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Spatial and Temporal Dynamics of Development Challenges in India

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Abstract

India's economic growth with a dynamic micro and macro environment both in its domestic and international dimensions has been a challenge for policy makers. India's economic development is directly correlated and has been accelerated as a result of expansion of exports, emergence of new industries, innovations in some high-tech fields, increased investment in information technology and increased shares of services sector in GDP etc. India has poised to be a global super power in the twenty first century by being less affected from the global financial crisis. Some strong points which have saved and sustained the Indian economy till now are : daunting infrastructure, fiscal consolidation, financial system reforms, and labor regulation etc. Although, these reforms have been able to save the Indian economy from drooping yet they have not helped in accelerating the development. Combining reforms with inclusive growth is required to carry ambitious sustained growth forward. The paper is based on the secondary data from various published national and international sources. Coverage of the paper will be for the period of 1990 to 2012. This paper attempts to explore challenges, to understand the roots of the challenges in the past, to give insight for the future problems.

Keywords: Development, challenges, India, Economy.

Introduction

India has been on continuous growth path since 1991 due to liberalization, urbanization, globalization, and privatization policy. The Indian economy has performed particularly well growing at high average annual rate of 7.2% since 2000. But the slowdown of Indian economy in the present year can be attributed almost entirely to the poor industrial growth. The weak manufacturing activity, inflation, the uncertain global environment led the Indian economy towards dark future… Reflecting the weak manufacturing activity and rising costs, revenues of the centre have remained less than anticipated; and, with higher budgeted expenditure outgo, a slippage is expected on the fiscal side. On the other hand the global crisis, turmoil in the euro zone, an the weak outlook of US economy by the rating agencies has further provoked and deepened the crisis for the Indian economy by lowering the level of FDI. However India has gained the world admiration by maintaining a high rate of growth than the majority of the countries in the midlist of global financial crisis . in this setting of argument, the paper explores the challenges in their historical setting and gives an insight for the future problems and policy implications.

Review of Literature

Economic development is a process whereby an economy's real national income as well as the per capita income increases. The development process implies that impact of certain dynamic forces which operate over a long period of time . Review of literature mentioned below throws light on the dynamics of development process.

Arvind Panagariya (2008) has provided a comprehensive empirical overview and analysis of post reform India, concentrating entirely on the economy. The study has key issues such as reforming the banking sector , addressing the public debt, understanding the growth phenomenon, and dealing with sagging infrastructure. According to the study the economy needs to be emphasized rightly on financial sector on one hand and infrastructure growth on the other.

Study by Ravulaparthy Ramarao (2012) shows the importance of micro and small enterprises According to the study development is an inclusive and distributed growth. The increase in the employment rate will create inclusive growth. Competitiveness is essential for sustaining growth. Migrating people from agriculture to industry and further to services should be the strategy for a sustainable growth and development of our nation. Agro-based and high tech industries should be given priority. A good industrial base will ensure a good domestic market for services and will be a self sustaining economy in case of international economic downtrends. Both industry and services should be employment-oriented to keep our large manpower engaged and productive. The solution for this lies in sustained development of micro and small Enterprises.

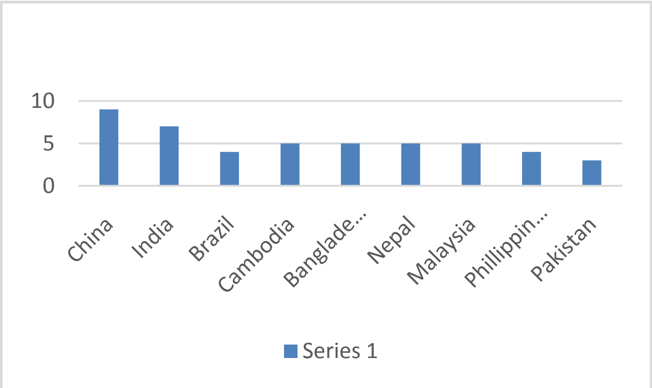
Kuo Tsai tom liou (2012) examined the development of China's incentives policies and their relationship with economic development . China has implemented various managerial strategies to promote efficiency in its economic system and special preferential tax policies to promote economic development… But these policies have also resulted in major challenges, such as effectiveness and equity concerns, managerial accountability and transparency , economic upgrade and balance. The application of incentive policies during China's economic reforms has shown both similarities and differences from the finding reviewed in previous studies. China has adopted similar government guided development policies and specific tax preferences and financial assistance to attract foreign investment and business development

Analysis

India's economic growth has received potential attention in recent years. It is also evident that the India's growth has accelerated over the past two decades. Sweeping economic reforms that commenced in 1991 have included the de-licensing of most industries , deregulation of industries earlier monopolized by the public sector, liberalization of foreign trade through a steady reduction in tariffs and freeing up of the foreign investment limits in nearly all industries. These measures have had far reaching consequences and today, India has a strong , vibrant and fast-growing economy which is rapidly integrating with the global economy **(Ernst & Young, 2006).**India is forecast to become the third largest economy in the world, after China and the US, by the year 2050 overtaking all other developed economies **(Wilson and Purushothaman, Goldman sachs:2003).**

Table 1: GDP Real Growth Rate of Selected Countries

Country Name	GDP Real Growth Rate (%)
China	9
India	7
Brazil	5
Cambodia	5
Bangladesh	5
Nepal	5
Malaysia	5
Philippines	4
Pakistan	3



Source : World Bank,2009

Table 1 shows India's GDP real growth rate global ranking in relation to selected countries as in 2009. China has been the fastest growing nation. It grew at 9 % per annum and India followed it by growing at 7% per annum. So, India is in the process of joining the high growth trajectory nations.

Table 2 : year-wise Real GDP growth rate and Related Statistics, India

Year	GDP- Real Growth Rate (%)	Rank	% change in GDP Growth Rate
2003	4.30	54	-
2004	8.30	16	93.02
2005	6.20	43	-25.30
2006	8.40	24	35.48
2007	9.20	23	9.52
2008	9.00	23	-2.17
2009	7.40	28	-17.78
2010	7.40	10	0.00

Source: World Bank , 2010.

Table 2 shows growth empirics, achieving high growth rate is easy but generating the conditions to maintain the high growth rate and translating it into an inclusive growth rate is a million dollar question. Although the growth rate is fluctuating but the ranking is improving which hints at better position in comparison to other world economies. Year-wise real growth of GDP of India is presented in Table 2 (an accounting figure). Table is indicative of the fact that the growth rate picked up in the year 2004. Economy took off from 4.30% per annum growth rate in the year 2004. Economy took off from 4.30% per annum growth rate in he year 2003 to 8.30% . In the year 2007, it touched the mark of 9.20% per annum growth rate and in the last two years, it stabilized around 7.40% per annum. In teams of growth rate based ranking India that used to be at a world ranking of 54 has come at the ranking mark of 10, Now India ranks among the top ten growing countries of the word in terms of real growth rate of GDP.

Table :3

Growth in GDP at constant Market Prices
(Percent)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-2010	2010-11	2011-12
Total final consumption expenditure	8.7	7.7	9.4	7.7	8.3	8.1	6
Private final consumption expenditure	8.6	8.5	9.4	7.2	7.2	8.1	6.5
Government final consumption expenditure	8.9	3.8	9.6	10.4	14.3	7.8	3.9
Gross capital formation	16.3	13.8	17.2	-1.6	11.6	11.1	5.8
Gross fixed capital formation	16.2	13.8	16.2	3.5	6.8	7.5	5.6
Change in stocks	26.7	31.6	31.3	-51.4	63.2	37.4	2.9
Valuables	-1.6	13.7	2.9	26.9	57.6	32.4	12.5
Exports	26.1	20.4	5.9	14.6	-4.8	22.7	14.3
Less imports	32.6	21.5	10.2	22.7	-2.2	15.6	17.5
Discrepancies	48.2	47.5	111.8	-75.3	230.5	38.9	-111.6
Growth in GDP at 2004-05 market prices	9.3	9.3	9.8	3.9	8.2	9.6	7.5

Source : Reports presented by CSO in the QE of national income released on 31 January 2012.

Table3 shows the growth in GDP at constant Market Prices. It shows that the demand-side GDP IS 9.3 per cent in 2005-06 and came down to 3.09 per cent in 2008-09 which got recovery in 2009-20 and in the year 2010-11, it was sharper at 9.6% respectively. The trigger point for the Indian economy in capital formation in the year 2008-09 is in negative 1.6 per cent. At this time most of the industries suffer huge losses. These types of imbalanced growth rates make an economy uncertain for its residents and investors. Post – crisis growth in gross fixed capital formation has been indifferent. The growth in real terms of consumptions expenditures, gross fixed capital formation, exports and imports respectively works out to 6.0 per cent, 5.6 per cent, 14.3 per cent, and 17.5 per cent for the year 2011-12. The growth in these indicators in 2010-11 was 8.1 per cent, 7.5 per cent, 22.7 per cent, and 15.6 per cent respectively. The rate of growth of private final consumption expenditure in real terms has been rather steady and did not decline drastically even when the growth rate was relatively lower. The reason behind this is inherent nature of private consumption that does not fluctuate as much as other demand-side components on one part and account of inflationary tendencies, on the other hand.

If the global crisis deepens and domestic economy slows down beyond what is currently anticipated, the fiscal slippage could turn out to be an issue of concern. It could potentially erode the fiscal consolidation achieved in the previous year. If the economy slows down beyond what is currently anticipated, the resultant revenue erosion could magnify the slippage….Now the policy challenge for India is not to raise growth from 8 to 10 per cent. Rather the primary challenge is to sustain rapid growth while extending rapid growth and its benefits to more regions, sectors and people. The challenges for policy makers today is to balance the growth momentum with inclusionary policies (Ahmed and Varshney,). The eventual prospects for making India's growth process more inclusive are not encouraging. If rapid growth continues, some of this will necessarily 'trickle down' and help the poor. Beyond that the scope for hastening this trickle via deliberate redistribution is limited (Kohli,2006). Evidence suggests that income inequality is rising and the gap in average per capita income between the rich and poor states is growing.

Policy implications

In nut shell from the review of literature and data it is implied that development can be increased by the following measures : by the growth of domestic product, education, employment, modernization providing housing, infrastructural development, urbanization, women empowerment, inter-state development, availability of food and basic amenities like health care, water, the flow of foreign investment, literacy rate of female, infant mortality, income distribution, governance & public distribution system, political stability, economic stability, increased investment rate, production rate and saving rate etc. but growth can be achieved in real sense only when it is planned to reach in particular, to deprived and marginalized sections whose number is growing every year. By expanding financial inclusion, inclusive growth can be attained by achieving equity. However in India , the policy makers have already initiated some positive measures aimed at expanding financial inclusion, but the efforts are opined by many as not commensurate with the magnitude of the economy. The fiscal space to support any counter cyclical policies is more limited than what existed at the time of the global crisis of 2008, Therefore share of FDI should be increased in order to simulate the growth in the overall economy and it is need of hour.

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