

Accelerating and Sustaining India's Recent Growth: Major Challenges

T.N. Srinivasan

Samuel C. Park Jr. Professor of Economics, Yale University

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1. Introduction
2. Recent Performance - From a Longer term perspective
3. Major Challenges
4. Conclusions

1. Introduction

- Emergence of China and India as rapidly growing economies since the 80's
- Attracted a lot of attention from academics, policy makers and multilateral lending agencies
- IMF alone has sponsored three conferences dealing with India or China and India: All three volumes published just this year
- The volumes cover the relevant issues comprehensively and exhaustively
- I will focus on a few of them that I consider need urgent attention
- Comparison with China is instructive in highlighting the challenges facing India

2. Recent Performance from a longer term perspective

- Era of state-controlled, state-directed, inward-oriented Development Strategy: 1950 - 1980
- Hesitant and piecemeal reforms along with fiscal profligacy and debt accumulation 1980-1991
- Macroeconomic and balance of payments crisis 1991
- Systemic reforms of 1991 and thereafter
- Reform agenda: Poverty alleviation and employment growth, fiscal consolidation and tax reform, industrial and financial sector reforms, foreign trade and investment liberalization including market determination of the exchange rate, reform of infrastructure
- Tables 1 - 3

3. Major Challenges

- Fiscal deficit - [Table 4](#)
- Education and health
- Structural transformation of the economy away from low productivity primary activities such as agriculture to higher productivity secondary and tertiary sectors - accelerating industrial growth
- External Sector - opening up the economy further - phased program towards full convertibility of the rupee in five years.
- Infrastructure, in particular electricity
- Emerging disparities in growth and distribution of fruits of growth
- Governance issues
- Rethinking of the system of economic management and fiscal federalism
- Will India's luck run out? Possible adverse shift in the global economic environment

4. Conclusions: India's Strengths in meeting challenges

- India catching up with China in growth
- Vibrant, representative democracy, unlike China
- Independent Judiciary and well-functioning, though slow, legal system
- Financial System has improved rapidly - capital markets are becoming deeper - transaction costs at National Stock Exchange lower than in NYSE
- Indian Enterprises are becoming global

Table 1, Economy: Size and Growth

A. Size of the Economy (2005)

		China	India
A	Gross National Income (Atlas, \$ billion)	2263.8	793.0
	Rank	4	10
	Share (%)	5.0	1.8
B	Gross National Income (PPP, \$ billion)	8610.0	37878.0
	Rank	2	4
	Share(%)	14.2	6.2
C	Per Capita Income (Atlas, \$)	1740	720
	Per Capita Income (PPP, \$)	6600	3460
D	World Gross National Income (Atlas, \$ billion)	44983.3	-
	World Gross National Income (PPP, \$ billion)	60644.0	-
E	World Gross per capita National Income (Atlas, \$)	6987	-
	World Gross national Income Per Capita (PPP, \$)	9420	-

Table 1 *continued*: Economy: Size and Growth

B. GDP per capita at Purchasing Power Parity Exchange Rates

	China	India
1870	530	533
1913	552	673
1950	439	619
1973	839	853
1998	3117	1746
2004	5890	3120

Sources: 1870-1998 data (at 1990 international dollars), Maddison (2002); 2004 data, World Bank (2006), Table 1.1

C. Growth of Real GDP (Average, percent per year)

	1950-80	1980-1990	1990-2000	2000-05 ⁺⁺		
China	4.40 [*]	10.3 ⁺	10.6 ⁺⁺	9.6 ⁺⁺⁺	2006 10.4	2007 11.3(2Qr) 10.4(3Qr)
India	3.75 ^{**}	5.7 ⁺	6.0 ⁺⁺	6.9 ⁺⁺⁺	2005-06 8.4	2006-07 9.2 (1 st Half)

Sources: * Maddison (1998); ** Author's estimate; + World Bank (2005), Table 4.1; ++ World Bank (2006a), Table 4.1, +++World Bank (2006b), Table 4

Table 2: Poverty (proportion of population below poverty line)

	1978	1990	1997	1998	2001
Rural China (official)*	30.7	9.5	5.4	4.6	---
China (World Bank)**		33.0			16.6
Sources: *Park and Wang (2001); ** World Bank (2005), Table 2.5					

India (official)	1951-52	1961-62	1973-74	1977-78	1983	1987-88	1993-94	1999-00	2004-05
Rural India	47.4	47.2	55.7	53.1	45.7	39.1	37.3	27.1	--
Urban India	35.5	43.6	48.0	45.2	46.8	38.2	32.4	23.6	--
Combined	45.3	46.5	54.1	51.3	44.5	38.9	36.0	26.1	22.0
Sources: Datt, G (1999, 1998), Deaton (2003), GOI (2005)									

Table 3: Measure of Global Integration

A. Share in World Exports (%)

1. 2005				
	China		India	
	Share	Rank	Share	Rank
Merchandise	6.5	3	0.8	30
Services	2.9	9	1.9	16
2. Long-Term Trends in Share of Merchandise Trade (%)				
1948	0.9		2.2	
1973	1.0		0.5	
1983	1.2		0.5	
1993	2.5		0.6	
2004	6.5		0.8	
Source: WTO (2005)				

Table 3: *continued*

B. Share of trade in goods in GDP

	China	India
1950-51		11.5
1960-61		10.3
1970-71		6.9
1980-81		13.4
1990	32.5*	13.1*
1990-91		14.6
2000-01		22.5
2004	59.8*	25.0*
2005	63.8**	28.2**

Sources: India GOI (2006); * World Bank (2006a), Table 6.1, **World Bank (2006b), Tables 4 and 5

Table 3 *continued*:

C. Foreign Capital Inflows

	China		India	
	1990	2004	1980	2004
Gross Private Capital (% of GDP)	15	21.5	0.8	5.9
Gross Foreign Direct Investment (% of GDP)	1.2	2.9	1.9	5.7
Foreign Direct investment (\$ billion)	3487	54936	237	5335
Portfolio Investment (\$ billion)				
Bonds	-48	3690	147	3722
Equity	0	10923	0	8835

Source: World Bank (2006), Tables 6.1 and 6.8

D. Tariff Barriers

	China		India	
	1992	2004	1990	2004
Simple Mean Tariff	40.4	9.6	79.0	28.1
Weighted Mean Tariff	32.1	6.0	56.1	28.0
Share of lines with International peaks	77.6	14.9	92.4	92.1

Source: World Bank (2006), Table 6.7

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Table 4
Fiscal Deficits (Percent of GDP)

Year	State			Centre			Consolidated (Centre and States)		
	Revenue	Primary	Fiscal (Gross)	Revenue	Primary	Fiscal (Gross)	Revenue	Primary	Fiscal (Gross)
70-71	0.04	1.10	1.97	-0.36	1.76	3.08	-	-	-
80-81	-1.03	1.73	2.58	1.42	3.96	5.77	0.4	4.1	6.3
90-91	0.93	1.78	3.30	3.26	4.07	7.85	4.2	5.0	9.4
96-97	1.18	0.85	2.72	4.88	0.53	4.88	3.6	1.3	6.4
97-98	1.07	0.93	2.90	5.84	1.53	5.84	4.1	2.1	7.3
98-99	2.51	2.20	4.27	6.51	2.04	6.51	6.4	3.7	9.0
99-00	2.78	2.39	4.72	5.41	0.75	5.41	6.3	3.8	9.5
00-01	2.54	1.80	4.25	5.65	0.93	5.65	6.6	3.7	9.5
01-02	2.60	1.50	4.20	4.40	1.50	6.20	7.0	4.0	9.9
02-03	2.20	1.30	4.20	4.40	1.10	5.90	6.7	3.1	9.6
03-04	2.20	1.50	4.50	3.60	0.00	4.50	5.8	0.8	8.5
04-05	1.40	1.10	4.0	2.50	-0.10	4.00	3.7	1.4	7.5
05-06 Revised	0.70	0.50	3.1	2.60	0.50	4.10	3.1	1.6	7.5
06-07 Budget									6.5

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