimated at US\$ 439.64 billion, (a 10.14% decrease over the same period last year). Overall imports from April 2020 to February 2021 were estimated at US\$ 447.44 billion (a 20.83% decrease over the same period last year). According to IHS Markit, Purchasing Managers' Index (PMI) for manufacturing stood at 57.5 in February 2021. Gross tax revenue stood at Rs. 113,143 crore (US\$ 15.58 billion) in February 2021, up from Rs. 105,361 crore (US\$ 14.51 billion).

India is expected to be the third largest consumer economy as its consumption may triple to US\$ 4 trillion by 2025, owing to shift in consumer behaviour and expenditure pattern, according to a Boston Consulting Group (BCG) report.

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