A DESCRIPTIVE STUDY OF SELECTED ECONOMICS INDICATORS

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ABSTRACT

Globalization is the process by which events, decisions and activities in one part of the world have significant consequences for other parts of the globe. Globalization on one hand has thrown open new challenges for Indian economy, and on the other hand, it has brought new opportunities as well. Indian economy has been open to Foreign Direct Investment (FDI) by providing a number of facilities to multi-national corporations to invest into various economic activities in India. It has opened Indian companies to competition from MNCs. Nevertheless, it has also allowed Indian companies to enter into foreign collaboration agreements and set up joint ventures with their partners abroad. Economic indicators of any economy indicate the mirror image of that country. These indicators are the tools used by policy makers while making policy for the economy. And the success of any policy is shown by the effective and significant performance of all the major economic indicators. In the present study selected economic indicators are studied to know the current status of economy. The study found alarming situation of the Indian economy, as GDP average growth rate is on the lowest in the decade, on the other hand FDI is also declining, and Gross domestic investment is also not satisfactory. The findings strongly advised to the policy makers to take necessary steps to manage the economy effectively.

Keywords: *Economy, Macro economic variables, GDP, FII, FDI.*

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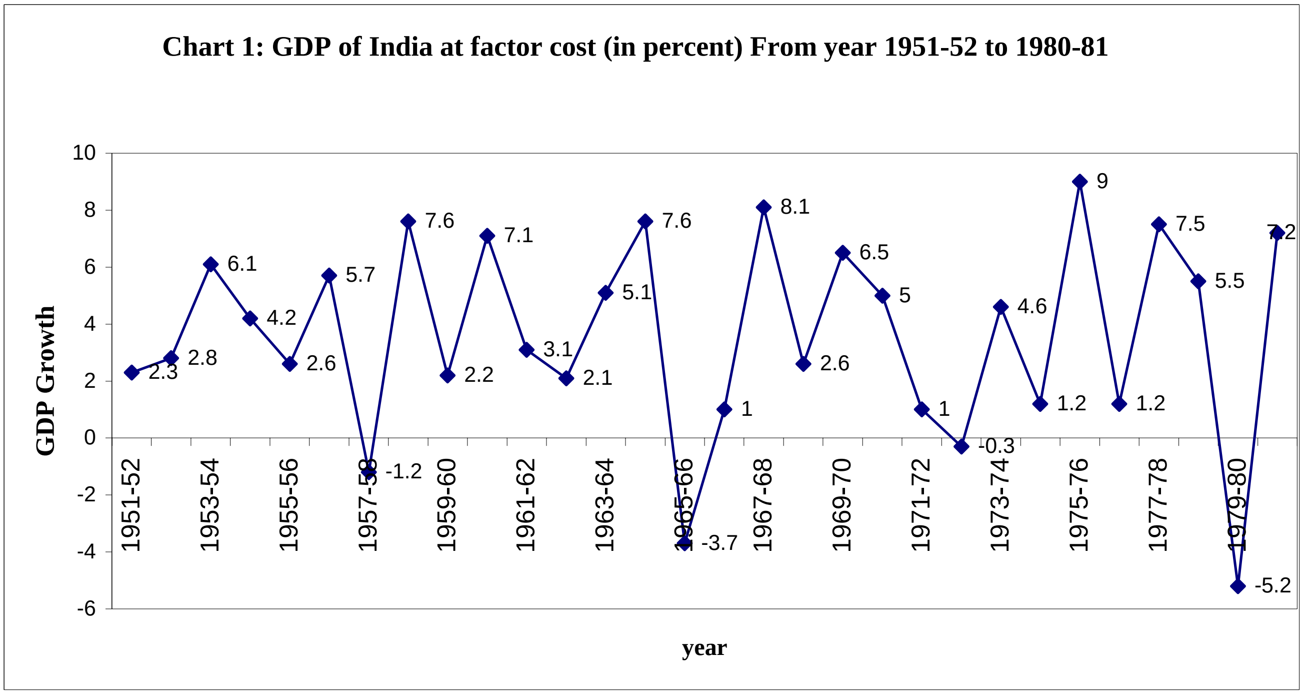
INTRODUCTION

Globalization is inferred to be the steps towards opening up of Indian economy for global players and its integration with world economy by way of reducing policy controls, cutting down bureaucratic procedural delays and adopting such policies and procedures which can guide the economy towards international practices. Globalization on one hand has thrown open new challenges for Indian economy, and on the other hand, it has brought new opportunities as well. Indian economy has been open to Foreign Direct Investment (FDI) by providing a number of facilities to multi-national corporations to invest into various economic activities in India. It has opened Indian companies to competition from MNCs. Nevertheless, it has also allowed Indian companies to enter into foreign collaboration agreements and set up joint ventures with their partners abroad. Indian corporate players are no longer limited to moderate domestic markets and can tape huge international markets for their capital and other business needs. It has created a platform for greater possibilities of India's increasing participation in world trade. After completion of 21 years of economic reformation, there is need to put some efforts to understand the present status of economic indicators. Economic indicators of any economy indicate the mirror image of that country. These indicators are the tools used by policy makers while making policy for the economy. And the success of any policy is shown by the effective and significant performance of all the major economic indicators. In the present study selected economic indicators namely GDP, Foreign Exchange Reserve, Gross Domestic Savings and Investment, Foreign Direct Investment in the country (FDI), Foreign Trade is taken to know the current status of economy.

GROSS DOMESTIC PRODUCT GROWTH RATE

Indian economy has been growing at an average rate of 7.7 % per annum during last ten fiscal years from 2003-04 to 2012-13 (Economic Surveys). During the fiscal year 2006-07, Indian economy grew at the rate of 9.6 %, which is highest since 1991. During fiscal year 2005-06 and 2006-07, the growth rate of Indian economy has been more than projected (above 9 %). The growth rate of GDP for the year 2007-08 was 8.7 % and for the three consecutive years, the growth rate of GDP has been more than 8.5%. During the year 2012-13 the GDP growth rate declined to lowest level in decade with near about 4.9 % which is alarming for the country's future. The average growth rate of GDP for the 29 years period from 1951-52 to 1979-80 was

3.49 % (Table 1). This period is not very crucial from the point of study, as during this period India remained more or less a closed economy and global factors had a very little role to play.



Source: Economic Survey.

Table 1: Average Annual Growth Rates during Selected Periods

Period	**Growth Rate**
1951–52 to 1979–80	3.49 %
Pre-1991 Reform Period	
1980–81 to 1990–91	5.79 %
1980–81 to 1990-91 (excluding 1988-89)	5.32 %
Post-1991 Reform Period	
1991-92 to 2007-08	6.47 %
1992–93 to 2007-08	6.8 %
2003-04 to 2012-13	7.7 %

Source: Based on data from Economic Survey.

As evident from Table 5 above, the average growth rate of GDP during 11 years pre 1991 period from 1980-81 to 1990-91 has been 5.79 %. In this period, year 1988-89 as shown

Has exceptional growth rate of 10.5 %. If this year is excluded from the calculations, the average growth rate for remaining 10 year period is 5.32 %. On the other hand, average

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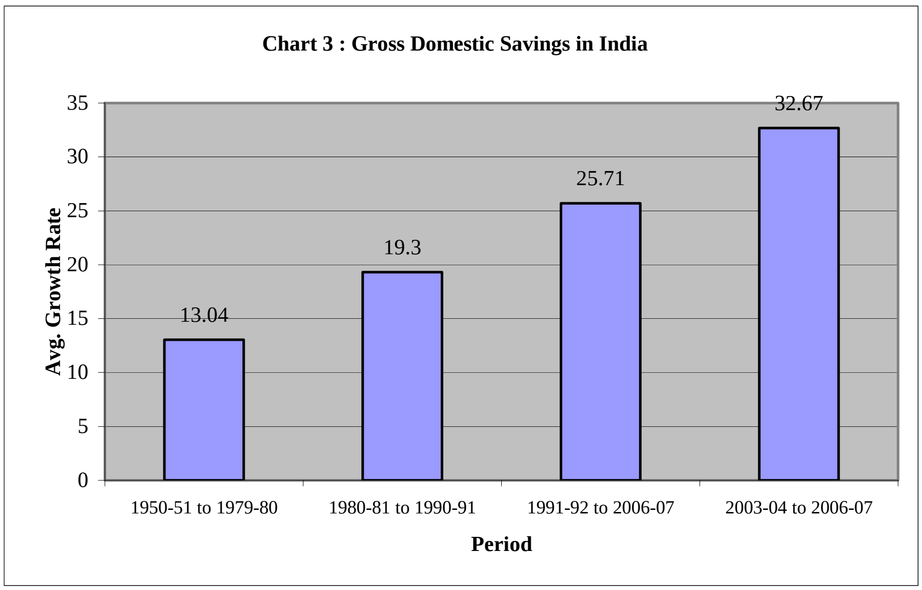
growth rate of 17 years (post 1991) period from 1991-92 to 2007-08 is 6.47 %. In this period, year 1991-92 has shown an exceptional low growth rate of 1.3 % due to severe Balance of payment crisis. If this period is excluded from calculations, the average growth rate for remaining 16 years period is 6.80 %. So it can be concluded that on an average, the GDP growth rate during post 1991 period (1992-93 to 2007-08) has increased by 1.5 % as compared to 10 year pre 1991 period (1980-81 to 1990-91 excluding 1988-89). Moreover, the average GDP growth rate during 10 years period from 2003-04 to 2012-13 is 7.7 %. Also, the range of volatility and fluctuation in pre 1991 period is much more than post 1991 period. All this fact clearly indicates that phenomenon of globalization has greatly contributed to GDP growth of Indian economy.

GROWTH DOMESTIC IN SAVINGS AND INVESTMENTS

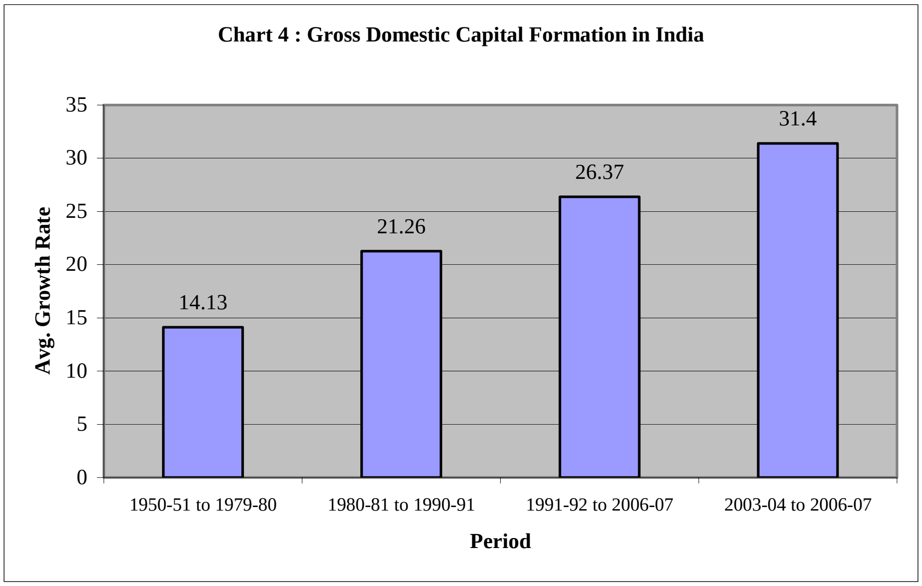
Another significant impact of globalization has been on saving and investment rate. These two rates have been consistently increasing since 1991 reforms and have reached to the level of 34.8 % of GDP (Gross Saving Rate) and 35.9 % of GDP (Gross Capital Formation) in 2006-07, as against 8.6 % and 8.4% respectively in 1950-51 and 22.8 % and 26 % in 1990-91.

I. Gross Domestic Savings in India has always shown an upward trend since the beginning of planning in India, although the degree of growth has shown wide variation. Chart 3 shows that the average annual growth rate of Gross Domestic Savings (GDS) during 30 years period from 1950-51 to 1979-80 was 13.04 %, while the average growth rate of GDS during 11year pre 1991 period from 1980-81 to 1990-91 has been 19.3 %. As against this, average growth rate of GDS for 16 years (post 1991) period from 1991-92 to 2006-07 is 25.71 % and that of four years period 2003-04 to 2006-07 is 32.67 %, clearly evidencing the positive impact of globalization on Gross Domestic Savings in India.



Source: Based on data from Economic Survey

II. Gross Domestic Capital Formation in India has also shown an upward trend since the beginning of planning in India, although the degree of growth has shown wide variations. Chart 4 shows that the average annual growth rate of Gross Capital Formation (GDCF) during 30 years period from 1950-51 to 1979-80 was 14.13 %. Further, the average growth rate of GDCF during 11 year pre 1991 period from 1980-81 to 1990-91 has been 21.26 %. As against this, average growth rate of GDCF for 16 years (post 1991) period from 1991-92 to 2006-07 is 26.37 % and that of five years period 2002-03 to 2006-07 is 31.40 %, clearly evidencing the positive impact of globalization on Gross Domestic Capital Formation in India.



Source: Based on data from Economic Survey

FOREIGN DIRECT INVESTMENT GROWTH (FDI)

Policy reforms of 1991 have a great positive impact on Foreign Direct Investment (FDI) in India. Foreign Direct inflows, which were at the meager level of Rs. 103 Crore in 1990-91, has gradually increased to Rs. 6014 Crore in year 2002-03, Rs. 16050 Crore in 2003-04 and Rs. 14445 Crore in 2004-05 (see Table 2 for details). This has increased to the level of Rs. 45098 Crore during an eight months period of Apr. 2007 to Nov. 2007. If we consider the total post 1991 period till March 2007, India has received total FDI inflows of Rs. 232041 Crore. Considering sectors specific inflows financial and non-financial services secured a growth of more than 700 % during 2006-07 (Source: DIPP, Federal Ministry of Commerce & Industry, Government of India).

Table 2: Foreign Direct investment inflows (USD $ Million)

Investment	1990-91	2002-03	2003-04	2004-05
A.DIRECT INVESTMENT	97	5035	4673	5536
I. Equity		2764	2387	3363
a) Government (SIA/FIPB)		919	928	1062
b) RBI		739	534	1259
c) NRI		-	-	-
d) Acquisition of shares *		916	735	930

e) Equity cap. of unincorporated bodies		190	190	112
II. Reinvested earnings		1833	1798	1816
III. Other capital #		438	488	357
B. PORTFOLIO INVESTMENT	6	979	11377	8909
a) GDRs/ADRs		600	459	613
b) FIIs @		377	10918	8280
c) Off-shore funds & others	6	2	-	16
C. TOTAL (A+B)	103	6014	16050	14445

*: Relates to acquisition of shares of Indian companies by non-residents under Section 6 of FEMA 1999.

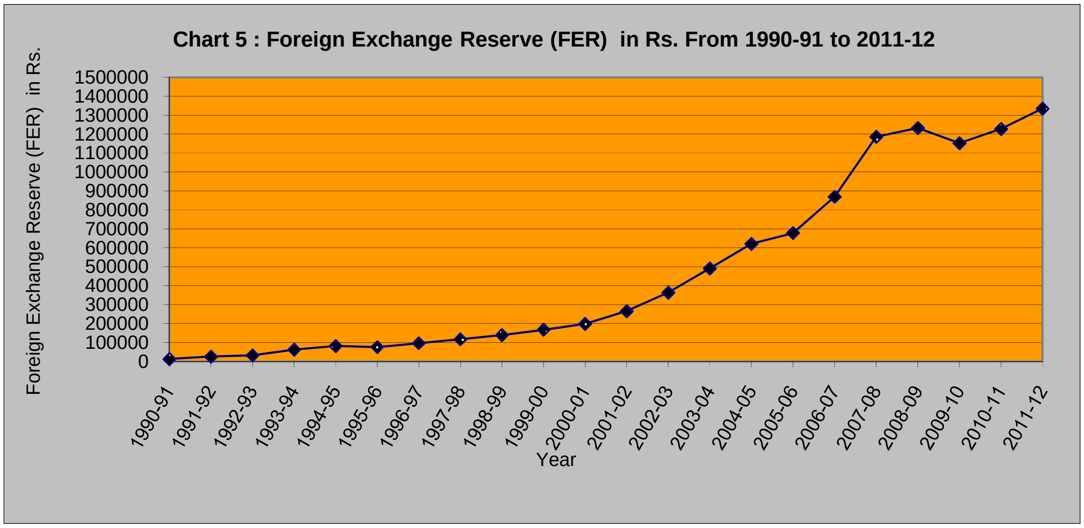
#: Data pertain to inter-company debt transactions of FDI entities

2. Data on foreign investment presented in this table represent inflows into the country and may not tally with data presented in other tables. They may also differ from data relating to net investment in stock exchanges by FIIs.

Source: Reserve Bank of India Annual Report for 2004-05

FOREIGN EXCHANGE RESERVES

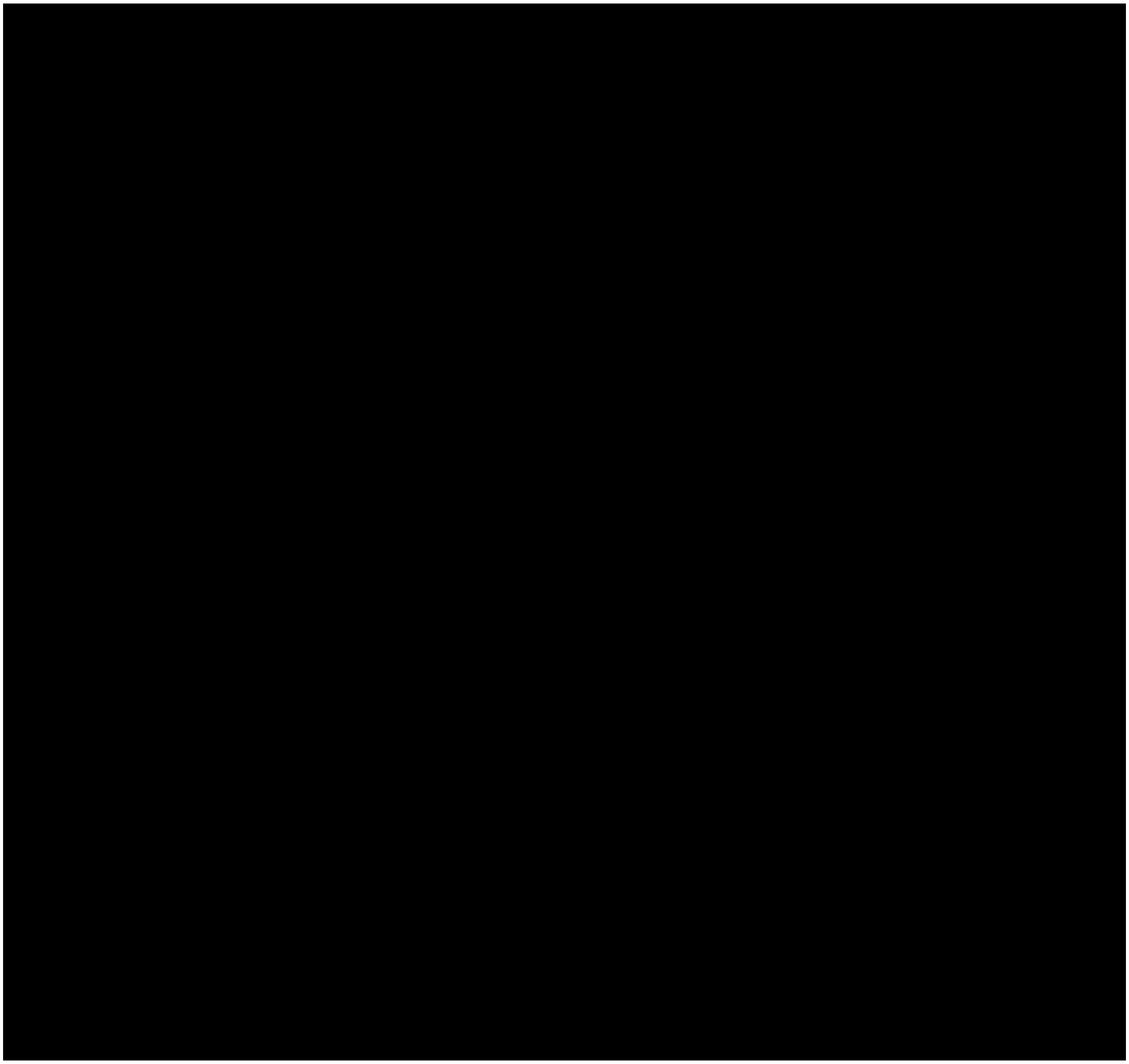
1991 reforms will always be remembered with balance of payment crisis during early nineties. The current account deficit reached to as high as 3.2 % of GDP in 1991. Foreign Exchange Reserves (FER) of the country also depleted down to as low as US $ 1 billion, which was not sufficient even to fulfill few weeks of import requirements. By the policy change of 1991, Foreign Exchange Reserves of the country gained a new momentum and since than a considerable amount of capital inflows in country is absorbed by Reserve Bank of India, resulting in sufficient amount of Foreign Exchange Reserves. The Chart 5 given below clearly indicates the accumulation of Foreign Exchange Reserve in the country.



Source: Based on data from Economic Survey.

GROWTH IN FOREIGN TRADE

It was foreign trade deficit only, which has given a direction to 1991 reforms in India. Initially, exports of the country were taken as a medium of generating dollars. The efforts of reducing foreign trade deficit were supported by maintaining foreign exchange reserves. In 1991, Foreign Exchange Reserves of the country went down to the level of US $ 1 billion and trade deficit increased to the level of US $ 5932 million. This alarming situation made the way for strategic change in Foreign Trade Policy of India. Accordingly, reforms in EXIM policy took a directional move towards changing the role of exports from mere dollar generation to becoming engine of growth. It was rightly quoted by India's Commerce and Industry Minister Mr. Kamalnath[1] that "Over the years, India's foreign trade has come to occupy vital position in the economic scenario and prosperity of the country. Exports are no longer means of generating dollars, as was the position in the country during our initial phase of development. Now exports are the engines of growth and the drivers of employment generation. While the remarkable growth in exports, which we have witnessed in recent years, has contributed immensely to the higher rates of economic growth recorded in the country, our imports have helped modernize the Indian industry and built capacities for enhanced production.



Series 1: Exports and Series 2: Import

Source: Calculated from Table 7 above statistics from Economic Survey.

When the UPA Government assumed office three years ago, our merchandise exports were US$ 63.84 billion. In the year ending March 2007, the exports surged to US$ 125 billion. This near doubling in three years represents an annual compounded growth of 25% compared to 12.73% in the previous three years. Our exports have become globally competitive and found many new markets. By the end of year 2011-12, total export was of 304624 US $ Million against the total import of 489181 US $ Million (economic survey). Our export basket is expanding with the addition of new items and this includes many value added petroleum products produced by our oil refineries and petro-chemical complexes. Our exports of machinery, instrumentation and engineering goods grew by 35% last year. We are increasingly exporting automobile components and becoming an international hub for automobile and component making.

With merchandise-imports growing faster than exports of goods, we do have a trade deficit. But, taking into account the export of services, the position improves substantially and the trade gap in goods and services becomes much smaller and more manageable. In fact, I find that our non-oil imports consist significantly of capital goods, raw materials and other critical inputs, which are required for sustaining our industrial growth, particularly the manufacturing process. As the Minister in-charge of the Industry portfolio also, I would consider this as a healthy development, which augurs well for creation of production capacity and employment generation for the future."

After 1991, reforms the foreign trade of India has shown upward move on both fronts that is exports and imports, although the gravity of change has been different- different during different periods of time. For the periods from 1991-92 to 1995-96, exports have increased to the level of US $ 31797 million, registering an average growth of 12.3 %, while imports have increased to the level of US $ 36678 million, registering and average of the growth 10.14 %. For the five years period from 1996-97 to 2000-01, this growth rate for export s and imports have been 7.32 % and 6.76 % respectively. During last five years period from 2002-03 to 2006-07, the growth in foreign trade of India has been tremendous. For the year ended on 31st March 2007, exports have grown to the level of US $ 126360 million, with an average growth rate of 23.64 % and imports for the same periods have reached to US $ 185747 million with an average growth rate of 29.54 %.

CONCLUSION

Globalization affected the Indian economy positively, and the performance of the economy clearly sown that there is high level of instability in the economy. Although, globalization has plays significant roll in the economy but to gain all the benefits of the globalization it is required to observe each economic indicator carefully. The study found alarming situation of the Indian economy, as GDP average growth rate is on the lowest in the decade, on the other hand FDI is also declining, and Gross domestic investment is also not satisfactory. The findings strongly advised to the policy makers to take necessary steps to manage the economy effectively. On the other side service sector has shown a tremendous pace of growth. The contribution of service sector to GDP has been constantly increasing since 1991 reforms. The contribution of these sectors to GDP of India in 1991 was 43.84 %, which gradually increased to 51.4 % in 2002-03 and to 57.6 % in 2004-05. During 2005-06 and 2006-07 also, the contribution of this sector to GDP has been more than 50 %. Services have recorded a growth of 10.4 per cent in April–December 2007 (various Economic Surveys). But by the end of year 2012 the growth rate falls to 5 %, which is alarming for the Indian economy. During 2011-12, exports increased by 20.02 %, while imports increased by 33.01 %, which is giving clear indication of future challenges. India has made a place in list of 5 countries contributing 50% of the global production and GDP. Fiscal, revenue and primary deficit (as percent of GDP) has been showing more or less decreasing trend since 1991 reforms, specifically after 2002. National Stock Exchange (NSE) of India has ranked first in stock futures and second in index futures trade in the world. Boston Consulting Group's list of 100 New Global Challenger Giants includes names of 20 Indian Firms. India's consumer market is expected to be the world's fifth largest (from twelfth) in the world by 2025 (McKinsey Global Institute (MGI) study). Four Indians and seven Indian micro finance companies found place in Forbes list of top 10 world's wealthiest CEOs and World's top 50 Micro finance Institutions respectively. Talking BRIC economies, India has the maximum number of private equity (Private Equity) funds. Mumbai, the commercial capital of India, has the honor of being ranked tenth among the world's biggest centers of commerce in terms of the financial flow volumes (MasterCard Worldwide Survey).

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