



World Economic Outlook: IMF

 drishtias.com/printpdf/world-economic-outlook-imf

Why in News

According to the **October update** of the **World Economic Outlook 2020**, India's **gross domestic product** (GDP) will witness a **contraction of over 10%**.

- This is more than the double of 4.5% contraction projected in the **April edition**.
- World Economic Outlook is a survey by the **International Monetary Fund** (IMF) which is usually **published twice a year** in the months of **April and October**.

Key Points

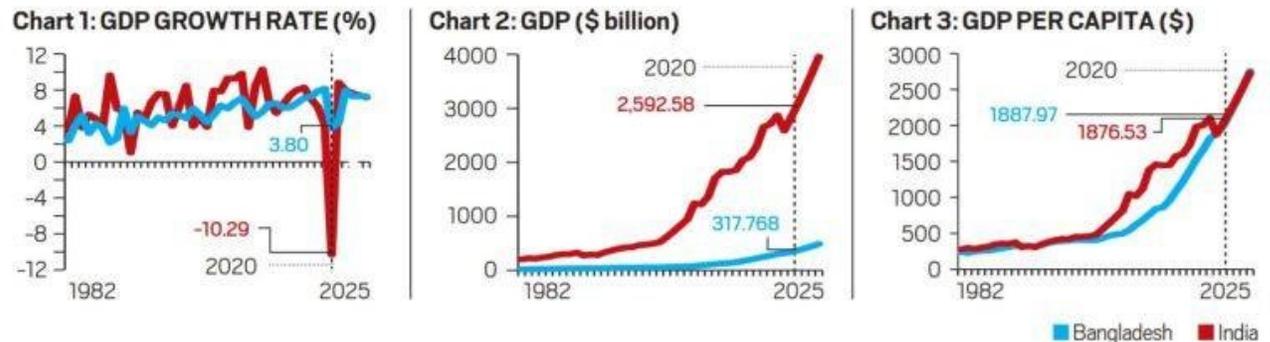
- **Global growth** would **contract by 4.4% in 2020** and **bounce back to 5.2% in 2021**.
- **Indian economy**, severely hit by the **pandemic**, is projected to **contract by 10.3% in 2020**.
The spread of the **Covid-19** and containment measures have severely **disrupted supply and demand** conditions in India.
- However, **India is likely to bounce back with an 8.8%** growth rate in **2021**, thus regaining the position of the fastest-growing emerging economy, **surpassing China's projected growth rate of 8.2%**.
Among the major economies, **China is the only country** to show a **positive growth rate** of 1.9% in 2020.

India-Bangladesh Difference

- **GDP Comparison:** According to the IMF's forecasts, Bangladesh's per capita GDP is expected to overtake India in 2020. **India is likely to grow faster in 2021** and in all likelihood again surge ahead.
- **Per Capita Income Comparison:** However, over the **five-year period ending in 2025**, Bangladesh's per capita GDP is expected to grow at a slightly higher pace, implying that **in 2025, its per capita income would be USD 2,756, marginally higher than that of India's at USD 2,729**.
Given **Bangladesh's lower population growth and faster economic growth**, India and Bangladesh are **likely to be neck and neck** for the foreseeable future in terms of per capita income.

- **Comparison Method:**
 - Typically, countries are compared on the basis of **GDP growth rate**, or on **absolute GDP**.
 - However, **per capita income** also involves another variable like the **overall population** and is arrived at **by dividing the total GDP by the total population**.
- **Major Trends:**

UPS AND DOWNS IN TWO ECONOMIES



- For the most part **since Bangladesh's independence**, on both these counts, **India's economy has been better** than Bangladesh's.
 - India's economy has **mostly been over 10 times the size of Bangladesh** and grown faster every year.
- In **1991**, when India was undergoing a severe **financial crisis** and grew by just above 1%, **Bangladesh's per capita GDP surged ahead** of India's. Since then, India again took the lead.
- There are **three reasons** why **India's per capita income has fallen below Bangladesh in 2020**. These are as below:
 - **Growth Rates: Since 2017 onwards, India's growth rate has decelerated sharply while Bangladesh's has become even faster.**
 - Bangladesh's economy has been clocking rapid GDP growth rates since 2004. However, this pace did not alter the relative positions of the two economies between 2004 and 2016 because India grew even faster than Bangladesh.
 - **Populations: Over the same period, India's population grew faster** (around 21%) than Bangladesh's population (just under 18%).
 - The **combined effect** of these two factors can be seen in how the **per capita GDP gap had closed considerably even before Covid-19**.
 - Bangladesh's per capita GDP was **merely half of India's in 2007** but this was just before the global financial crisis. It was **roughly 70% of India's in 2014** and this **gap closed rapidly** in the last few years.
 - **Impact of Covid-19: The most immediate factor** was the **relative impact of Covid-19** on the two economies in 2020.
 - While India's GDP is set to reduce by 10%, Bangladesh's is expected to grow by almost 4%.

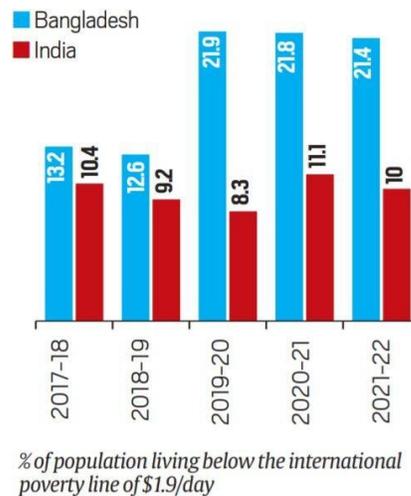
- **Reasons Behind Bangladesh's Fast Growth:**

- **Independence from Pakistan:** It gave Bangladesh a chance to start afresh on its economic and political identity.
- **Less Stringent Labour Laws:** Labour laws were not as stringent and its economy increasingly involved women in its labour force, seen by the **higher female participation**.
- **Role of Garment Industry in Exports:** A key driver of growth was the garment industry where women workers gave Bangladesh the edge to corner the global export markets from which China retreated.
- **Industry and Services Led GDP:** Structure of Bangladesh's economy is such that its GDP is led by the industrial sector, followed by the services sector and both these sectors create a lot of jobs and are **more remunerative than agriculture**.

India, on the other hand, has **struggled to boost its industrial sector** and has far too many **people still dependent on agriculture**.

- **Improved Social and Political Metrics:** Over the past two decades, Bangladesh has improved on several social and political metrics such as health, sanitation, financial inclusion, and women's political representation.
 - For example, despite a lower proportion of the population having access to basic sanitation, the **mortality rate attributed to unsafe water and sanitation in Bangladesh is much lower than in India**.
 - On financial inclusion, according to the World Bank Global Findex database, the **proportion of dormant bank accounts is quite small** when compared to India.
 - Bangladesh is also far ahead of India in the latest **gender parity rankings**. Out of 154 countries mapped, Bangladesh is in the top 50 while India is at 112.
 - Bangladesh with the 75th rank, is ahead of India, with 94th rank, in the **Global Hunger Index 2020**.

Chart 4: PREVALENCE OF POVERTY



- **India's Better Performance:**

- India's **level of poverty is much lower than that of Bangladesh's**. According to the World Bank, poverty in Bangladesh is **expected to increase substantially** in the short term, with the **highest impact on daily and self-employed workers** in the non-agricultural sector and salaried workers in the manufacturing sector.
- India is far ahead of Bangladesh **in basic education parameters** and that is what explains its higher rank in the **Human Development Index**.
- **India** stands at the **63rd rank** while **Bangladesh is at the 168th rank**, out of total **190 countries** in the **Ease of Doing Business 2020**.
- **India** is at the **48th position** while **Bangladesh** ranked **116th among 131 economies** in the **Global Innovation Index 2020**.

Way Forward

- Bangladesh's recent economic performance and its differences from India can be traced to the former's better export performance, especially in garments and apparel.
- India's exports have remained sluggish, which could provide the much-needed fillip to India's economy. However, this would require India to reverse its recent stance on trade, lower rather than raise tariffs, embrace free trade agreements, and seek greater integration with global supply chains.
- Wages in China are rising and countries like Bangladesh are all set to take advantage of this opportunity post-Covid-19. As companies try to hedge their supply chain risks, and shifts away from China intensify, this provides India yet another opportunity but it will require the government to pivot away from protectionism.

Source: IE