

Sources of Growth & India's new GDP series

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5 August, 2016

Big picture

- ▶ In January 2015, Central Statistical Office (CSO) released revised growth estimates.
- ▶ The revision improved GDP growth rates sharply for 2012-13 and 2013-14.
 - ▶ Growth rate for 2012-13 revised to 5.1% from 4.5% under the old series.
 - ▶ Growth rate for 2013-14 revised to 6.9%, from 4.7%.
 - ▶ Growth rate for 2014-15 was 7.4%.
 - ▶ Growth rate for 2015-16 was 7.6%.



Sources of growth

Investment

- ▶ One important source of growth is investment or capital accumulation.
 - ▶ If we imagine the country as a large factory, for output per worker to grow, we need a bigger factory, and more machines.
 - ▶ This comes from investment- in infrastructure, in equipment etc.
- ▶ As countries start with low levels of capital, they have tremendous opportunities to invest and increase their capital stock.
 - ▶ Countries like China, Korea, Japan and Singapore that have built up their physical capital at rates of 30-45% of GDP every year, have high growth rates of above 6%.

Exports

- ▶ Another important source of growth is Exports.
 - ▶ A number of studies have stressed the role for exports in economic growth (Balassa, 1978; Krueger, 1980; Edwards, 1993; Fukuda, 1995; Lawrence and Weinstein, 1999).
 - ▶ Benefits are greater capacity utilisation, resource allocation based on comparative advantage, economies of scale, technological improvements etc.

Investment and Exports: India's story

Latest CSO data, 31 May, 2016

Investment & Exports growth rates, 2015-16

Time period	GFCF	Exports
April - June	7.1%	-5.7%
July - September	9.7%	-4.3%
October - December	1.2%	-8.9%
January - March	-1.9%	-1.9%
Annual	3.9%	-5.2%

Investment and Exports: Rest of the World story

Parallels in the world

- ▶ Look at all countries in World Economic Outlook database.
- ▶ Select countries with growth rates similar to India's.
 - ▶ Growth rate of 7.5% (or higher) in any year.
 - ▶ Exclude oil-exporters
 - ▶ Three size thresholds in PPP adjusted terms in 2015 prices: \$500bn, \$250bn and \$100bn.

Parallels in the world: \$100bn (PPP) economies

Investment & Exports, 1950-2015

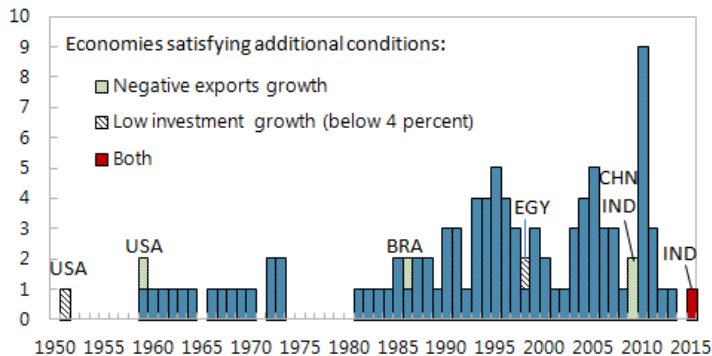
Time period		Investment growth	Exports growth
1950 - 2015	Mean	15.4%	12.8%
	Median	14%	12.6%
1980 - 2015	Mean	15.6%	12%
	Median	14%	12.4%

India is a special country

- ▶ How special is India?
 - ▶ How many other countries have boomed, when investment is growing at 4% (or less) and exports are falling?

Parallels in the world: \$500bn (PPP) economies

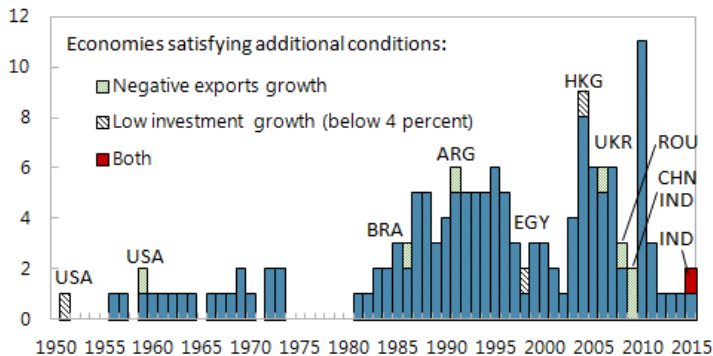
Number of large, non-oil-exporting and fast-growing economies by year



*GDP above 500 billion of PPP-adjusted 2015 dollars

Parallels in the world: \$250bn (PPP) economies

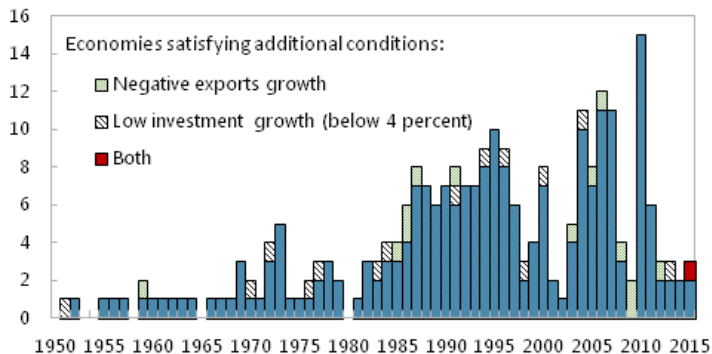
Number of large*, non-oil-exporting and fast-growing economies by year



*GDP above 250 billion of PPP-adjusted 2015 dollars

Parallels in the world: \$100bn (PPP) economies

Number of large*, non-oil-exporting and fast-growing economies by year



*GDP above 100 billion of PPP-adjusted 2015 dollars

India is a special case

Number of country-year cases, 1950-2015

Thresholds	Sample	Low Inv	Neg.Exports growth	Both
USD 500 bn	102	3	5	1
USD 250 bn	150	4	8	1
USD 100 bn	250	15	14	1

India is a special case

- ▶ What the new GDP series shows for India for 2015-16 has not happened in the post-war history of the world.

