

INDIA'S INCLUSIVE GROWTH: ISSUES AND CHALLENGES

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Abstract Economic growth reflects in human development and is veritable only when the growth is qualitative. Inclusive growth is a synonym for equity and equality. Performance in external sector and country's inclusive growth are in-separable in a globalised economy. Though all economic activities may not receive equal returns in the domestic and external sectors, policy initiatives and voluntary commitment of the affluent organizations can help realizing inclusive growth through helping development in the other sectors of economy. The feature of Indian economy reveals greater dependence on primary sector that is relatively performing low, is one of the hurdles for inclusive growth. Manufacturing sector has ever increasing opportunities in the domestic sector provided the efficiency in the sector improved to meet the cost and quality standards in international markets. This article identifies some of the differences in growth across the economic sectors, mentions relative strengths and weaknesses of each economic sector with reference to their performance in global trade and suggests measures for balanced growth.

Keyword: Inclusive Growth, Sector-wise Performance, Issues and Challenges

Inclusive growth is a measure of quality for economic growth. As the scarce resources of economy are committed in activities, it is essential to observe that the opportunity cost of such resources is at minimum. Measuring the quality of growth certainly calls comparing the input-output relations, both short term and long term implications of growth, drivers and significance of unequal growth across various sectors and segments. It is a high time to discuss the quality of growth achieved and pave initiatives to maintain a balance between growth across various sectors in order to ensure overall economic development and a sustainable growth for the nation.

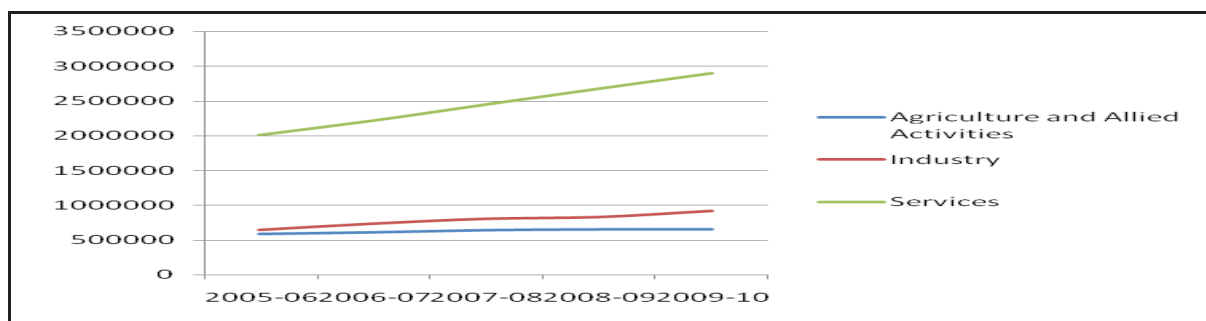
The urge for inclusive growth has been gaining momentum among organized players and policy makers to focus the attention towards overall growth of the economy. Despite the growth rate in GDP, National income, and savings certain

sections of the society are starving, or deprived of the fruits of development and at an average GDP growth rate of 8.5% about a quarter of the population is below the poverty line. The need for inclusive growth is of immense importance to policy makers and corporations for a developing economy like India where there are mismatches between growth and poverty indices.

Sectoral Differences

The issue of inclusive growth is much complex to envisage than it means. Inequalities root from economic, social and cultural backgrounds but the policy measures attempt to bridge the economic gap across the sections through varied schemes and assistances.

Figure 1: Sector-wise Average annual contribution to GDP in Absolute Terms (In Rs Crores)

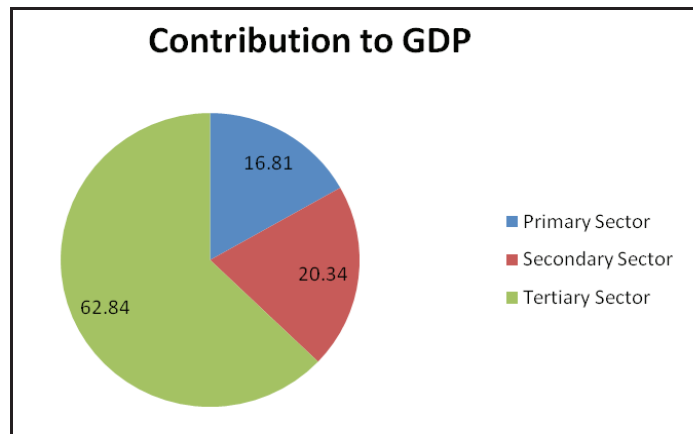


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Figure 2: Sector-wise Average annual contribution to GDP in Percentages*



Differences in Growth across Various Sectors

The measures of unequal growth and income distributions across various sectors can be learnt from the GDP contributors. An outlook of the Contribution to GDP and performance of various Sectors of the economy are detailed below.

In spite of predominant sector, agriculture and allied activities contribute the lowest at 16.81% of GDP, industry at 20.34% and the service sector has ever been contribution the highest since the era popularly termed as Liberalization-Privatization-Globalization (LPG). The average annual growth rates in industrial and service sectors are matching the overall GDP growth rate between 8-10 percent which has been observed as the trend in recent years. Growth in agriculture sector has been observed at 3.09 percent for the period between 2004-05 to 2009-10.

Average GDP contributions of three sectors, for the period between 2005-06 and 2009-10 are as follows. Agriculture: - 16.81% Industry: - 20.34% Service Sector: - 62.84% (Note: Figures are calculated at constant Prices 2004-05).

Growth in agronomy would result in overall development in the economies where agriculture is predominant. Some of the problems in agronomy of India are subsistence on monsoon rains and changing climatic conditions, unexpected rainfall and natural calamities like floods. Apart from the routine and natural problems mentioned, low penetrated banking and access to safe and cheap credit to farmers, lack of supply of fertilizers and pesticides are bottlenecks for the expansion in the sector. Recent agronomy trends also indicate the plunging prices of agriculture commodities in primary markets, pushing small and marginal farmers into doldrums. Many states across the nation also complain poor supply of electricity in rural areas also fuel the problems of farmers. Contrary to these, Indian consumers always encumbered by the rising prices of essential commodities leading to inflationary tendencies, reducing the purchasing power, savings and investments of the economy.

Expansion in the industrial sector is subject to large capital investment and risks of changes in technology, tastes and fashions. Capacity expansion in the industrial sector requires phenomenal growth in innovations, research and development both in the products and technology.

Figure 3: Average Annual Growth Rate 2004-05 to 2009-10

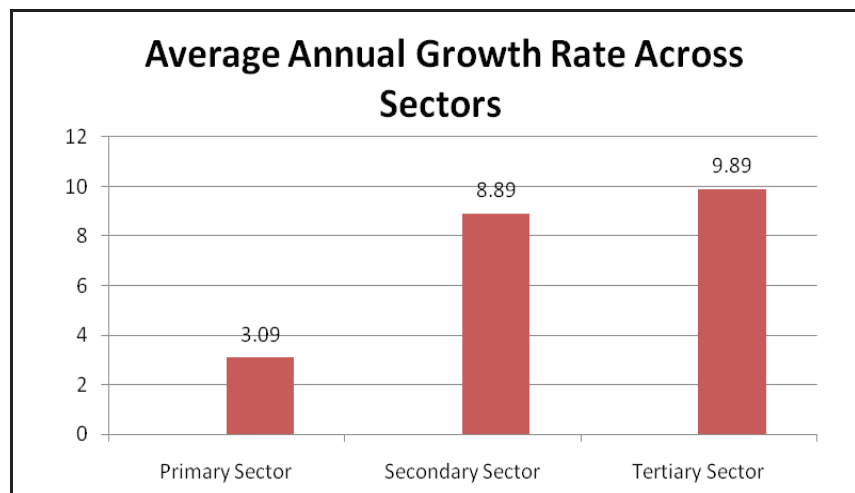
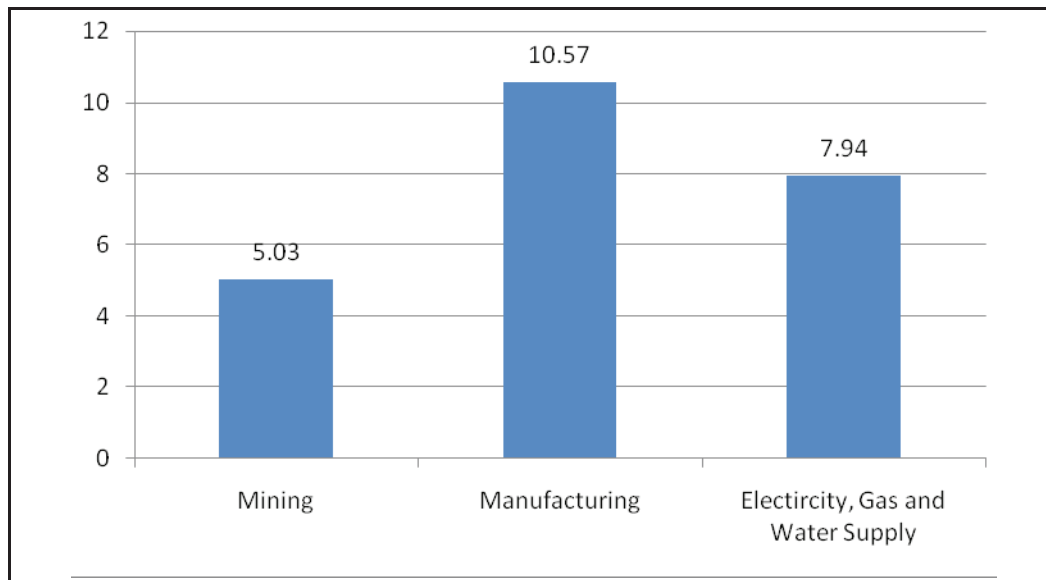


Figure 4: Average Annual Growth in various industries



Industrial growth in the economy is predominantly given by manufacturing industries that contributed 77.42% of the total industrial growth, followed by mining and quarrying with 12.67% and the rest of the growth contributed by Electricity, Gas and Water Supply industrial undertakings. A positive growth is observed in manufacturing industrial sector and a negative growth is evinced in other segments. A serious implication of this observation is that there could be a possible energy crunch in the economy due to high price or supply constraints to the manufacturing industries that obtain raw materials or source energy from these segments. Apart from these facts, infrastructure industry has recorded an annual average growth rate of 6%. In an economy that is growing at an average of 8.5% per annum on average, and due to the fact that agriculture and industrial sectors are

trailing in growth, much attention is needed to the segment for enhancing all the sectors of the economy.

During the period of 2004-05 to 2009-10, manufacturing sector's production has grown on an average by 10.57 percent and that of electricity, gas and water supply by 7.94 percent. For a sustainable growth a higher growth is essential for electricity and gas industry that can minimize the supply crunch to farm and service sectors.

The growth rate in the services sector dominates the figures with consistent rise in year on year volumes. During 2004-05 the services sector's output has grown on average by 9.89 percent, DP contributing 62.84 percent of average annual GDP.

Figure 5: Sub-sectors of Services

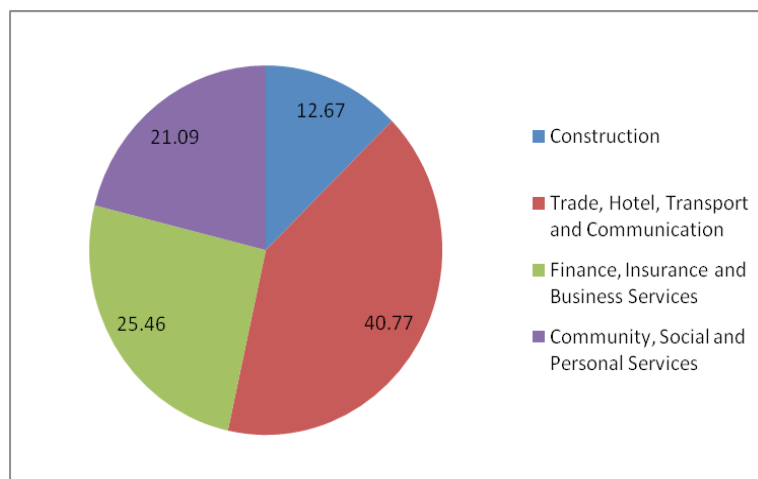


Table 1: Territory-wise Growth in Net Domestic Product

S.No	State/Union Territory	Average Growth Rate in NDP*
1	Nagaland	3.55
2	Mizoram	4.19
3	Assam	4.65
4	Madhya Pradesh	4.76
5	Jammu & Kashmir	5.87
6	Punjab	5.92
7	Manipur	6.11
8	Uttar Pradesh	6.23
9	Tripura	6.27
10	Rajasthan	6.88
11	Arunachal Pradesh	7.20
12	West Bengal	7.48
13	Andaman & Nicobar Islands	7.50
14	Sikkim	7.26
15	Himachal Pradesh	7.66
16	Meghalaya	8.03
17	Maharashtra	9.24
18	Uttara-khand	9.32
19	Andhra Pradesh	9.83
20	Jharkhand	10.00
21	Tamil Nadu	10.11
22	Haryana	10.24
23	Kerala	10.48
24	Chhattis-garh	10.56
25	Gujarat	10.90
26	Goa	10.98
27	Karnataka	11.04
28	Orissa	11.12
29	Chandigarh	11.67
30	Bihar	11.69
31	Delhi	12.64
32	Puducherry	14.66

* Calculated for the period between 2003-04 and 2007-08, Source: Statistical Data on Indian Economy; RBI Documents.

Trade, hotel, transport and communication services contributed for 40.77 percent of total output of services sector followed by finance, insurance and business services with 25.46 percent and community, social and personal services with 21.09 percent. Construction industry forms 12.67 percent of total services and has been the major service segment in the domestic market. It is worthwhile to note that the community, social and personal services occupy one fifth of the total services which is essential for assisting the development of the underprivileged and deprived social and economic classes.

Considerable difference in NDP growth rates can be seen across the provinces of the country. North Eastern States of Nagaland, Mizoram and Assam have recorded lower average growth rates between 3 to 5%, and the small states of Delhi and Pondicherry are among the top most performing states with an average annual growth rate of 12.64 and 14.66 respectively. Most of the Northern and North Eastern states are performing below the nation's average with average annual growth rate between 5 to 8 percent. Central and Southern regions of the country along with the north western parts are contributing the nation's GDP with an average growth rate between 9 and 12 percent. Non-availability of natural resources and extreme weather conditions, poor infrastructure and high illiteracy rates can be commonly identified problems in these regions.

Sector-wise Performance in Exports

Between the years 2004-05 and 2008-09, the total merchandise exports have grown on average rate of 23.54%. The share of various classes of commodities in the exports are as follows.

Table 2: Export of various commodities

Commodity	Average Annual Growth %*
I. Primary Products	21.07
A. Agriculture and Allied Products	18.73
B. Ores and Minerals	31.79
II. Manufactured Goods	20.86
A. Leather and Manufactures	10.56
B. Chemicals and Related Products	19.38
C. Engineering Goods	31.25
D. Textile and Textile Products	9.66
E. Gems and Jewellery	23.10
F. Handicrafts (excluding Handmade Carpets)	-7.55
G. Other Manufactured Goods	17.38
III. Petroleum Products	52.56
IV. Others	36.29
Total Exports	23.54

*Average Growth rates are calculated on the basis of RBI Data on Exports for the period between 2003-04 to 2008-09.

Export of petroleum products is the major contributor for growth in exports followed by other miscellaneous merchandise, Engineering goods, ores and minerals. The share of primary products in exports was 21.07% which was less than the average growth of exports. Among the primary products ores and minerals have formed the bulk to the overall growth in primary products. During the period of

observation, export of manufacturing goods have similar growth rate with 20.86%. Engineering goods and Jewellery and other manufacture goods contribute the growth of manufacturing goods exports.

The above growth rates clearly alarms that the performance in the economic activities where the country believed to have core competency like handicrafts, textile products and leather are among the low performing commodities in international trade. It is also important to note that the non-renewable natural resources like gems, ores and mineral exports are showing comparatively higher growth in exports. Prices of these commodities rise over a period of time as the existing deposits shrink. Allowing more exports in these rather than products from labour intensive manufacturing and farm sectors may not help the economy in attaining the inclusive growth.

During the period between 2004-05 and 2009-10, Service exports have just grown by 17% in the current Account indicating the relative growth in service sector has been less than that of primary and secondary sector. However, they contribute the bulk of export receipts in absolute terms. Among the services, travel and software industries are identified as the major service export earner to the economy.

On the negative side, the data reveals that the economy has been importing insurance, business services, financing and communication services from the rest of the world and among which insurance service imports are increasing at 12 times to that of total service exports. Financial and communication services call for a review of the existing competency levels and strengthening the sector to make the

economy self reliant in these services. Effective Research and innovation fitting the needs of domestic customer may improve the situation.

Table 3: Export of Services

Factor	Average annual growth rate*
Services	17%
1.Travel	19%
2.Transportation	-59%
3.Insurance	-206%
4.Miscellaneous	19%
Software	19%
b. Business Services	-116%
c. Financial Services	-54%
d. Communication	-3%

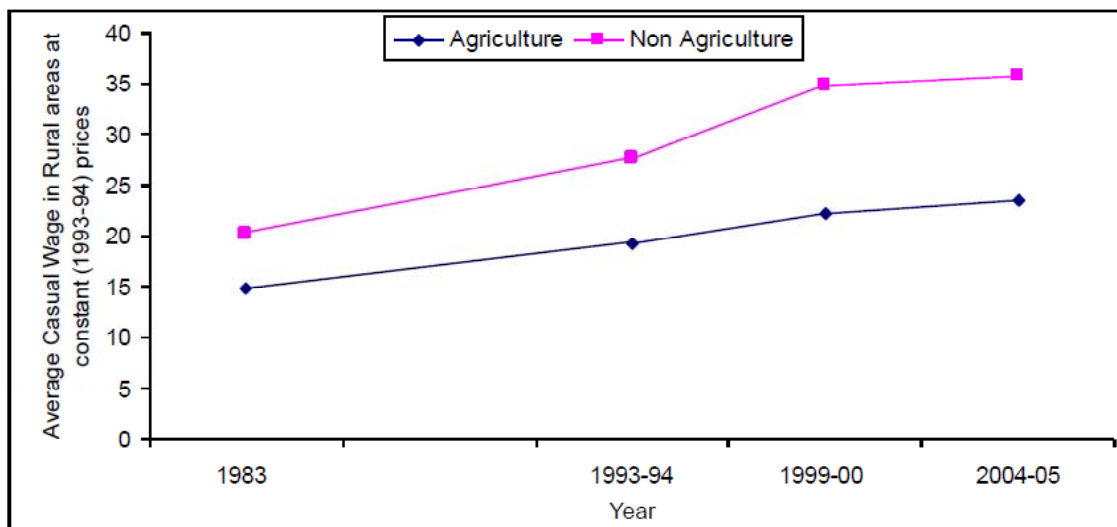
* Average annual growth rates are determined for the data between 2004-05 and 2009-10.

Source: India Overall Balance of Payments-RBI Documents.

Employment Concerns

Employment in the sectors can be identified as a key indicator for inclusive economic growth. The current employment scenario in India reveals that about 58 percent of population is employed in agriculture and allied activities, 18 percent in industry and 24 percent in services sector. These figures indicate that majority of the population are engaged in low productive farm sector. Disguised unemployment forms the part of the people occupied in the farm sector.

Figure 6: Wages in Rural Areas



Source: P.K.Ray Dy.Director General(Emp)Directorate General of Employment & Training, Ministry of Labour and Employment, Government of India.

The service sector requires comparatively high degree of skills than industry and farm sectors. Considering the literacy level of 74% as per the census 2011, one can fairly identify that one of the important reasons for disguised unemployment and poor per-capita productivity in the farm sector can be attributed to illiteracy and lack of technical skills for employability in well performing sectors.

Apart from the observations made above, one of the key factor contributing the rural poverty index is considerable wage difference that has been widening over the past two decades pushing the rural wage earners to susceptibility. The difference in wages of agriculture and non agricultural occupations has been widening for the past two decades prompting urbanization with insufficient education and skills.

The country made its place in world's invisible trade in recent decades and proven its strength. Yet the success story is a celebration in IT and BPO industry. The representation of other industries in service sector still need to evolve from technological and investment barriers to achieve their success.

Inclusive growth can be realized through a rise in employment levels. Involving more population in productive and income generating economic activities in whatever the manner, would make a difference in the under-privileged sectors of the economy as the income generated from other sectors result in trickle down prosperity. An immediate attention is needed to identify and update the industries that have potential demand for their products but could not perform due to drastic changes in tastes and fashions. Policy initiatives are to be aimed at human resource development in modifying and updating their skills through organized work shops and seminars for industrial workers and entrepreneurs

to transform their skills to fit the industries whose demand and future are promising.

Demographic Scenario

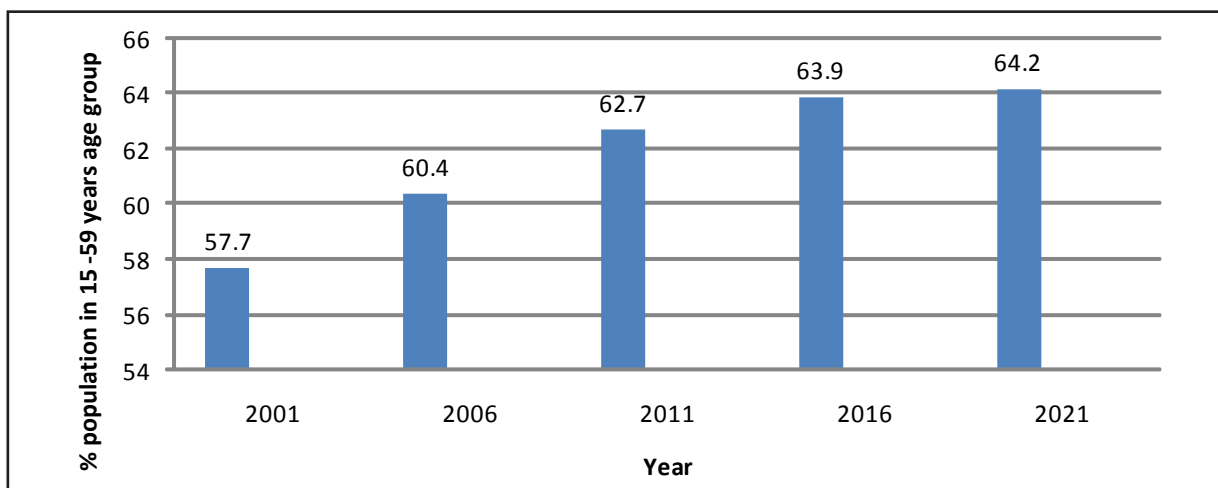
It is estimated that there are 62.47% of working population in India who are between the age group of 15-59. It is also estimated that about 63.5 million new entrants will be available to the present working population between the year 2011-16.

Drivers for Economic Growth

India itself is one of the biggest markets in the world for consumer goods and various other industries with a population of 1.21 Billion. India has got potential for future growth for various industries to meet the domestic demand. There is challenging but promising global environment for external sector performance that may result in inclusive growth for India in the near future provided no future policy measures from affluent economies will adversely affect the position and performance of Indian industry in international market. India stands as the 12th largest economy in the world and is assumed to become the second largest next to china by 2050.

- Population pyramid of India reveals a promising work force in future and the world is likely to face a workforce crisis in the near future.
- The most favorable destination for Foreign Direct Investment with a P/E of 16.1 percent and second nation in terms of ROE next to Thailand.
- India stands first in Global Retail Development Index as the retail market in India is expanding at 36% year

Figure 7: Percentage of Population in the Age Group of 15-59 Years



Source: Office of Registrar General & Census Commissioner (RGCC), 2006

on year growth for past few years giving a scope for various small and medium enterprises to play a vital role in catering demand for retail products.

- Compounded annual growth rate in disposable income is 12%.

At present the global environment may appear jittery and the impact of recession is apparent with decelerated industrial and services exports. However, India's GDP growth rate is not much affected to the extent the world is affected by the recession. Comparative growth indicators of world's major economies reveal that India has fared well during the current financial year.

Prospects for Agriculture Sector

Rising food prices in negative inflation is a concern in recent times. Demand for goods other than food has drastically decelerated and likewise the supply of money in the economy. Recent policy initiatives of RBI to curb the inflation prior to general elections might be one of the several reasons that have influenced the low supply of money in economy. Crops failure due to sustenance monsoons bear on agricultural products. Rising prices for essential commodities can also be assigned to enduring low productivity resulting from age old methods of cultivation. On the other hand, inequality or growth exclusion of agriculture sector is partially due to failure in establishing the marketing systems that ensure a fair price to farmers. Middle men such as traders and millers are always draw the advantage of supply shortages and the position of farmers has not improved despite the price level changes.

Global food crisis, which has been in debate for the past few months, indicates the demand for agriculture production. Several reasons for the present day situation have been in debate indicating the economic developments in India and China have resulted in the crisis. The people who strongly assign the cause to these countries say that the growth of income for middle class has resulted in change of consumption levels and diverting the investment from agriculture to bio fuel crops.

The discussion above concludes that there is food crisis across the globe and countries like India and China are no exceptions. As more than 60% of India's population is still depending on agriculture, there are possibilities for improving the farm sector and the income levels of population dependent on the sector. The global market for agricultural output is expanding beyond the expectations of the producers and policy initiatives are needed for diverting the domestic savings to farm sector. A focus on improving the farming methods and technological innovations, fertility

conservative methods, land improvement studies would bring the greater yields to the farm sector in the wake of demand for agricultural production.

Need to Promote Indian Industry in World Trade

In the race for dominance for services sector in general and the IT sector in particular, manufacturing sector has not been paid enough attention during the past two decades. The result is evident in India that small manufactured goods like toys are being imported. Technical skills have been drained to IT and ITeS at the cost of innovation and growth in manufacturing sectors due to brain drain into the sector. Industrial production has been decelerated during the current financial year despite the domestic demand for industrial output.

India accounts for 16.9% of world population and only accounts for 6.4% of world's output. It is estimated that India can achieve 10% of world trade by 2022, if the present growth rate of 28% in exports is maintained. The Industry is expected to be the major contributor as the country has proved its competencies in chemical and petro chemical, Automobile, heavy electrical, pharmaceutical and textile Industries. Continuous research and innovation is needed in farm equipment, consumer durables, industrial electronics, domestic and industrial electrical equipments and components.

Deregulation and delicensing of various industries is a direct invitation to the players to prove their strength in domestic and the international markets. Policy initiatives are on their way to provide assistance to industry but there are many hurdles for making industry competitive in global arena.

Inclusive Growth and SMEs

One of the disappointing features of Indian Industry in world trade's perspective is inadequate representation of small and medium enterprises in global trade. MSMED Act, 2006 is one the policy initiatives of the economy in trying to fill the gaps in developing the sector. De-licensing of industry is a boon for the segment but de-reservation is a threat. Small and medium industrial undertakings spread across rural and semi-urban locations are commonly hit by power cuts. Lack of marketing and managerial skills for entrepreneurs is a major set back for the segment for participation in international markets. Along with the initiative from the government, necessary support is required from voluntary industrial association, research organizations, banks and financial institutions to educate the entrepreneurs who cannot

afford attending a business school due to various reasons, in acquiring the required marketing and managerial skills to promote export through SMEs.

Developing the segment is very crucial for achieving inclusive growth. The reason for this is the fore runners of the industrial growth and exports are small in number but large in volumes of export revenues they generate. They focus in high demand and profitable segments. Many other segments, however consists of large number of SMEs which have potential but lack support for technological upgradation, and access to international markets. Providing enough of technical and marketing support, the segment can fair well in global markets and themselves to learn and improve the means to grow in competitive environment. Despite the urge for faster developments in the segment, lack of initiative haunts the entrepreneurship on account of fears of competition from large business houses in various products and services. The two decades passed by, prompted mushrooming entrepreneurship in IT and software industry as it has been lucrative with lower investment. Entrepreneurship in manufacturing has been neglected by the economy during the period and the country needs to go a long way to recoup industrial growth.

The policy initiatives for improved representation of SMEs in global markets needs to be multi-faceted. Many existing measures needs enhancement to provide opportunities for SMEs in a tough and ever expanding market for secondary products. Some of these include financial, technological and research assistance for learning, analyzing and interpreting the global opportunities and the methods and strategic support to entrepreneurs. Support can be enhanced through Indian embassies and consulate office to obtain and circulate information on opportunities, technical standards, cultural influences, regulatory conditions abroad and to Indian SMEs through new letters and web sites. Though some of these measures contemporarily exist, they must be made action driven to influence and encourage Indian SMEs in grabbing every possible opportunity. British Overseas Trade Board and Department of Trade and Industry of United Kingdom are the best exemplary in this regard. Connectivity and interaction between trade associations, boards and voluntary association with Overseas Indian representative offices needs enhancement with a time schedule.

In on-going recession across the world, India is expected to play crucial role to combat the situation and to provide a solution to poverty, food crisis, human resources crunch and ultimately for human development. Apart from fighting the competition alone, SME sector is looking forward for tie-ups with its counterpart associations across the world to synergize the competencies. With a fool proof strategy, such tie ups would definitely be beneficial for the economy in the long run. One such example is evident from and tie-ups between Small Business Cooperation(SBC)-Koran Business

Development Centers(KDBC) and National Small Industries Corporation (NSIC) and Gujarat Industrial Development Corporation (GIDC) for promoting cooperation between SMEs of the two countries.

Service Sector's Contribution

The last decade has witnessed India's position in top five fastest growing economies in services sector with average annual growth rate or 7.9 percent. Indian maintained it legacy of dominant service sector productivity from colonial times and is believed to fetch long run returns provided the growth in the sector is continued. The fiscal year 2006-07, India has a global share of service exports of 2.7% at present and is expected to grow up to 6 percent by 2012. It is likely to touch \$ 319 billion US by 2011-12. Contributors for such a robust growth are Software, Engineering and Tourism.

Yet there are several service sectors that have a potential but not infrastructure. One of such sectors is education. Liberalization and growth in middle class income has allowed option to this class via access to education overseas. Considerable size of foreign exchange drain is taking place as a result of rush for world class education for Indian students. Despite having large domestic and overseas market for education, Indian regulatory and academic institutions have not adequately focused on the sector. Developing infrastructure and friendly environment for quality education and minimizing the barriers for entrepreneurship in the sector would answer many of the questions for low performance in the sector.

Health care service is another important area which has been recognized as a neighbor-hood destination for South Asia. Further investment for innovation and research in the area could be beneficial in the long run provided necessary infrastructure and protection for patents and improvised quality norms and service standards.

Indian Entertainment Industry is also one of the important contributor for growth in services sector in external market. Necessary support from the policy makers would fetch greater revenues and offers employment for skilled human resources in animation and film industries.

CONCLUSION

Inclusive growth in India is far from reality without performance in external sector. Having about 16 percent of world population, the country is one of the little performing economies in the world trade. Maintaining the growth in high performing sectors, the country needs to focus potentially strong sectors to execute well in global trade. Along with the contributing service sector, other sectors needs development at a faster pace to achieve inclusive growth as agriculture

and manufacturing sectors host majority of workforce in the economy. Global environment is not equally favorable for all the sectors due to either the changing demand patterns or lack of competitiveness among Indian players in the sectors. The need of the hour is to focus on industry and agriculture sectors along with other service sectors for better domestic and global performance and time bound frame work and strategies for development of the sectors.

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