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India's Economic Survey 2007-08: Impressive Growth and a Promising Future

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On 28 February 2008, India's Finance Minister, Mr P. Chidambaram, released the Economic Survey 2007-08, the annual state of the economy report. This year's report is all the more interesting as one could examine India's economic performance in the 10th Five-Year Plan (2002-07) and sets the stage for the 11th Five-Year Plan (2008-2012).

Keen observers of India's economy would be surprised to note that the recorded gross domestic product (GDP) growth rate of 7.8 percent in the 10th Five-Year Plan (2002-07) period has turned out to the highest so far, when compared to growth in past five-year plans. This growth rate is very close to eight percent target set for the 10th plan. This is indeed quite remarkable for the Indian economy which has, in the past, been accustomed to actual growth rates routinely falling short of set targets. The acknowledged unexpected growth rate of 9.4 and 9.6 percent in the years 2005-06 and 2006-07 were chiefly responsible for this impressive growth rates during the 10th plan period. The survey also reported that India has moved on to a higher growth path – a point which one is inclined to agree without reservation.

The key factor of India's creditable economic growth is the resurgence of the manufacturing sector. Manufacturing growth underwent a sharp acceleration from 3.3 percent (average for 1997-2002 during the 9th plan period) to 8.6 percent in 2002-07. As such, its contribution in the total economic growth increased from 9.6 percent during the 9th plan period to 17.7 percent during the 10th plan period. In the last three years (2005-06 to 2007-08), the manufacturing sector grew by 9.9 percent. Indian policy makers may now feel more confident about the Indian manufacturing sector, in particular, and the economy, in general. The growth of the India manufacturing sector will certainly not spell good news for competitor countries such as China and the Southeast Asian region.

Two other sectors which have made substantial contributions to India's overall economic growth are the construction and transport and telecommunications sectors. The former grew by nearly 13 percent per annum and the latter by an astonishing 15.3 percent during the 10th plan period. Again, this signals a welcome change as these sectors have the capacity to generate substantial employment opportunities for the Indian populace.

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In view the good performance in the last plan, Indian policy makers are extremely confident that the economy will continue to grow. They have, in fact, set a target of nine percent GDP growth for the 11th Five-Year Plan (2007-08 to 2011-12). This appears to be an attainable target even after taking into account the projected growth slow-down of 8.7 percent in 2007-08 largely due to global factors. The Survey notes that, if India achieves the target growth set for the 11th plan, it would be among a select group of economies (such as China, Singapore, Japan, among others) which have averaged a GDP growth rate of nine percent or more for at least a decade during their growth trajectory.

Regarding the sources of economic growth, the Survey makes some revealing observations. It states that growth acceleration is driven by investment demand supported by growth in private consumption. The growth in investment demand is due to the acceleration of fixed capital formation. The first spurt of investment began in the early 1990s and lasted up until 1995-96. This largely reflects the vast improvement in the investment climate resulting from economic reforms of August 1991.The improved investment climate is attributed to the trade and industrial policy liberalisation. The former led to a reduction of tariffs and import decontrol of capital and intermediate goods. This had the salutary effect of providing access to machinery and intermediate goods required by Indian industry to achieve international competitiveness. The latter facilitated the entry of new firms and capacity expansion of existing firms. The second period of investment spurt began in 2002-03 as the Indian industry carried out structural adjustments in response to trade openness and the removal of quantitative restrictions on import of consumer goods in 2000.

The economic survey admits that external trade has played an insignificant role in this growth acceleration. Further it goes on to state that the 'economy is likely to remain domestic demand driven in the medium run'. This would be seen by the Indians and other external observers as an inherent advantage and will insulate the Indian economy from the uncertainties of global economic fluctuations generated by say behaviour (irresponsible?) of financial institutions in the west, as several recent events have shown.

In the last five years, India's economic growth has been remarkable and the 11th plan holds much more promise for the country. What is indeed pleasing for the Indian policy makers is that the growth in the services sector has been broad based. Both domestic trade (retail and wholesale) and the hospitality industry, as well as the financing services (banking. insurance and business services), have registered higher growth rates in the 10th plan period. Agricultural growth has continued to fluctuate as it is monsoon dependent. With elections in many states and at the centre soon to come, the Economic Survey has certainly provided Prime Minister Manmohan Singh's government and the Congress Party with some degree of confidence in overcoming the battles that lie ahead.

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