SWOT Analysis of the Indian Economy

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The Economic Survey 2016-17 tabled in the Parliament on 31st January 2017 presents an assessment of the performance of the Indian Economy over time with a focus on recent developments. It analyses problems, challenges, possible solutions and prospects with arguments supported by extensive research and empirical evidence. It is a massive exercise with contributions from a large number of government officers, researchers and scholars. This year the Survey is presented in one volume only unlike the last couple of years, because the other volume containing the detailed assessment of the performance of the economy during the year 2016-17 is planned as a standalone volume to come later. The Survey, therefore, focuses on analyzing the basic Strengths, Weaknesses, Opportunities and Threats – popularly known as the SWOT analysis of the Indian economy with support derived from existing studies in the literature, commentaries in print and visual media and some fresh research undertaken specifically for the purpose in the government departments and research institutions. The present note briefly considers the salient points emerging about the Indian economy under separate heads of its Strengths, Weaknesses, Opportunities and Threats.

Strengths:

Under the gloomy global economic environment and wide spread slow-down, Indian economy still presents a bright spot with overall impressive performance. Although the Survey predicts the growth between and 6.5 per cent and 6.75 per cent during 2016-17, the Monetary Policy Committee (MPC) estimates it to be around 7 per cent making the country the fastest growing major economy in the world. Inflation rate is around 4 to 5 per cent and declining. Current Account Deficit (CAD) of the Balance of Payments is less than 1 per cent of Gross Domestic Product (GDP) with the dollar-rupee exchange rates reasonably stable. External debt is within safe limits and no slippage is expected from the fiscal discipline and consolidation path followed for the last couple of years both at the central and state governments with and without Ujwal DISCOM Assurance Yojana (UDAY).

FDI reform measures have ensured that India has been receiving one of the largest inflows of foreign direct investment (FDI). As the proportion of GDP it has grown from 1.7 per cent in 2015-16 to 3.2 per cent in

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the Second Quarter of 2016-17. The forex reserves have grown to $360 billion by December 2016 that more than meets the standard reserve adequacy norms.

- The large gap existing between the inflation rates measured through Wholesale Price Index (WPI) and Consumer Price Index (CPI) in 2015-16 has been bridged now and the relative prices in the economy have considerably stabilized. This has also resulted in restoring the growth in nominal GDP, which plays an important role in raising the government revenue growth.
- Successful demonetization of high value currencies is likely to yield long term benefits of reducing corruption, increasing household financial savings and widening the tax net.
- Goods and Service Tax bill has been passed by the Parliament and its implementation will result in a single nation-wide market; better tax compliance; higher investment and growth; and good governance practices.
- India's share in the world manufacturing exports is rising because the country has remained competitive despite high capital inflows and inflation.
- Internal mobility of goods given by the interstate trade in India is about 54 per cent of GDP or 1.7 times the international trade. Similarly, the extent of work related migration is also substantial.
- In terms of commitment to climate change, India has outperformed most other countries in imposing tax on petroleum and diesel.
- India has a distinctive advantage over other comparable countries in demography. The differing demographic profiles of several large states would ensure that the country would experience the peak over longer time compared to several other countries.
- A very extensive network and infrastructure is created in the country by JAM –Jan-dhan yojana, Adhaar cards and Mobile phones particularly to reach the target groups and remote areas directly and effectively.
- There is a convergence of health outcomes like life expectancy and fertility rates across states over time in the country.
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- An important strength of the economy missed by the Survey is that India has been a well acknowledged democracy at all levels with reasonably developed institutions and large public participation governance and decision making process. This plus point matters a lot for the international investors.

Weaknesses:

- A major weakness of the economy in the context of its potential is broad societal ideology, mindset and opinions about redistribution of income and wealth, capacity building for service delivery and market regulations, and curious confusion about property rights and role of private sector. Coupled with historically developed vested interests, it has created a less conducive socio-political environment for meeting the full economic potential of the economy.
- Even the Goods and Service Tax (GST) implementation to begin with is likely to suffer from sub-optimal design and too complicated a structure for efficiency gains.
- Ideological and philosophical confusion regarding the roles of the public and private sectors has led to unproductive delays and debates over allowing exits, divestments of government stake, avoiding intrusive policy interventions, protecting property rights, etc.
- Out of several essential public services, delivery of health and education does not provide any good replicable model across states. Efficient delivery of these services remains a major weakness.
- Private investment is low and exports are no longer growing at high rates. Both these are significant sources of growth, but have slackened substantially of late in India.
- The corporate sector and commercial banks are caught simultaneously with their respective stressed balance sheets. Firms are unable to spend on fresh investments because they have defaulted on their borrowings and the banks are unable to lend more because they have accumulated huge Non-Performing Assets (NPAs).
- Non-tax revenues of the Central government have not achieved the target because receipts from the spectrum, disinvestments and dividends to the government have fallen short of the expectation.

They are also not expected to grow in the near term.

- The fiscal deficits in the state government budgets have been rising of late. Implementation of the UDAY scheme is one important reason. Although there is a hope about improvement from the current year, the interest cost on state bonds has sharply increased in the January 2017 auction over October 2016.
- Heavy reliance on high growth rate of income to reduce the debt-GDP ratio rather than reducing primary deficit has not yielded the desired result both at the Central and the State levels.
- Distribution of public funds for various schemes in aggregate across districts has been so faulty that greater shortfall is found where the need measured by the number of the poor is higher.
- The ratio of working age population to non-working age population in India will reach its maximum value of around 1.7 by 2020. This is substantially less than corresponding maximum values in other BRICS countries, implying lower demographic dividend in India. However, India is likely to experience the value of the ratio near its peak over a much longer time.
- Investment and savings rates have been declining in the country over recent years.
- Income and consumption inequalities across states are increasing in India.

Opportunities:

- Reform the bankruptcy laws for exits of corporations to release locked up resources. The Government has already reformulated an Insolvency and Bankruptcy Code,2016 and now, its efficient implementation holds the key.
- Strengthen legal basis for Aadhar cards and allow inter-operability to encourage digitalization payments for efficient functioning of government schemes to achieve inclusion and equity. Aadhar has already got legal backing from the Parliament although it is yet to pass judicial scrutiny.
- Focus on Competitive and cooperative federalism presents a great potential to attract skills, investment and technology.
- Unfinished agenda on structural reforms can be completed with strong political commitment particularly after the demonetisation of high value currency notes since after a long time the Government has an absolute majority in the Parliament.
- Rising dollar on account of developments in the US economy could compel the Chinese economy to reduce its exports and rebalance in favour of domestic consumption. This would have positive spillover effects on India and the rest of the world. There could be intense competition among countries including India to occupy the space vacated by China.

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- Higher growth prospects in advance countries like US and Germany can lead to revival of exports from developing countries including India.
- In the context of promoting labour intensive exports, after Brexit, India has the opportunity of renegotiating free trade agreements with UK and Europe and gain substantially for export and employment growth.
- With the unfavourable stance of US on regional trade agreements, the relevance and effectiveness of the World Trade Organization (WTO) and multilateralism is likely to increase ultimately benefitting India.
- Among the large states in India, there are sharp differences in demography. The states can be divided broadly in two groups: Peninsular States such as West Bengal, Andhra Pradesh, Tamil Nadu, Kerala and Karnataka; and Hinterland States such as Madhya Pradesh, Rajasthan, Uttar Pradesh and Bihar. The Peninsular States have more elderly population compared to the Hinterland States which have more young population. The demographic differences indicate opportunities for greater labour mobility to achieve higher growth and welfare.
- The demographic dividend in the Peninsular States would reach the peak around 2020, but the Hinterland States would reach the peak only around 2040. Thus, the demographic dividend would be enjoyed by the country over a much longer duration than most other countries. This also offers a natural opportunity to close the economic gap existing across the states over time. This aspect offers a specific perspective on the urgency to pursue relevant economic reforms to maximize such a gain.
- There is an opportunity to create a Public Sector Asset Rehabilitation Agency to address the twin balance sheet problem by taking up large and difficult cases and taking tough decisions.

Threats:

- International rating agencies have not been consistent in upgrading their ratings of different countries when their macroeconomic performance over time is compared. India unfortunately, seems to be on the receiving side with almost unrevised ratings over the last seven years when its performance has significantly improved. It can discourage investments in the country.

- Competitive populism in the federal democracy can damage fiscal discipline and governance standards.
- Challenges arising out of pay revisions and UDAY bonds are significant concerns for states to maintain their fiscal discipline targets.
- International political order and environment are fast changing towards isolation and protectionism. Mood of anti-globalization regarding the goods, services and labour prevails in advanced economies. This could effectively close a potent option of achieving 15-20 per cent export growth for India to realise its overall growth potential of 8-10 per cent GDP growth over time.
- International oil prices are on the rise and so also the commodity prices. However, the Survey fails to recognize likely problems of slippages in oil production on one hand and threat of shale gas production in USA on the other hand, which can effectively constrain the oil price rise.
- As a consequence of developments in US economy, global interest rates and inflation rates in advanced countries are on the way to strengthen. This can have adverse impact on India's capital inflow and outflow and hence on its investment climate.
- If the rising dollar on account of developments in the US economy results in the dollar induced depreciation in Yuan, it may lead to substantial structural transformation and disruptions in China that can have adverse spillover effects on Indian trade and investment. The potential US-China trade war could destabilise the world economy.
- The world exports to-GDP ratio has been declining for the last 6 years. Under such a gloomy environment, raising the share of India's exports in the world exports is likely to be very challenging.

India's competitiveness in the world market is seriously threatened by emerging countries such as Vietnam, Bangladesh and Philippines. These emerging countries pose competition to India in a wide range of our export commodities and services.

In terms of the real effective exchange rate (REER), the Indian currency is appreciating against other currencies and hence Indian goods and services in the aggregate are losing their competitive advantage. The estimates of the extent of such appreciation varies from 19.4 per cent by the International Monetary Fund (IMF) to 12 per cent by the Reserve Bank of India (RBI) to about 8.3 per cent by the Survey for the period October 2016 over January 2014. The estimates of the extent differ because the underlying basket of currencies along with corresponding weights differs. However, irrespective of the magnitude of the estimates by three different agencies, the increasing trend of REER for Indian Rupee and hence decreasing trend for competitiveness of Indian products in the global market is clearly established.

India's demographic dividend is likely to recede soon because the peak is likely to be attained by 2020 and the peak is relatively lower than the one reached in China and Brazil.

The *Economic Survey 2016-17* has attempted a very exhaustive review of the Strengths, Weaknesses, Opportunities and threats for the Indian economy and has suggested some specific reforms and actions to tackle challenges and address weaknesses. There can be some differences of opinions on interpretations and conclusions based on the empirical evidence used in the Survey, or perceptions about strengths or opportunities. For instance, when the Survey argues that there is "high levels of internal work related migration in India", the empirical evidence shows only four states (Delhi, Maharashtra, Tamil Nadu and Goa) accounting for 75 per cent of the total in-migration and only four states (UP, Bihar, Jharkhand and MP) accounting for 66 per cent of the total outmigration. The rest of the states do not send or receive significant number of migrants. The labour mobility in these states is not high. Similar limitation applies to the analysis based on the mobility of goods and capital. Hence the puzzle posed by the Survey about consumption and income outcomes diverging across states in the face of rapid internal integration of goods, labour and capital is essentially not a puzzle. It arises out of superfluous analysis of the empirical evidence. Notwithstanding such minor limitations, the Survey has done a commendable job. ❑

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