Changing Dimensions of

EMERGING BUSINESS ENTERPRISES

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CHAPTER 50

SLOW ECONOMIC GROWTH IN RECENT YEARS - WHAT IS THE WAY OUT?

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Introduction

The period 2003-04 to 2013-14 can be divided into two phases – the first, a period of high growth rate with moderate inflation rate and second period beginning from 2008-09, witnessing slow rate of economic growth coupled with high inflation rate. This complex economic situation in the Indian economy is described as the "Great Reversal".[1] Its causes have to be carefully diognised in order to be able to arrive at reasonably plausible policy prescriptions. The year 2007-08 was the first year of the eleventh five year plan and it witnessed a robust rate of growth of 9.3%. This was preceded by two years of the tenth five year plan – 2005-06 and 2006-07 – which also saw equally robust growth rate of 9.5% and 9.6% respectively. The eleventh five year plan document contained good deal of optimism and talked about achieving an average growth rate of 9% by achieving a slightly higher rate of growth of 10% in the final year of the plan. The planning commission also felt that if this goal could be realized, then the Indian economy would be able to make a big dent on its persistent high percentage of poverty. However, the "Great Recession" that began in the U.S.A. from the last quarter of 2007 and lasted for another six quarter and engulfed within its fold large part of the world economy, brought about a reduction in the growth rate steeply to 6.7% in line with what happened in many countries of the world including the world economy as a whole. Its growth rate came down to less than 2.5% as a result of which the policy makers could pronounce that the world economy had also fallen into recession. Most countries of the world undertook identical economic stimulus measures of providing larger amount of bank credit at reduced interest rates and appropriate fiscal policy measures of reducing taxes on business and higher government spending. The U.S.A. , the European countries as well as Japan reduced their interest rates practically to zero. India also provided the requisite economic stimulus and the next two years – 2009-10 and 2010-11 – could achieve a significantly higher economic growth rate of 8.6% and 8.9% respectively. However, the Indian economy began to slide on the lower growth, trajectory from 2011-12, the last year of the eleventh five year plan when it could record a significantly lower growth rate of 6.7%. The first two years of the twelfth five year plan 2012-13 and 1013-14, recorded the lowest growth rates in the last decade – 4.5% and 4.7% respectively. The estimated growth rate for 2014-15 is placed at around 5.5% by various organizations.The first half of the period – 2003-04 to 2007-08 – registered moderate rates of inflation from 4.4% to 6.5%. The inflation rate spurted up to 8% in 2008-09 and except for the year 2009-10, when it touched a low figure of 3.6%, remained at considerably higher level, during 2010-11 to 2012-13. The relevant information is presented in the following table.

Table – 1 : Macroeconomic outcomes[2] 2003-13

Year	Growth %	Inflation %	Central Fiscal Deficit/GDP %	Growth of Agriculture %	Relative Price of Food	FDI (Rs, bn.)
2003-04	8	5.5	4.3	10.8	100	198.3
2004-05	7.1	6.5	3.9	0.1	96.4	269.47
2005-06	9.5	4.4	4	5.5	97.7	394.57
2006-07	9.6	6.5	3.3	4.1	100.5	1026.52
2007-08	9.3	4.8	2.5	6.3	102.7	1394.21
2008-09	6.7	8	6	-0.3	103.7	1907
2009-10	8.6	3.6	6.5	0.4	115.1	1578
2010-11	8.9	9.6	4.8	9.5	121.5	1324
2011-12	6.7	8.8	5.7	5.3	119.6	1548.16
2012-13	4.5	7.4	4.9	0.9	112.5	1465.82

The above table presents a picture of the Indian economy that combines robust growth with price stability between 2003-04 and 2007-08. The parliament had passed the Fiscal Responsibility and Budget Management Act (FRBM Act) under which the Central Government was required to reduce fiscal deficit to 3% and revenue deficit to 0% by 2008-09 and this could be achieved by this time except that the target for the economic deficit had to be put off by one year. This was one of the important factors that contributed to price stability. Again, after 2003-04, the FDI inflow went on increasing year after year. This inflow, coupled with the inflow of foreign capital on account of portfolio investment more than offset the current account deficit on India's balance of payments, contributing to a healthy growth of foreign exchange reserves which touched a high figure of $314.6 billion by end of May 2008 in contrast to only $5.8 billion by end of March 1991. This imparted in turn, lot of stability to the dollar-rupee rates. In fact, the supply of dollars on the foreign exchange market was so large in the later part of this period 2003-04 to 2007-08 that the Reserve Bank of India had to undertake sterilization operation to mop-up the additional liquidity in the Indian economy to prevent the adverse impact of this phenomenon on the domestic money supply and the price level. While there are some variations in the FDI inflow from one year to another, it, on the while, presents a stable picture of this important phenomenon. In the second phase of this period, apart from the inflow of FDI, there was also outflow of FDI when two of India's leading business houses undertook big ticket investment abroad – Tata group investing in steel and car industry in Europe and Birla group investing in aluminum units in the U.S.A. While these are significant landmarks in India's corporate history, they did not influence growth and inflation in a manner so as to cause serious instability.

Saving – Investment Behaviour

It is the volume of saving that determines the volume of investment, which in turn, would determine the growth of GDP in any economy, other factors like rate of interest, marginal efficiency of capital, productivity of capital etc. remaining same. I present below first the relevant information on saving and then investment.

Table – 2 : Domestic Saving by Sectors (at current prices) as % of GDP.[3]

Item	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Household Sector	23.6	23.5	23.2	22.4	23.6	25.2	23.1	22.8	21.9
Private corporate sector	6.6	7.5	7.9	9.4	7.4	8.4	8.0	7.3	7.1
Public Sector	2.3	2.4	3.6	5.0	1.0	0.2	2.6	1.2	1.2
Gross Domestic Saving 1+2+3)	32.5	33.4	34.7	36.8	32.0	33.8	33.7	31.3	30.2

One qualitative change that the economic reforms from 1991 brought to the Indian economy is that they raised the rate of saving from 25% before to more than 30%. In the foregoing table, we can see that the lowest rate of saving is 30% witnessed by the Indian economy in 2012-13. This table also brings out a few interesting points. The household sector shows the highest rate of saving of 25.2% in 2009-10 from which it came down steeply to 21.9% in 2012-13. It is important to remember that in case of household sector, composition of its total savings is also quite important. In total savings, the relative share of financial saving in comparison to saving in physical assets is important in the sense that savings in the form of financial assets can give push to investment or capital formation by the business sector. On the other hand, saving in physical assets like land, buildings, gold and silver, even if it proves to be profitable for the households is not helpful in promoting productive investment in the economy. It can give rise to unproductive speculative activity in these assets, vitiating the overall investment climate in the economy. This is what ordinarily happens when inflation rate is high. High inflation rate in the economy reduces the real rate of interest on financial saving and encourages its diversion to physical assets. Over the past five to seven years, this has been happening. This also led to huge import of gold, adding to the deficit on the balance of trade in the Indian economy. Financial saving was 12% of GDP in 2009-10 and came down steeply to 7.1% in 2012-13. On the other hand, saving is physical assets was the lowest at 10.8% in 2007-08, and increased sharply to 15.8% and 14.8% of GDP during 2011-12 and 2012-13 respectively.Let us now turn to saving by private corporate sector. It was 6.6% of GDP in 2004-05, increased to 9.4% of GDP in 2007-08 and came down to 7.1% of GDP in 2012-13. While it certainly went down, the decline was not as steep as it was in case of the financial saving and saving by the private sector.The worst performer, however, was the public sector. Its saving was 2.3% of GDP in 2004-05 and became 5% of GDP in 2007-08 and then, except for one year 2010-11 when it was 2.6% of GDP, was less than 1.5% of GDP for all years up to 2012-13. It is interesting to note that for its two important components – saving by public authorities and by government administration – it has been negative for practically all years. This fact also explains the persistence of high level of revenue deficit as percentage of GDP which was to be brought down to zero percent as a part of our programme of fiscal consolidation. We can see here the important link between declining rate of saving and declining rate of economic growth in recent years in the Indian economy.[4]

Investment Spending

We now turn to gross capital formation or investment spending in the Indian economy during the period under consideration. It is useful to note that it consist of three parts – (a) Gross fixed capital formation, (b) change in stocks and (c) valuables. Of these components, the first namely gross fixed capital formation is by far the most important in creating its impact on the growth of GDP and the relevant information is presented below.

Table – 3 : Gross Capital Formation at Current Prices as a % of GDP

	Item	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Gross Fixed Capital Formation	28.7	30.3	31.3	32.9	32.3	31.8	30.9	31.8	30.4
(a)	Public sector	6.9	7.3	7.9	8	8.5	8.4	7.8	7.2	7.8
(b)	Private corporate sector	9.1	11.8	12.5	14.3	10.3	10.2	10.4	9.4	8.5
(c)	Household sector	12.7	11.2	10.9	10.6	13.5	13.2	12.7	15.2	14.1

2.	**Change in stocks**	2.5	2.8	3.4	4	1.9	2.8	3.5	1.9	1.7
3.	**Valuables**	1.3	1.1	1.2	1.1	1.3	1.8	2.1	2.7	2.6
4.	**Gross capital formation**	32.5	34.2	35.9	38	35.5	36.4	36.5	36.4	34.7

Source – National Income Accounts, CSO.

The gross fixed capital formation rate increased from 28.7% of GDP in 2004-05 to 32.9% in 2007-08 and finally declined to 30.4% in 2012-13. Similarly, the public sector gross fixed capital formation increased from 6.9% of GDP in 2004-05 to 8.5% in 2008-09 and then came down to 7.8% in 2012-13 registering a marginal decline. On the other hand the household sector gross fixed capital formation was 12.7% to GDP in 2004-05, kept on increasing year after year and increased to 15.2% in 2011-12, only to register a marginal decrease to 14.1% in 2012-13. In line with this, gross capital formation was 32.5% to GDP in 2004-05 increased to 36.5% in 2010-11, to finally settle at 34.7% to GDP showing a negligible decline.In the days before 1991, when rate of saving hovered around 24%, gross capital formation used to be around 26%, the difference being accounted for by the inflow of foreign capital, largely from the multinational financial institutions and the friendly governments. After 1991, there has been a quantitative change with higher growth rate of GDP, the saving rate touched 30% during the course of the decade and over the past 10 years, has been moving around 34%. It is only during last few years, that it has gone below this level, to touch a low figure of 30.1% in 2012-13. Similarly, the rate of gross capital formation has touched a high level of 35%, the difference between the investment rate and saving rate being accounted for by inflow of foreign capital under various heads such as FDI, external commercial borrowing(ECB), American Depository Receipt (ADR) and Global Depository Receipt (GDR).While there has been decline in the domestic saving rate and the investment rate as shown above, these rates, however, did not fall significantly so as to be able to explain a sharp decline in the GDP growth rate from 9% to 4.5%. This clearly indicates that incremental capital output ratio has increased considerably fro 4:1 as was assumed during the days of higher GDP growth rate. In other words, this is an indicator of productivity of capital having gone down steeply. Thus, while all three sectors continued to undertake investment, thus keeping rate of investment at high levels as in earlier years, these investments for one reason or another could not fructify, could not result in to final output, giving to the Indian economy a significantly lower growth rate. A steep increase in the rate of bad loans of the lending institutions, particularly the public sector commercial banks is a pointer towards the same phenomenon. The large number of infrastructure projects – roads, bridges, housing, airports and power has remained incomplete halfway either for difficulty in environmental clearing or that in land acquisition and so on. If the existing investment projects could not be completed in time and profitably, they are likely to cast their dark shadows on the new projects across the spectrum.The twelfth five year plan is half way through and all efforts should be made to speed up the completion of all investment projects – infrastructure, power, steel and coal and so on in the next two and a half years, raising the productivity of capital. "The fact that even today, saving and investment rates are at high levels despite having declined from a much higher level reassures us that if we are able to find ways to complete projects speedily, we should be able to usher in rapid growth in income even in the short run. This should eneble ugrow between 7 to 7.5% in the short run.However, only a return to higher levels of saving can take us back to the growth rate of 9 percent."[5]

High Inflation Rate

If we look at table 1, in the first phase of 2003-04 to 2007-08 which experienced high growth rate and low inflation rate, four years out of five saw high rate of agricultural growth, with only one year 2004-05, witnessing near zero growth rate. On the other hand, during the second phase from 2008-09 to 2012-13, that saw slow GDP growth and accelerating inflation, two years 2008-09 and 209-09-10, had extremely poor record of agricultural growth, with 2008-09 experiencing negative growth rate among ten years. All in all, three years out of five saw unsatisfactory rate of agricultural growth. The table shows not only slow rate of agricultural production in the second phase, it also brings out the volatility in the growth as during one year 2010-11, the Indian economy experienced one among the higher rates of agricultural production. From the same table, we can see for the same reason that the index of relative price of food 2003-04 = 100, increased sharply from 103.7 in 2008-09, to 122.5 in 2012-13. Thus extremely low rate of agricultural production contributed towards reducing saving rate in rural India and also towards lower overall growth rate of the Indian economy. This very phenomenon also contributed towards raising food prices steeply and thus keeping inflation rate at a high level since 2010-11.In order to support the agricultural sector and income of the farm community in general, the government has raised farm support prices for number of crops which directly push up the prices of agricultural commodities. On the other hand, the government has taken number of measures since 2004 to give push to income of different groups associated with the agricultural sector. The relief in interest rate on farm loans helped most of the farmers by reducing their interest burden. Similarly, the introduction of rural employment guarantee scheme provided assured work of number of days and also provided not only stability but increase in the family income of landless agricultural labour as the scheme covered more districts in different states and as the wage rate also increased. The common observation about the rural economic scene is that the wage rate offered by the rural employment guarantee scheme has been higher than that offered by the agricultural households hiring casual farm workers. This factor has contributed to raising the level of income of the agricultural labourers who are covered by the rural employment guarantee scheme. With weak performance of the supply side of the farm sector and growing demand for food and to some extent for the non food items, the food inflation has continued over the past few years. This being the important fraction of the overall inflation, the Indian economy has witnessed a phase of low growth and high inflation since 2008-09. "It is not known widely enough that public capital formation in agriculture has been on a downward path for over two decades, and by 2010 had collapsed to less than a third of its level in 1993. It can hardly come as a surprise then that agricultural growth is less than satisfactory. So long as this situation continues, agricultural production is likely to remain an important factor determining growth and inflation in the economy."[6]

Conclusion

The faster rate of growth witnessed by the manufacturing sector and the service sector is associated with the relative decline in the share of agricultural sector in total GDP in the Indian economy. And yet, low or negative rate of growth of the agricultural sector is bound to exert a downward impact on the growth rate of the economy. While the government took urgent monetary and fiscal measures to reduce the unfavourable impact of the Great Recession of 2007-09 on the Indian economy, no such urgency is visible on the part of the Government even now, when it is busy solving the problems faced by the infrastructure sector. This imbalance in the policy thinking needs to be corrected.

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About the Book

The present book underlines one of the most desperate needs of present era managing changes. The very distinct quality of a change is it can be a positive or a negative change. In a layman's world a change is always a cause of distress, but for an experienced and well learned manager a change becomes an opportunity. Highways for growth and success compulsorily crosses the intersection of change for corporate. The human civilization is the living evidence of shifts and humongous changes in the way we used to execute things and the conditions we used to live in, what has changed everything is an important question. A successful manager, a visionary manager would not only lead an organization towards wealth and profit making but towards "Acceptability towards change". It is a distinct quality which distinguishes between organizations which will grow and which will be gone. Changing dimensions which are caused by changes in present dimensions are really an opportunity in disguise for emerging business enterprises, if they can foretell their occurrence with precision. Formulating strategies and shifting their methodology of overall functioning can lead to a success in changing dimensions. The present book widely covers the various aspects of changing dimensions for various emerging enterprises. Various dimensions like business ecosystem, innovation and entrepreneurship have been accommodated in the present book which underlines the importance of various issues like business ethics, importance of entrepreurship in the growing economy. The book further incorporates burning issues like Brand Building and E-development where changes are quite evident and brisk. Various dimensions of business environment like Monetary and Wealth Management, People Management and Being Human and Education System have been given due consideration in the present book. The book also covers another business dimension which is considered to be more and more for change is International Business. This rare combination of emerging dimensions of business environment in the form of present book is expected to be not only useful but a milestone in the process of decision making of entrepreneurs. It is believed that it is going to be most referred tool for academicians, researchers, industrialists and professionals in the same manner.

₹ 700.00
ISBN: 978-93-5110-859-7
9 789351 108597

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