New Era of Enriching Hindu Growth Rate

Sunil S. Bhandare

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> *"Free Enterprise was born with man and shall survive as long as man survives".*
>
> \- A. D. Shroff
> Founder-President
> Forum of Free Enterprise

Introduction

Mr. S.S. Bhandare has vividly covered a wide canvas articulating where the Indian economy is currently poised and how it can be propelled into a higher orbit, for which it has ample potential. Indian economy has undoubtedly matured in the last two decades and is close to a take-off. Consequently the country is being increasingly given greater weightage in international councils and has come to be recognised as a formidable emerging economic power.

The author has convincingly alluded to our strength and shortcomings and suggested many sensible and doable solutions. The shifts in income and expenditure patterns are well illustrated. The country's growing soft power in the arts, culture and entertainment domains has been rightly projected. Throughout his analysis Mr. Bhandare pinpoints the imperative need for effective action and implementation keeping in step with well conceived plans and projects. He rightly concludes what the country requires today more importantly is a high pedestal of governance, good governance and better and better governance for sustainable and more inclusive growth in coming decades!

It is a thought-provoking treatise which makes very absorbing reading not only for economists and academicians but for all intelligent citizens interested in the rapid growth of the economy on a sustainable basis.

We are grateful to Shailesh Kapadia Memorial Trust for their generous support in bringing out this booklet.

Sd/-
M. R. Shroff
President, Forum of Free Enterprise

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Sunil S. Bhandare*

Introduction

Indians remained content with what was popularly recognized as "Hindu" growth rate of about 3.5% per year for almost first four decades of economic planning. The inspiration for doing somewhat better came to us in the mid-eighties thanks to the then nascent whiff of economic liberalisation. For little over a decade thereafter, we moved on to a "neo Hindu" growth rate of little over 5.5% per year. This phenomenon has since been blcssoming. And come and behold, we have now been able to score economic growth of well over 7% per year in the first decade of twenty-first century, which is just behind us. Surely, one would legitimately like to describe this performance as one of "Enriching Hindu" growth rate.

If we were to consider just the period of last five years (2004-05 to 2009-10), which also covers the recent interlude of a severe setback caused by the global economic crisis, then India's real GDP growth turns out to be at its historic high of 8.5% per year.

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It is a new benchmark-setting achievement; and it lays a new foundation for transformational shifts in the socio-economic profile of the country in the coming decades. It gives a fresh impetus for planners and policy makers as well as entrepreneurs, professionals, engineers, scientists, farmers and workers to envision and strive for even more ambitious growth path. In a sense, this is an enduring reward of an irreversible process of economic reforms, ushering new ethos of liberalisation, competition and globalisation since 1991-92.

Not surprisingly, Dr. Kaushik Basu, the Chief Economic Adviser in the Finance Ministry has in one of his recent statements exuded confidence, while stating that "India has the potential to grow at the rate of 10% in years to come, but far that the lethargic bureaucracy has to pull up its socks and policy-makers should learn lessons from economies of China and Singapore". Coming as it does from such an eminent economist, this cannot be viewed as wishful thinking of an idle mind. His perceptions represent the new mindset of so many of our knowledgeable people from different walks of life believing in the glowing future of emerging India.

Features of "Enriching Hindu" Growth

Doubtless, even sustaining the present growth performance, over a longer-term period of the next quarter century, promises to transit India into the league of present economic super powers of the world. But what are the key characteristics of this first decade of the twenty first century that truly qualifies it to be described as one of "Enriching Hindu Growth" (EHG) rate phase? What are its prime manifestations?

(1) Accelerating Pace in Doubling of Per Capita Income Growth

At the macro level, there has been a doubling of real GDP (at factor cost, 1990-91 prices) from Rs.17,865 bn in 1999-00 to an estimated (most likely figure) of Rs.35,800 bn in 2009-10. In the erstwhile socialistic planning strategy, the first doubling India's GDP took almost two decades (1950-69), while the second doubling happened in the subsequent 19 years. Indeed, the growth accelerator triggered by economic reforms has led to **the recent doubling of real per capita income in just about twelve years.** [Please see the table below for divergent growth phases]

Incidentally, it needs to be clarified that the Central Statistical Organisation, Govt. of India, has recently released the **New Series of national accounts data,** replacing the earlier base year for measuring the real GDP from 1999-2000 to **new base year 2004-05.** While the new series makes a significant qualitative difference in sources, procedures and methodology of national income data, and therefore, it is most desirable and welcome change, there is hardly any difference in the year to

(% compound annual growth rate)	Real GDP	Agriculture	Industry	Services	Per Capita real GDP
1950-89 (Hindu Growth Phase)	4.0	2.5	5.6	4.9	1.8
1990-00 (NeoHindu Growth Phase)	5.7	3.2	5.6	7.1	3.6
2000-10 (EHG Phase)	7.2	2.2	6.8	9.1	5.6

***Note:** The sector-wise growth rates worked out above are on the basis of earlier series (base year 1999-00) of national accounts statistics. But even with the new series, the above pattern will virtually remain unchanged.*

year growth rates of the economy unveiled by the same for the period 2004-05 to 2009-10. Since, there is no long-term (historical) continuity in the official data available so far, we have used the earlier series and applied the officially estimated growth rate for 2009-10 in our above figures of India's real GDP for that year.

*At this stage, it is also important to point out that the latest Report of the PM's Economic Advisory Council unveils a very positive outlook on India's over-all growth scenario. Indeed, on the basis of various assumptions and its own independent judgement, it makes "an initial estimate that the economy would grow by 8.2 per cent in 2010/11 and by 9.0 per cent in 2011/12". Evidently, therefore, the economy is slated to return to high growth path of 9% annual real GDP growth very soon. However; among other things it also emphasises that "the two principal constraints to growth that face India in the medium to long term are the low productivity in agriculture on the one hand **and** inadequate physical infrastructure on the other; of which, the most important component is the power sector".*

While appreciating our remarkable performance over the last decade *and the expected restoration of high growth trajectory over the next two years*, it is also necessary to recognise that **India has still a long way to go!** A quick international comparison of gross national income (GNI), based on the latest World Development Report (WDR 2010) of the World Bank, places India's GNI (at market exchange rate) at $1216 bn in 2008, and her rank at 12" in the group 133 countries. Her rank is fourth in terms of GNI PPP (purchasing power parity) at $3375 bn in 2008. **But in terms of per capita PPP GNI at $2960, her rank still continues to be as low as 83rd in this group.** China, of course, has done very much better – her market exchange rate GNI is higher at $3899 bn, and PPP GNI is as high as $7984 bn

– thereby, it acquires the 2nd rank after the USA. **China's per capita GNI at $6020 is more than twice that of India.**

Catching with the present level of China's per capita GNI, will require more than a decade of sustained high real GDP growth rate of over 9% per annum and at the same time we need to assume that China will remain frozen at its present level of national income. While the former is in the realm of possibility for India under her new era of EHG, the latter is not only unrealistic, but just foolhardy to believe! In substance, while the process of catching up with China seems to have begun, the democratic India have more and more intensified challenges to envision and deliver her aspirations.

Quite apart from such simplistic comparison of GNI ***per se*** between two of the Asia's dominant economies, we must also acknowledge the fact that in a number of areas of commodities sector, China has, in comparison with India, huge production capacities and actual domestic consumption. Illustratively, China is reported to have at present steel capacity of 660 mn. tonnes, production of over 560 mn. tonnes and consumption of 450 mn. tonnes. In comparison, India produces and consumes just about 60 mn. tonnes of steel. Likewise, in cement industry too, China commands almost half of the total cement production capacity and consumption of the world, namely, nearly 1400 mn. tonnes approx as compared to 200 mn. tonnes in case of India. Such huge differences in production and consumption are also iound in many other areas like electricity, coal. automobiles, electronic goods, etc.

Thus, despite the recent great strides made by India, both in quantitative and qualitative terms, in the over-all economic growth as well as in the manufacturing sector, there are so many potential opportunities for our country to accelerate growth momentum

in a number of basic, infrastructure and consumer goods industries. Therefore, in the coming years, India will have to give greater thrust on the manufacturing resurgence not only to catch up with China, but on considerations of creating incremental employment opportunities to absorb growing labour force of 10 to 12 mn persons annually, and also to facilitate shifting of the excessive employment dependency from the agricultural sector.

(2) Rapidity of Structural Shift – Leapfrogging into the Services Sector!

Also, at the macro level, one of the key features of this EHG decade is continuation of the rapid structural shift in the composition of gross domestic product. There is an **unprecedented upswing of the services sector –** a newly found strength of the Indian economy! (Please see the table below). Many sub-sectors of the services sector like finance, banking and insurance; communications; IT & ITES; etc. have been scoring consistent double digit growth over the last decade.

(% ***share)***	1989-90	1999-00	2009-10*
Agriculture	31.8	25.0	15.5
Industry	19.7	19.6	18.8
Services	48.5	55.4	65.7
Total GDP	100.0	100.0	100.0

Source: RBI Handbook of Statistics, 2008-09

Note: RBI includes construction sector as part of services, and not as part of industry.

* ***Our estimates are based on likely projected sectoral growth rates and derived from the earlier series of national accounts.***

***Admittedly, many eminent experts have been expressing their concerns and reservations about the efficacy of such structural shift* – the sharply falling share of agricultural sector even in the face of a predominant share (55%) of labour force still dependent on this sector for its employment,** it is argued, does not augur well for the reduction of high incidence of rural poverty, and for more equitable and balanced structural development.

The other most contentious issue is about the impact of EHG on the over-all performance of poverty parameters. This aspect, doubtless, requires more comprehensive and holistic evaluation, especially given the confusion, controversies and contestable positions surrounding this subject. **Even the earlier official estimates of rural poverty for 2004-05 have now been found wanting** in terms of methodological dimensions, and have substantially been revised upwards on the basis of Dr. Suresh Tendulkar Committee findings. Nevertheless, suffice it to say, compared to the first four decades of economic planning, in the more liberalised economic milieu of the last two decades, India has been able to make further significant positive impact (i.e. the reductions in) on poverty ratios.

While on this subject, it is imperative to highlight the current disturbingly and stubbornly high level of food inflation hovering around 18% over a year. Indeed, there are many essential goods like pulses, sugar, edible oils, potatoes, onions and several other vegetables and fruits where the price increase range from 30% to 70% over the last year. Such persistent high food inflation for most part of the current financial year is the outcome of the vicious convergence of many formidable factors – the virtual long-term stagnation in the growth of food production; falling agricultural productivity; changing pattern of consumption demand; disconnect between procurement policy, PDS and issue

prices at ration shops; failure to promote and manage food processing, storage and wastage mitigation activities; and virtual lack of co-ordination between the Central Government and various State Governments in their respective spheres of responsibility in managing the food situation.

As a consequence, the plight of the consumers has become increasingly pathetic not just in terms of high prices, but continuously declining levels of per capita availability, especially of food-grains. Illustratively, if were we to add year to year increases and decreases of food-grains production, the alarming fact that emerges is that the country could add only about 14 mn tonnes of net production during the period 1998 to 2009. During this period, India's population increased by more than 160 mn. In substance, growth rate of food-grains production over the last decade or so works out to meagre 0.6%, while population growth rate during this period was over 1.6% per annum. Obviously, there is a deep seated'malady and therefore, the solutions have to be comprehensive and consistent, ushering in what is popularly being described as the "Second Green Revolution".

Thus, to fortify the new era of EHG, there is an urgent need to focus on improving agricultural productivity through new set of agricultural reforms with emphasis on consolidation of land holdings, promotion of contract farming or wherever feasible even corporate farming, improved management of water resources, encouraging and expanding post-harvest technology, techniques and practices through creation of appropriate rural infrastructure of agriculture-processing, warehousing, cold storage facilities and rural connectivity. As most agricultural scientists and experts have repeatedly pointed out, the agricultural sector is crying for covering over the coming decade three key areas deficits, namely, of investment, infrastructure and institutional deficits. Of course, all these are well-known solutions, but the failure invariably has been in action plan and its implementation!

(3) Emergence of New Drivers of the Manufacturing Growth

Although the overall manufacturing growth at about 7.5% per annum during the current EHG phase can not be deemed as very impressive, **there are several sub-sectors, wherein the growth performance has been at more than the double digit rate.** Illustratively, automobiles production in 2009-10 is expected to cross 11 mn numbers – more than two and half fold expansion in a span of just a decade. At the same time, domestic market for automobiles has been expanding rapidly. For example, Indian car producers are now selling 1.5 mn cars, while it was tough to sale even 500,000 cars in the mid nineties.

Apart from growth of some conventional basic industries like cement, steel, etc., striking successes have been secured in areas of petroleum products, automobiles: consumer durables (as a group), telecom equipments, pharmaceuticals, as well as new niches in speciality chemicals and bio-technology products. The manner in which Indian industry responded to the challenges of global competition, and emerged as a very promising, **competitive outsourcing hub 'in a number of industrial segments,** is ***per se*** a powerful sub-plot of India growth story of recent years.

Aiso, the main hall mark of EHG is the **new found confidence of Indian industry to offer to the world another powerful (capable of substituting China!) global industrial factory** over the coming years. Indeed, at the high value end of manufacturing, the foreign players are found to be greatly impressed by India's emerging large potential. All these forces will go a long way in accelerating the progress of manufacturing sector that is

comparable with powerhouse of China and mitigating the prevailing level of divergence, as briefly pointed out earlier between the two major emerging economies of the world.

Doubtless, in meeting the aspirations of Indian industrialists and new class of entrepreneurs, the Government will have to augment infrastructure investment in its own domain of public sector and/ or strengthen the existing policy environment for the private sector to progress faster either on their own or through the mechanism of Public Private Partnership framework. We have often seen. how lack of adequate physical and social infrastructure has stymied realisation of higher growth rates in the last decade. Most striking shortfalls are in the areas of power and transport (and more specifically public transport in urban areas). In case of social infrastructure, from the point of view of manufacturing sector, one of the major areas of concerns happens to be the lack of adequate employable manpower. So, therefore, to sustain EHG milieu on a longer-term basis, the Governments both at the Centre and States must vigorously push forward with education reforms and also provide much needed thrust on vocational education and training. The good intentions of the Government have yet to be translated into time-bound action programmes.

(4) Remarkable Contribution of IT/BPO Industry

While leapfrogging of the economy into the services sector is ***per se*** one of the most significant features in the new era of EHG, we must, at the same time, also acknowledge the remarkable role of the IT/BPO industry during the last decade. India has truly become an example of a country which has begun to emerge as a significant power in generation, diffusion, absorption and application of knowledge and ideas relating to IT software services. While India has done well in the overall services exports, almost half of the contribution (i.e. over $50 bn) at present is estimated to have come from IT/BPO services exports. This industry has so far created direct employment opportunities for over 2.2 mn workforce and indirect employment for as many as over 8 mn. persons. This industry has become a catalyst to social and economic transformation in India and country's interface with the rest of the world.

This industry has brought about a new class of first generation entrepreneurs, built up top class IT professionals and software engineers, created significant job opportunities and uplifted incomes of India's "low-cost" skilled manpower. This apart, based on the current trends in stock markets, it is evident that the IT/BPO listed companies have led to the creation of significant wealth through progressive expansion in market capitalisation. These companies have also given depth to the equity culture in the economy. However, the enormous potential of this industry is still waiting to be explored and exploited in the coming decades. Needless to say, India will have to strive hard to retain its *numero **uno*** position amongst the emerging countries, for there are so many of them seeking to expand their share of the global market for IT/BPO services exports. But the moot point in the context of our theme of EHG is that the IT/BPO industry is not only giving impetus to the growth of the economy, but is also engendering dynamism to the entire positive outlook for the economy.

Incidentally, one wonders whether could there have been any better testimony to India's emerging prowess – not just in the current format of IT/BPO services – than the appreciation (or anguish!) coming from the US President Barack Obama that "If India or South Korea are producing more scientists and engineers than we are, we will not succeed ". Of course, this should not make our policy-makers complacent and overlook the imperatives of strengthening the entire spectrum of higher education, its

administration, its institutional requirements, and above all our concerns relating to research and development, especially in the areas of new technologies.

(5) Rapid Shift of Private Consumption Expenditure

Even in the midst of shrinking share of private final consumption expenditure (PFCE) in GDP during the current EHG phase (mirroring the rising share of household savings to GDP ratio), there are **some discernible shifts in the pattern of PFCE.** Thus, according to the available CSO data, between 2001-02 and 2007-08, the share of food group in PFCE at constant prices (1999-2000 prices) has fallen from 48.2% to 42.3% and clothing and footwear from 5.9% to 5.2%.

But, at same time, there is growing evidence that households are **now spending more on comforts and convenience products and services** like personal transport equipments, communications, education, medical care, furniture and furnishings, hotels and restaurants, and miscellaneous goods and services (may be inclusive of tourism, media and entertainment services). The composite share of these items has risen sharply from about 35% to 43% during this period of just seven years. Evidently, the enriching middle-class is causing **some sharp shifts in its consumption behaviour,** and in turn, promoting the emergence of new businesses and industries in the economy.

We believe these trends are going to gather increasingly sharper momentum with enlarging middle-class, expanding urbanisation and rapidly changing format of retail and entertainment businesses. Already, there is significant development in retail landscape not only in the metros but also in'the smaller cities. There are a whole lot of convenience stores, department stores, super markets, hyper markets, branded storks and so on. The profile of organised retail, which even now accounts for less than 5% of the total retail business potential in India, is transforming rapidly the lifestyles of the urban centres, but gradually stepping into the rural areas. Indeed, those who patronise these modem retail outlets are doing so not only to meet their physical needs, but also to enjoy the psychological "feel good" shopping experiences. Similar scenario prevails in the new format of cinema theatres – the multiplexes and innoxes of the world! Once again, such game-changing phenomenon characterises the essence of new era of EHG.

(6) Changes in the Shape of Income Pyramid

Based on various earlier NCAER reports, India's income structure for past several decades was essentially characterised by very low incomes at the bottom end (a very massive layer representing over two-thirds of the households) and a sharply tapering apex representing very rich, rich and higher income groups, accounting for less than 10% of the total households. **There is some growing evidence that the bottom of the pyramid is shrinking,** while the middle and upper segments of the pyramid are expanding. In other words, EHG phase of 7.3% annual real GDP growth has brought in its wake a shift towards lower middle, middle and upper middle-class households.

This shift may not be very perceptible in a short period of last seven to ten years. But it is apparent from the recent McKinsey Global Institute study that **if India sustains the growth momentum at the level** similar to what has been described by us as EHG then the bottom end of the pyramid would drop to less than 20% by 2025, while the share of the middle and rich 'class would rise to almost half of the total households. This may sound somewhat simplistic analysis (and may require more rigorous economic analysis), **but the point is that sustained high growth for well over next two decades would dramatically change. the shape of India's income pyramid**

and unveil sharply changing pattern of consumption expenditure, which, in turn, would create sharply changing business and industrial opportunities, as has happened in the first decade of twenty first century.

Admittedly, the contentious i'ssue about **what happens to high incidence of absolute poverty and income inequalities would invariably continue to dominate the debate** in academic and professional forums, as well with planners and policy makers for many more years to come, as has been the case so far. The anecdotal and circumstantial evidence, however, does tend to suggest that while income inequalities would have certainly increased during the EHG period, there must have been some further improvement in the poverty ratio under the impetus of **"trickle down"** phenomenon, and **the Government's strong interventionist social welfare policies** through schemes like NREGS, Sarva Shiksha Abhiyan, etc.

Concluding Observations

In summing up, what has been outlined above are some of the key facets of multiple dimensions of underlying **"mega trends" of the economy, both at macro and micro levels.** We strongly believe that "Enriching Hindu Growth" phase has many other promising dimensions in shaping the future economic profile of the country.

- It was a decade in which India has been **successful in scaling up its savings and investment ratios** significantly. Indeed, in 2007-08, our ratio of gross domestic saving to GDP touched an all-time high of 36.4% and gross capital formation to GDP ratio of 37.7%. However. due largely to the "fiscal stimulus" measures, which became imperative to ward off the threat of global economic crisis adversely impacting India's economic performance, both savings and investment ratios declined sharply in **2008-09.** Even so, at **35%** of GDP, our investment ratio is quite capable of promising at least **8** to **8.5%** real GDP growth, if we manage to keep our incremental capital output ratio (ICOR) at about 4:1. We believe that if the government restores the discipline of Fiscal Responsibility legislation over the next two or three years and rolls back substantially fiscal deficits, we would move gradually towards 40% savings and investment ratios.

- It was a decade wherein we have also seen Bihar – the erstwhile BIMARU state with a record of prolonged period of stagnation – now showing a potential of achieving growth raie comparable with high performance of erstwhile South East Asian "mirscle" countries, and soine of our own States like Gujarat, Maharashtra, Haryana, etc. Bihar has shown the way to turn around with an impressive growth rate of 11% per annum in its state domestic output over the last five years. Admittedly, our vision for Bihar needs to be continuously buttressed by pragmatic and efficient State administration and governance system.

- Like-wise, on social welfare plane, it must be stressed that had it not been for the high growth bringing about buoyancy of tax revenues (especially during the period 2003-**04** to 2008-09), it would have been fiscally strenuous (almost impossible) for the Government to progress so extensively (may not 'be very effectively!) in the implementation of several social welfare programmes. Incidentally, under the NREGS, the estimated expenditure in 2W-10 is now placed at Rs.45,000 crores. For the rural pocr, NREGS wage rates are found to be more attractive than the prevailing market rates. Nearly **40** mn households in 620 districts have secured employment; and some **2.5** mn households have completed **100** days of employment. In substance EHG performance on a sustained basis could pave the way for more direct attack on poverty and greater distributive justice through welfare schemes.

- On a cultural plane too, it was a decade when the Indian film industry not only went international, but also won global recognition. "Slumdog Millionaire" won eight of the ten nominations it received at the Oscar and also changed the lives of some of the children who acted in this film. Like-wise, the popularity of several TV reality shows have unveiled the hidden talents of many young participants from the nook and corner of the country and raised the aspirations of thousands of other "have nots" of the society.

- What is also heartening about EHG milieu is a remarkable mind set change – it refreshingly reflects the spirit of "yes, we can do it"! When "India Shining" was being proclaimed in **2003-04** it was generally debunked more as a political slogan and most of the people were either apologetic or sceptical about its true significance. But now "India Growth Story" is more widely acclaimed – and rightly so; it is more realistic and truly represents the underlying high growth potential and its qualitative transformational import for the socio-economic profile of the country. When this story suffered a set-back under the impetus of global economic crisis during **2008-09,** many were convinced that it was a temporary phenomenon and that the economy will bounce back sooner than later, given an appropriate counter-cyclical policy response. And yes, the economy is getting back on the track of high growth!

In substance, the Enriching Hindu Growth rate syndrome has **so much under its belly to drive the next paradigm of socio-economic transformation in the country.** All the recent official proclamations – be they from the PM, the FM or even from the policy makers and planners – seem to exude great confidence of India's capacity to scale up even to a double digit growth path over the immediate future. Our businessmen and entrepreneurs, who have made rapid strides in their businesses and industries during this last decade, are even more (or perhaps audaciously) optimistic about unfolding growth prospects. There is virtual consensus that India now needs more positive, proactive investment-friendly policy; and more importantly, **a high pedestal of governance,** good governance and better and better governance for sustainable and more inclusive EHG in coming decades!

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

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Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s. Dalal & Shah and M/s. G. M. Kapadia & Co., chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce and Economics, Mumbai, in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions. His leadership qualities came to the fore when he was the President of Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai. He was member, the Institute of Fiscal Studies, U.K.; he was member, Law Committee and Vice Chairman of the Direct Taxation Committee of the Indian Merchants' Chamber. He was also a Director of several public companies in India and a Trustee of various public Charitable Trusts.

He regularly presented papers on diverse subjects of professional interest at refresher courses, seminars and conferences organized by professional bodies.

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- Eugene Black
Former President,
World Bank

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