Editorial

ECONOMIC SCENARIO: MIXED HOPES FOR 2014

Strong signals of economic recovery in the calendar year 2014 in the US, Europe and Japan are distinctly visible now. Manufacturing as well as employment in the US have begun to revive steadily, after they had bottomed out, in the post-meltdown period after 2008. The US gross domestic product (GDP) is expected to grow by 2.6 to 2.7 percent in 2014 against a paltry growth of 1.9 percent in 2013. Unemployment forecast too has been lowered by the US Federal Reserve to fall as low as 6.3 percent in 2014. Re-industrializing interventions too have begun to bring the fruits in the US. European economies too have begun to show visible signs of recovery, after experiencing the brunt of the sovereign debt crisis for almost 2 years. Euro-zone manufacturing has grown fastest in the December 2013, after mid 2011. Producers have been reporting consistent growth in new orders, depicting a good start in 2014. The number of people in employment in the Europe's biggest economy, the Germany, has also hit a record high for the seventh consecutive year in 2013, and is still showing upward trend, to continue in 2014. Manufacturing sector in Asia, especially in the export driven economies of Japan and Taiwan are also reported to be expanding, to touch a new high vis-à-vis last 3 years. But, India and China are the exceptions to this growth story. However, Chinese growth rate would not falter much, as it is the manufacturing hub for the world.

Indian economy is home to almost 20 percent more population than the combined populations of the Europe (733 million) and US (313 million), and is also larger than the combined populations of US, Europe, Japan and Taiwan. But, it is still largely dependent on the unorganized and informal sector for its growth, as the deceleration in the manufacturing and core sectors is continuing unabated without any pickup in the new project announcements. Therefore the growth rate in the CY 2014 would continue to be below 5 percent, and the manufacturing, core and infrastructure sectors would grow at less than half of it which even may stuck to less than 2 percent. The agriculture, the informal sector and the services would only be powering growth, which has already more than halved from the double digit growth of 2010. Even a bountiful rainfall in 2013 is likely to enhance the agricultural GDP in the 2013-14 agri-year (July-June), which is likely to grow between 5 to 5.7 percent, almost 3 times of last year; would hardly drive the overall GDP growth beyond 4.5 percent . The overall GDP growth rate could fall below 4 percent in 2013-14, if agriculture growth would had been at what it was in 2012-13.

The manufacturing sector has been continuously declining, and would grow at a rate much lower than 2 percent in this fiscal, touching the lowest ebb in the post independence period. Manufacturing sector growth rate had been as high as 5.9 and 5.6 percent respectively, in the 1950s and 1960s as well, in the two decades that passed immediately after the Independence period. It is the manufacturing sector, which is the fulcrum to enhance employment, demand, income and investment levels, which are the crucial pre-requisites for sustainable growth. Indeed, India has altogether missed the opportunity to industrialize, and has transited directly from agri-based economy into a services driven economy with extremely poor share of manufacturing in the GDP. India has the lowest, 15 percent share of manufacturing sector in the GDP, vis a vis many other countries, viz., Thailand which has 36 % share of manufacturing in the aggregate GDP, South Korea 31% , China 30%, Malaysia 26% , Hungary 23%, Germany 21%, Argentina 21%, Japan 19%, Poland 18%, Turkey 18%, Russia 16%, Brazil 16% and Egypt 16%, . For almost one and a half decades, the growth rate in the manufacturing sector in India, had been less than the overall GDP growth rates. While, all these aforesaid countries had higher rates of GDP growth from the manufacturing sector, than the overall GDP growth in these decades. Moreover, to the contrary, India has been experiencing an unfortunate trend of de-industrialization, in this post liberalization era since 1991, as a consequence of pursuing the neo-liberal economic policies and the operation of multilateral trade agreements coming under the domain of the WTO.

Fiscal deficit has widened to the worst ever level, and by the November end, it has hit 94 percent of 2013-14 target, by touching at Rs. 5.1 lac crores between April- Nov 2013. Slowing in the economy is so deep and widespread that even the fleet utilization of truck operators has touched an all time low of 60 percent, and is likely to fall, further up to 50 percent by March 2014. Just two years ago, the transporters were operating their fleets at 90 percent even in the post-meltdown period. Many of the operators are now even not able to service the finances obtained for their trucks, and consequently 5-7 percent of the 60 million trucks, currently on road, are already seized by the financers. But, there are no buyers for these seized trucks when put on resale.

Another acid test of economic performance are the stock markets. Indian equities had performed worst in 2013, inspite of an FII inflow of $ 20 billion into the economy in 2013. In dollar terms, Sensex has given -3.5 percent return and Nifty was even more sublime to give -5.5 percent returns. Though, in rupee terms, the Sensex and Nifty could give positive returns between 7-9 percent. But, it was much lower than Taiwan (11%), South Africa (16.5 %) and most of the OECD countries like the US, UK, France, Germany and Japan etc. which could give returns between 15-55%. However, stock markets in Thailand (-13.35%), Indonesia (-22.5%), Brazil (-15.9%), and China (-7.5%) did perform even worse than India. But, China and Brazil have stronger manufacturing bases to resist the dampening slow down. However, for India even after the general elections scheduled in April, 2014, any quick revival cannot be expected, as the middle income consumption growth is not visible, and no large scale investments are likely to pick up. New project announcements are on a fast downhill slope. This is unlikely to reverse, until the formal economy comprising, the organized sector including manufacturing and infrastructure revives to provide impetus to white collar employment, income levels and demand. Hence, a comprehensive strategy to revive the formal and organized sector is to be put in place besides a strong support to the informal economy, to enhance investment, employment, wage levels and income, to usher in an era for revival of sustainable growth.

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