

## INDIA IS THE FASTEST GROWING ECONOMY – A MYTH OR A REALITY

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### ABSTRACT

China and India, the two Asian giants are looked upon as being superpowers, particularly in the realm of trade. The two countries have been adopting different paths, in their gaining consideration as the two fastest growing economies in the Post Reform period.

Immediately after independence India was one of the most tightly controlled economies. But with the opening of the economy in the eighties and more specifically after 1991 and the abolition of Licensing Raj and policy of intense protectionism, Indian economy has made rapid strides in certain crucial sectors. Several problems such as Poverty, Population explosion, illiteracy and absence of basic infrastructure, seem to be plaguing our economy.

No doubt she has her areas of strength. But on comparison with her Chinese counterpart, there are bitter lessons that she has to learn from her neighbor. Indian economy, though at present on an economic decline, hopefully on a temporary basis, has to gear up all her reserves, if she has to continue her upward march towards being a global superpower.

**KEYWORDS:** Economic Superpower, Protectionism, Economic Reforms, Integration, Infrastructure, Good Governance

### INTRODUCTION

China and India can today be safely considered as two giants of the emerging world. Accounting for more than 1/3<sup>rd</sup> of the total population, these two countries have a profound influence on global trends. But over the past decade, these countries can be considered as being among the fastest growing economies in the world. Both countries have pursued different paths. While China has laid emphasis on gearing its manufacturing industries towards exports the world over, India has adopted a policy of becoming increasingly integrated with the rest of the world.

Though India's growth has been less spectacular, she has gained international success in several industries, ranging from petrochemicals to software. In this Paper an attempt has been made to look into the background of Indian development process, examine India's achievements in the major sectors, briefly touch on the Chinese growth trends, mention the challenges posed by China and the lessons that can be learnt and conclude by making recommendations for the future.

### BACKGROUND OF INDIAN DEVELOPMENT STRATEGIES

After the end of the British Raj protectionism, import substitution and social democratic policies governed India. The then USSR (Soviet Union) was looked upon as a Role Model. The focus of all domestic policies was on protectionism, which emphasized import substitution, industrialization, economic intervention, large public sector, business regulations and central planning bearing close resemblance to central planning in the Soviet Union.

However, the rate of growth of the economy for three decades was unfavorable. In 1966 Green Revolution characterized the agriculture sector, with the introduction of high variety of seeds and fertilizers leading to improvement in agricultural productivity. The Revolution was criticized in several quarters as being favorable to wheat and encouraging capitalist farming.

By the turn of the 21<sup>st</sup> century India entered a new phase, where substantial reduction of state control and financial liberalization were the two major factors characterizing our economy. The basic objective was to make India one of the fastest growing economies, with capabilities which will match the very best in the world. Earlier attempts were made to liberalize the economy in 1966 and 1985. The attempt of 1966 was reversed in 1967. The second attempt was made in the eighties by the then Prime Minister Mr. Rajiv Gandhi, who initiated a number of restructuring programs.

In 1991 India experienced severe Balance of Payments deficits. This period coincided with the Gulf War and the disintegration of USSR. In accordance with the directives from the IMF, from whom India was forced to seek financial assistance, required India to undertake a series of systematic reorganizations

## **EMERGENCE OF INDIA AS ONE OF THE FASTEST GROWING ECONOMIES**

India can be considered as the world's largest democracies and is slated as being the second fastest growing economy and one of the major representatives of the emerging markets. Let us discuss the performance of the strategic sectors in the Post Reform Period.

One can divide the performance in terms of two effects of Liberalization namely, Positive effects and Negative Effects. Let us examine them:

### **Positive Effects**

- Growth Rate in terms of GDP (Gross Domestic Product – which refer to the final value of goods and services produced in a country during a year).

The growth rate increased from 5.6% in the period 1980-91 and to 6.4% in the time span 1992-2001. It reached its peak in 2010-11 by growing at 9.3%, but slowed down to 5% in 2012-13.

According to Finance Minister Mr. Chidambaram, India still remains the second largest growing economy, because just as India's growth rate declined to 5%, China's rate also declined from 10% to 7%, thereby emphasizing the fact that this global slowdown is common all over the world.

- **Foreign Investment:** In the past a protectionist policy was followed. As a result foreign direct investment was lacking in India. With the advent of Liberalization and Globalization, Foreign Investment increased from 129 million US Dollars in 1991-92 to above 1, 00,000 million US Dollars in 2010.
- **Foreign Exchange Reserves:** With the inflow of more foreign capital our reserves increased from 6 Billion US Dollars in 1990-91 to 125 Billion US Dollars in 2004-05 to 292.33 Billion US dollars in February 2014.
- **High Growth of Service Sector:** Services are a major contributor to the National Income. The share of the Service Sector has increased substantially to 57% of GDP in 2012. This could be attributed to two factors:

- It is more beneficial to other countries' terms of trade and
- Easy availability of abundant man power in developing countries. India is an overpopulated country and consequently labor is available at a cheaper rate.
- India with a population of more than one billion has made rapid progress in terms of agriculture. There has been a transformation of India, from being an importer of food grains to an agriculture power house characterized by export of food grains. This has been accompanied by other positives such as increased life expectancy, literacy rate improved health conditions and growing middle class.

One of India's greatest strengths has been her system of education. Unfortunately, however, there has been uneven spread of this education. But while a relatively small group of people receive very good education, majority of the people receive little or no education.

### Negative Effects

- **Unemployment:** The opening of the economy has not generated sufficient employment. Liberalization has been accompanied by introduction of capital intensive techniques and automation. This has further aggravated the problem. In fact the XIth Five year Plan, has identified the need for creation of a favorable environment for generation of employment.
- On one hand while India is one of the fastest growing economies of the world, she is also one of the poorest and the main reason for this has been the rapid rate of population growth. Therefore it is a paradoxical situation. While on one hand, we have the high technology sector, on the other hand we have the traditional sector characterized by use of primitive techniques of production.

The two Asian Giants face challenges such as poverty, inequality of income, poor quality of health and public education services in rural areas.

Taking cognizance of the problem of chronic unemployment plaguing India, five sectors can be considered as crucial from the view point of generation of employment.

- **Information and Technology**

This industry has played a key role, in changing India's image, from being a slow developing economy to one of being a global player in the provision of world class technical solutions;

- **Telecommunication**

Penetration is fuelling the growth of enterprise mobility in India. Our mobile and internet penetration has to increase further, resulting in a new era of enterprise mobility.

- **Healthcare**

Healthcare is a major sector that encourages economic growth and contributes to employment. Indian healthcare has the advantage of becoming the global hub for medical tourism. This is because, medical treatment and education services are available, in our country, at a fraction of the cost of developed countries.

- **Infrastructure**

On account of the infrastructure in India being highly fragmented, it is difficult to gauge its exact size and the job it generates. However, in terms of roads and highways, railways, aviation, shipping, energy India seems to be making rapid progress. This has resulted in significant generation of employment.

- **Retail**

The opening of India's Retail Sector will create a stronger, organized industry that will help in generation of employment, despite the fact that only a small part of Retail is organized.

## **INDIA AND CHINA - RESPECTIVE PATHS OF GROWTH PROCESS**

This study can be discussed as follows:

- **China's Growth Strategy**

After stagnating for over two decades, under rigid state control, China today has the fastest growing world economy. After the death of Mao Tse-Tung, the country introduced economic reforms in early 1980s.

Today China can be credited, with being one of the top exporters of the world and not only is it attracting foreign investment, but also investing billions of Dollars abroad. The global crisis initially hit the economy hard, but it bounced back quickly and in February 2011 overtook Japan to become the second largest economy in the world.

India's growth on the other hand according to IMF in 2012 will be 4.5% and could be economically overpowered by ASEAN countries like Indonesia and Philippines. Both India and China, however, have become Superpowers particularly in the trade arena in terms of global governance. In the midst of the Global Crisis, India and China's demand for goods of the developing countries, proved to be a cushion in the declining flows of resources from advanced countries.

- **Comparison between India and China**

There are several lessons that which India can learn from its neighbor.

- Agrarian and rural reforms played an important role, in fostering development in China in the initial years. Likewise, in India, Green Revolution was introduced in 1966. However, at the same time, broader issues of pricing and public intervention went unnoticed. There is therefore, need for creation of greater synergies between agriculture and industry.
- Another field where China has gained superiority is in terms of international trade and luring foreigners leading to greater employment. India can always take a leaf from Chinese experience, on how best to throw open domestic markets to competition and how government policies could help in the development of manufacturing and increase in employment.

China has invested heavily in infrastructure. This could be because of increased emphasis on exports. In India, on the other hand, infrastructural development is a stumbling block, because of ownership in public and private hands and discrepancies between the two sectors.

India definitely has certain advantages in terms of rich natural resources and has the potential to use them. Indians are educated and enterprising. In addition she possesses an advanced market based financial system. Both the public and private banks compete for business of larger companies, encouraging efficiency and better utilization of resources and the predominance of the Service Sector.

But when we compare China and India one can say that it is bad governance that has affected our country. Therefore it is not only important to have private enterprise, but also the need arises for the government to work hard to foster a friendly environment and business. While China and India have come a long way adopting different paths, they have to take lessons from each other, before they chart the next phase of their remarkable development.

## CONCLUSIONS

From the above study, one can say that India has to take stern and stringent measures to strengthen her position in the international arena. The need arises for massive investments for creation of jobs, housing and infrastructure to meet the aspirations. Keeping in mind India's heterogeneous population, one also has to deal with the issue of caste, region and gender.

We cannot remain a passive spectator in the fast changing global economy. Majority of India lives in villages and efforts have to be made, for their development from all angles particularly with respect to infrastructure. There is therefore the necessity for improving the quality of life and laying the foundation of a prosperous and better tomorrow, which will have its beneficial repercussions on the country and people for generations to come.

We truly have the makings and potential of being a Global Superpower by 2020. Let us work on our weaknesses and garner our assets, to make Indian economy an ideal to be looked upon. If we move in the right direction, nothing will hold us back and in fact augur well for the future.

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