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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.

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