Syllabus subtopic: Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Prelims and Mains focus: about the suggestions and observations made in the survey related to India’s economic growth

News: The Economic Survey, authored by the Chief Economic Adviser (CEA), said that the government must use its strong mandate to deliver expeditiously on reforms which will enable the economy to strongly rebound in 2020-21.

Background

- Earlier this month, the International Monetary Fund projected India’s growth to accelerate to 5.8% in 2020-21 from the estimated 4.8% in the preceding year, after sharply paring its earlier projections “owing to stress in the non-bank financial sector and weak rural income growth”.

- The Economic Survey said its own projection is fraught with downside risks such as continued global trade tensions, worsening US-Iran geopolitical situation, increase in short-term interest rates in advanced economies, slow progress in implementation of the insolvency and bankruptcy code, and stagnation in gross domestic savings rate.

- The overarching theme of the survey this year is wealth creation and the policy choices that enable this.

Observations made in the survey

- China’s remarkable export performance vis-à-vis India is driven primarily by deliberate specialization at large scale in labour-intensive activities, especially ‘network products’, where production occurs across global value chains operated by multinational corporations.
The government intervention hurts more than it helps in the efficient functioning of markets. Giving the example of the pharmaceutical industry, the survey said government interventions often lead to unintended consequences such as price increases, when compared to markets that are unregulated.

The survey said the economy is set to revive in the second half of 2019-20 mainly on account of ten positive factors. It listed them as:

1. picking up of Nifty (National Stock Exchange's Nifty index) for the first time this year,
2. an upbeat secondary market,
3. higher foreign direct investment inflows,
4. build-up of demand pressure,
5. positive outlook for rural consumption,
6. rebound of industrial activity,
7. steady improvement in manufacturing,
8. growth in merchandise exports,
9. higher build-up of foreign exchange reserves, and
10. positive growth rate of GST revenue collection.
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Suggestions given in the Survey

- Reducing spending on subsidies, especially on food, to create fiscal space for additional spending in areas such as infrastructure development.

- Reforms in land and labour markets may further reduce business costs. As the proportion of small and marginal holdings is significantly large, land reform measures like freeing up land markets can help farmers in improving their income.

- Upside risks, such as bottoming out of global trade, a turnaround in housing, favourable global sentiment toward India, and better implementation of the goods and services tax, are expected to boost economic growth.

- It proposed a new programme, “Assemble in India”, to be integrated with “Make In India” and focusing on labour-intensive exports that could
potentially create 40 million well-paid jobs by 2025 and 80 million by 2030.

India’s aspiration to become a $5-trillion economy, depends critically on strengthening the invisible hand of markets together with the hand of trust that can support markets. The invisible hand needs to be strengthened by promoting pro-business policies to

a. provide equal opportunities for new entrants, enable fair competition and ease doing business,
b. eliminate policies that undermine markets through government intervention even where it is not necessary,
c. enable trade for job creation, and
d. efficiently scale up the banking sector to be proportionate to the size of the Indian economy.

Way ahead

The survey’s projected FY21 growth of 6-6.5% may prove to be optimistic unless backed by a strong fiscal stimulus in the budget and the meeting of investment targets specified in the National Infrastructure Pipeline, both by the central and state governments.