Export plan vital for sustained 8% growth: CEA

An export-oriented strategy is essential for India to achieve an eight per cent annual growth trajectory on a sustained basis, said Arvind Subramanian, chief economic advisor

Ishan Kumar Bakshi | New Delhi | July 13, 2016 Last Updated at 00:19 IST

Chief economic advisor Arvind Subramanian on Tuesday came out strongly in favour of the central government’s Make in India campaign, saying that an export-oriented strategy was essential for India to achieve an eight per cent annual growth trajectory on a sustained basis.

On the impact of Brexit on the Indian economy, Subramanian said while it would impact growth in the UK and in the euro zone, which in turn would impact India’s exports to the region, the flip side was oil prices might remain depressed, which is beneficial for India.
Speaking at the India Policy Forum Lecture 2016, organised by the National Council of Applied Economic Research (NCAER), Subramanian elaborated his views on the strategy that India should adopt, especially in the light of rising levels of disenchantment with globalisation.

On the particular question of whether India should change its development strategy to adopt a domestic consumption-oriented strategy, Subramanian said that a reliance on this had its limits. Under an export-oriented strategy, he said, demand is infinite. Thus, the focus should be on international markets, though obviously the domestic economy will also provide a large market.

According to Subramanian, if the world trade to GDP ratio does not change, India has the potential to achieve a 15 per cent annual growth in exports on a sustained basis, which would help maintain an eight per cent annual economic growth. But he emphasised the country should not limit itself to gaining market share in exports of manufactured goods but also in services.

This would mean a different approach to trade agreements. Subramanian argued that India, which has a strong incentive to keep global markets open, should use trade negotiations to focus on areas where there is tremendous scope for increasing employment such as better access to clothing markets. But he pointed out that given the current global environment, developed countries might not offer market access without adequate reciprocity.

On the impact of Brexit on the Indian economy, Subramanian said India had weathered the storm and has emerged as a haven of opportunity on strong fundamentals.

Consumption-led model cannot give us double-digit growth: CEA

NEW DELHI: The Chief Economic Advisor (CEA) to the Prime Minister, Arvind Subramanian, believes a solely consumption-led model of economic growth will not be able to sustain a double-digit growth rate in India.

Speaking at the India Policy Forum 2016 organised by the National Council of Applied Economic Research (NCAER), Subramanian said the new wave of anti-globalisation sentiment in the advanced economies could pose a threat to the Indian economy in the short run.

"India's exports and GDP growth could slow down due to protectionist measures in the West in the wake of Brexit and a possible Trump presidency in the United States," he said, adding that, "It could be offset by an above-normal monsoon and a possible maintenance of status quo by the US Federal Reserve."

However, he said India has emerged a safe haven for investors in the light of the anti-globalisation threat.

Subramanian appealed for policies that supported a more "outward strategy" of growth instead of an "inward strategy" as demand is "infinite" in the external sector.

He said too much emphasis on the consumption-led growth model, as has been suggested by various voices in the economic policy domain, will end up giving rise to inflation, as demand will remain limited.

As a measure of policy, the CEA suggested that India could employ a policy mix that focuses not only on manufacturing export but on services export too.

"India is a powerhouse in services export and can be unique if it follows a combination of manufacturing and services export models," he said, emphasising that there was "no reason why India should just rely on manufacturing exports".

"Make in India is important, but India does not need to rely just on manufacturing," he said.

Data released by the Reserve Bank of India (RBI) in June showed India's services export was flat compared with the same month a year ago. India's services sector export have shown a flat trend with net export declining in the month of January.

However, Subramanian stressed that given the re-balancing in China towards a more consumption-led model, India can emerge as a replacement of China in world trade.

"Signs are there that India can take China's space in world trade," Subramanian said, calling for India to become the next leader at the World Trade Organisation.
China currently accounts for 13.8 per cent (as of April) of global trade compared with India's 1.6 per cent share.

Only exports can sustain 8-10% growth rate: Arvind Subramanian

Chief economic adviser (CEA) Arvind Subramanian says domestic consumption cannot sustain 8-10% economic growth

New Delhi: In the wake of developed nations moving away from globalization, India should take the lead in pursuing the goal of open markets and develop an export-led strategy for strong economic growth as only domestic consumption cannot sustain an 8-10% economic growth over the medium term, chief economic adviser Arvind Subramanian said on Tuesday.

Delivering the 2016 India Policy Forum Lecture on the impact of the US presidential elections and Brexit on world economy organized by think tank NCAER on Tuesday evening, Subramanian said Britain’s vote on 23 June to leave the European Union (EU) will
only have muted impact on India’s economy due to normal monsoons and easy monetary conditions.

“Consumption led growth and a rate of growth of 8% do not gel well. However, this growth rate is feasible with an outward oriented strategy. We do need trading arrangements with the UK and the EU for a combination of manufactured products and services,” said Subramanian.

On 8 July, India and Britain decided to negotiate a free-trade agreement (FTA). The decision came in the backdrop of stalled FTA talks between Indian and the EU and the Brexit vote.

India’s exports fell 15.9% to $261.1 billion in 2015-16 while imports contracted by 15.3% to $379.6 billion. The trade deficit for the year was $118.5 billion. Despite the declining exports, the economy could still grow at 7.6% as per provisional estimates, on account of robust domestic consumption and strong public investments, he said.

The chief economic adviser pitched for New Delhi taking the lead in promoting globalization and occupying some of the space in global trade that China is expected to vacate. This, he said, will help India to engage “less unequally” in international trade.

Both the US presidential front runners, Donald Trump and Hillary Clinton, have shown lukewarm interest in globalization, he said.

The developed economies’ “disenchantment with globalization” will impact more on labour movement and trade rather than on capital flows. India has benefited from the global movement of labour, he said.

Govinda Rao, economist and member of the 14th Finance Commission, who was present on the occasion, said that a shallow form of globalization will continue and that labour mobility will remain a critical issue in the future.

“Technology has changed manufacturing in such a way that it has become less labour-intensive. So we should focus on export of both manufactured products as well as services,” Subramanian said.

http://www.livemint.com/Politics/7YALRyYY7M7VLqGeAXeFK/Only-exports-can-sustain-810-growth-rate-CEA-Arvind-Subra.html
India needs to shed ‘hesitation of history’ in order to grow its exports

By: Sunil Jain | Published: July 14, 2016 8:52 PM

As Subramanian argues, India simply cannot get a sustained 8% growth without a significant export growth. (PTI)

Though Brexit is the latest threat to globalization, as chief economic advisor (CEA) Arvind Subramanian pointed out at the India Policy Forum Lecture on Tuesday, the seeds of the destruction of the era of hyper-globalisation – exports-to-GDP rose to over 25% in 2008 as compared to 18% in the 1980s boom – lay in the fact that this phase coincided with what he called the weakening west and the rising rest. Between 2005 and
increasing protectionism is a logical consequence. In the glory days of 2004-07, when global GDP was growing at 5% per annum, global exports grew at 9-10% – by contrast, they contracted 13% in 2015; in volume terms, the growth was a mere 2.8%.

Subramanian’s tentative conclusion that, while deeper integration of the EU-type is under siege, shallower globalization of trade and capital flows would continue, needs to be validated by actual experience. Nonetheless, there are important policy implications of the new global order.

For one, as Subramanian argues, India simply cannot get a sustained 8% growth without a significant export growth. Not only has all growth of China and Asian tiger economies been driven by high exports growth, even India’s own high growth years saw 24%+ export growth. Can India get this growth and is the world ready for another China-style export behemoth? The latter, surprisingly, may not be too difficult since, as Subramanian points out, China’s exports add up to 3.3% of global GDP which is small compared to the global exports-to-GDP ratio of 27.3%. Since India’s share is a mere 0.5% and China’s rising wages and exchange rate will force it to vacate some of this space, the question is whether India will capture it?

Keep in mind that, in the 2005-12 post-MFA period which was supposed to benefit India, our apparel exports rose just 3.7% a year versus 18% for Vietnam, 15.7% for Bangladesh and a healthy 6.9% for China which already had a very large export base by 2005. Certainly, the new textiles policy which brings in fixed-term jobs and tax breaks could help, but a lot more will be required.

China’s competitiveness didn’t lie in just its low labour costs or a cheap currency, it lay in it being an integral part of all global manufacturing chains while India is not a part of most manufacturing chains. Getting into this position requires India to aggressively woo FDI and shedding what, in an analogous context, the prime minister called the ‘hesitations of history’. While there has been progress, recent experience with Apple or
Subramanian rightly argues that, with incomes stagnating in the west, it is unlikely India will get away with anything less than full-reciprocity. So, while the US may have unfairly blocked access to some of its markets, it is unlikely to fix this unless India gives it more access. You can argue, as many did, with the CEA's view of the inevitability of India taking up the space China vacates, but no one can doubt his prescription.