India's Growth Strategy Amidst Shifting Dynamics

This editorial is based on **"Calibrating a strategy for India's future growth**" which was published in The Hindu on 11/12/2023. The article discusses the challenges and opportunities for India's economic development in the context of the global and domestic environment.

For Prelims: SWIFT, Global financial crisis of 2007-2008, Brexit, Incremental Capital-Output Ratio (ICOR), Green Grids Initiative (GGI), One Sun One World One Grid (OSOWOG), Fiscal deficit

For Mains: Shift in Global Economic Conditions, Reasons behind Declining Export-led Growth Strategy, Impact of Declining Export-led Growth Strategy on India, Measures that should be taken to counter these shifting dynamics

India's growth in 2023-24 is currently projected by the **Reserve Bank of India** at 7% while the **International Monetary Fund (IMF)** and the **World Bank** have pegged it at 6.3%. Amidst all these projections which represent a rosy picture of the economy, the declining trend of India's exports could be a cause for concern. According to Federation of Indian Export Organisations (FIEO) report, India's share in global exports in labour-intensive sectors has been declining in the last 5 years. India's future growth strategy needs to be calibrated in view of the changing global conditions.

What are the Changing Global Conditions?

- **Deglobalization Trend:** There is a discernible global trend towards **deglobalization** because of ongoing geopolitical conflicts, such as the **Russia-Ukraine war** and the **Israel-Hamas conflict.**
- **Imposition of Sanctions**: Geopolitical conflicts have led to the imposition of sanctions on certain countries. These sanctions have **resulted in breaks in supply chains and disruptions in international settlements.** Restricted access to critical systems like **SWIFT** for sanctioned countries has exacerbated these challenges.
- **Declining World real GDP:** The decline in world real GDP growth has resulted in a decrease in the demand for global exports. This trend is a reflection of the overall slowdown in the global economy, which has been characterized by a range of factors such as political instability, trade tensions, and changes in consumer behavior.
    - This decline has translated into reduced demand for global exports, indicating a broader economic slowdown.
- **Uncertainty and Price Volatality:** Due to supply uncertainties and price volatility, many countries including India want to reduce their dependence on imported petroleum, which has further reduced the global demand.
- **Declining Export led Growth strategy:** **Export-led growth strategy** is an economic development approach that relies on exporting goods and services to foreign markets. This strategy has faced several **challenges and limitations in recent years, especially after the** global financial crisis of 2007-2008 **and the Covid-19** pandemic of 2020-2021.

    - For example, In India's case, **exports experienced a sharp acceleration in the share of GDP during 2003-04 to 2008-09.** This peaked at 25% in 2013-14. In 2022-23, it was 22.8%, having fallen to a trough of 18.7% in 2019-20 and 2020-21.

What are the Reasons behind Declining Export-led Growth Strategy?

- **Slowdown in Global Demand:** The crisis and the pandemic have reduced the effective demand for exports from many developed and developing countries, especially in sectors such as tourism, manufacturing, and commodities.
    - This has adversely affected the export revenues and growth prospects of many export-oriented economies.
- **Rise of Protectionism:** The crisis and the pandemic have also triggered a wave of protectionist measures and trade tensions among major trading partners, such as the **US-China trade war**, the **Brexit**, and the regionalization of supply chains.
    - These have created uncertainties and barriers for exporters, and undermined the multilateral trading system.
- **Limits of Wage Compression:** Many export-led growth strategies have relied on suppressing the wages and incomes of workers to maintain competitiveness and profitability. However, this has resulted in rising inequality, social discontent, and domestic demand constraints.
    - Moreover, it has become increasingly difficult to compete with low-wage countries, or with advanced technologies such as automation and artificial intelligence.

What is the Impact of Declining Export-led Growth Strategy on India?

- The impact of **declining export-led growth strategy on India is negative,** as it affects the country's economic performance, employment generation, and global integration.
- India's **exports have slowed down in recent years** due to various factors, such as weak global demand, rising protectionism, and low competitiveness.
    - This has **reduced India's GDP growth,** as exports account for about 19% of the country's GDP.
- It has also **limited the creation of jobs, especially in the labour-intensive sectors** such as garments, gems and jewellery, and pharmaceuticals.

What Measures should India take?

- **Boost Domestic Savings:** Address the **decline in household sector savings,** particularly in financial assets, by implementing policies that encourage savings and investments. Also, Analyze the factors contributing to this decline and develop targeted interventions.
    - **Monitor Post-COVID Trends:** Continuously monitor and analyze post-Covid-19 trends in household savings to distinguish between temporary responses and potentially persistent changes. If the decline continues, implement measures to reverse the trend.
    - **Encourage Household Sector Investments:** Promote **financial literacy** and awareness to encourage households to channel their savings into productive investments. Develop incentives for investments in financial assets to ensure a stable source of funding for the government and corporate sector.
- **Optimize Investment Efficiency:** Assess the **Incremental Capital-Output Ratio (ICOR)** regularly and work towards reducing it to enhance the efficiency of investments. If the **ICOR is lower, it could lead to higher achievable growth,** so efforts should be made to improve efficiency in resource utilization.
- **Address Employment Challenges:** Recognize the unique demographic advantage and the potential challenge of job creation amidst labor-saving innovations. Allocate resources for training and skilling programs to **prepare the workforce for non-agricultural and technology-intensive sectors.**
- **Promote Non-agricultural Growth**: Focus on fostering non-agricultural growth to absorb labor released from agriculture. Implement policies that facilitate the adoption of productivity-enhancing technologies, including **Artificial Intelligence (AI)** and **Generative AI**, to contribute to overall economic growth.
- **Climate-friendly Growth:** Align economic growth with environmental sustainability by

emphasizing the service sector, which is relatively climate-friendly. Continue and enhance initiatives like the **Green Grids Initiative (GGI)** and **One Sun One World One Grid (OSOWOG)** to promote clean energy and reduce carbon emissions.

- **Fiscal Responsibility**: Adhere to fiscal responsibility targets to sustain economic growth. Prioritize policies that bring down the combined **fiscal deficit** and debt to GDP ratios to 6% and 60%, respectively. This will help manage interest payments, reduce government dissavings, and augment the overall savings rate of the economy.

Conclusion

India faces a shifting global landscape, marked by deglobalization and economic uncertainties. The need for recalibration is evident in the challenges to the export-led growth model. To thrive, India must focus on domestic resilience, innovation, and sustainable practices. Diversifying trade, investing in education, and fiscal responsibility are crucial. By embracing adaptability and strategic reforms, India can not only navigate current challenges but emerge as a resilient and innovative force in the global economy.

Drishti Mains Question:

Evaluate the impact of a declining export-led growth strategy on India's economy and employment. Propose strategic measures for India to navigate these challenges and foster sustainable economic growth.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if: (2018)

(a) Industrial output fails to keep pace with agricultural output.
(b) Agricultural output fails to keep pace with industrial output.
(c) Poverty and unemployment increase.
(d) Imports grow faster than exports.

Ans: (c)

Q. In a given year in India, official poverty lines are higher in some States than in others because: (2019)

(a) Poverty rates vary from State to State
(b) Price levels vary from State to State
(c) Gross State Product varies from State to State
(d) Quality of public distribution varies from State to State

Ans: (b)

Mains

Q1. Define potential GDP and explain its determinants. What are the factors that have been inhibiting India from realizing its potential GDP? **(2020)**

PDF Refernece URL: https://www.drishtiias.com/printpdf/india-s-growth-strategy-amidst-shifting-dynamics