Indian GDP growing at 13.4% in dollars

Author: Swaminathan S Anklesaria Iyer in the Times of India, Oct 29

Three years ago, I thought Indian economy was trapped in a neo-Hindu growth rate of around 6% per year. I was wrong. Growth has averaged 8% in the last three years, and looks set to hit that level again this year.

This is partly due to the extremely buoyant conditions in the world economy, which have enabled even Africa to average 5.5% growth. India is growing just 2.5% faster than Africa, which is not exactly a big deal.

However, Professor Arvind Panagariya of Columbia University says in a recent paper that India is not merely the beneficiary of a global upswing. It has made major structural adjustments that have lifted it to a higher growth path.

India's merchandise exports have almost doubled in just three years, from $52.7 billion in 2002-03 to $102.7 billion in 2005-06. This pace is unprecedented. Previous episodes of rapid export growth depended on sharp falls in the rupee, which made exports temporarily competitive.

But in the last three years, exports have boomed despite the rupee actually rising 9.3% against the dollar. So, for the first time, India is exporting on the basis of rising productivity, not unsustainable price cuts. In the first half of the current year, exports have continued to grow rapidly by 22.7%.

l Service exports have more than doubled in the last two years, thanks mainly to computer software. India now accounts for a respectable 2.5% of world service exports, against only 1% of world merchandise exports, and the share seems set to keep rising.

Export orientation the share of exports of goods plus services in GDP has virtually tripled from 7.9% in 1990-91 to 20.5% last year. At this rate, India will catch up with China's current ratio of 26% in three years. That is a huge structural change.
Although foreign direct investment into India has been modest, foreign portfolio investment has skyrocketed. So, total foreign investment has risen from almost zero when reforms began to $20 billion last year.

Remittances from overseas Indians have risen even faster, to over $24 billion. These huge inflows explain why India's forex reserves have risen to the dizzy height of $165 billion, despite record oil prices and a record trade deficit.

Phone lines have increased from barely five million in 1990 to 140 million. Last month alone, six million new mobile phones were added. The telecom revolution has brought unprecedented connectivity to Indians, and is now set to penetrate rural areas too.
The share of agriculture in GDP has fallen from over half at Independence to just 21%, and foodgrains now account for only half of agriculture (animal husbandry, fisheries

fruits and vegetables are growing much faster). So the Indian economy, once heavily dependent on the monsoon, can now shrug off major droughts (like the one in 2002).

The maximum import tariff, once well over 100%, is now down to 12.5% save for a short list of manufactured and agricultural produce. Many items carry zero duty, so import duty collections average only 5% of total imports, close to China's rate of 3%. For the first time, India can claim to be a fairly open economy.

No longer do Indian companies cower behind protectionist walls. Indeed, they are now taking over foreign giants (eg Tata's takeover of Corus). They have the confidence of global financiers, who now rate Reliance Industries and Tata Steel as more creditworthy than Ford or General Motors.

All these trends represent major structural changes in the economy. India has changed, and is changing the world. Indeed, The Economist,

UK, believes that India and China will sustain world demand even if the US slips into recession. The US is no longer the sole locomotive of the world economy, pulling others along. India has become a small locomotive too.

The clinching evidence for India's new strength is the rise of GDP in dollars. We usually measure GDP in constant rupees (that is, rupees adjusted for inflation).

However, for global comparisons, we should measure GDP in dollars. World Bank data show that India's GDP has shot up by a phenomenal 16.4% per year in the last three years (2003-06). Adjusting for the US inflation rate of 3%, India has been growing by 13.4% per year in inflation-adjusted dollars.

At this rate, Panagariya calculates, India will reach the current US GDP of $11.5 trillion in 2005 in just 22 years! He says this is only hypothetical, and is not possible since the rupee cannot keep appreciating so fast against the dollar. This year, the rupee has dropped over 2% against the dollar.

However, the BRIC (Brazil, Russia, India, China) report of Goldman Sachs assumes that the rupee will in fact appreciate by an average of 2% per year against the dollar in coming decades. I find this improbable. But it no longer seems impossible.

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