



## INFLUENCE OF POLITICAL STABILITY ON INDIA'S ECONOMIC GROWTH

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### Abstract

The highest level of political stability, several result oriented policy actions, improved business and investor confidence, lower commodity import prices, and reduced external vulnerabilities have proved that all is well in Indian economy. Growth oriented, reformist, inclusive-ridden government is working at the central level in India. It has created a helm of changes and chances at the base level economic and social structure of the second highest populated country of the world. World Bank in its publication *Global Economic Prospects* revealed that India is set to become the fastest growing big economy in the world in the fourth year of Narendra Modi government, edging past China. It is set to clock 7% rise in GDP in 2017 compared with 6.9% China. The present paper discusses the performance of Indian Government headed by Sri Narendra Modi of National Democratic Alliances and reveals the opinion of world level institutions on the performance of NDA Government.

**Keywords:** Economy, Institutional Reforms, Inequality, Competitiveness, Economic Growth.

### 1. Introduction

Economic risks, health risks, inequality, environmental and natural disaster, food insecurity and physical inequality are part of everyday life of millions of Indians. Being a world's largest democracy, India must prove that democracy works, democracy reaches every corner of India and people are benefiting out of it. However, the question is, after completion of 70 years of democracy based administration in India, what are our achievements? Has our administrators' eradicated poverty or provided employment to our youth? What about our educational policy? What is the health condition of our people? Whether India succeeded to provide average basic infrastructure to its citizen? No one has dared enough to give answers to the above questions. It is more meaningful to quote World Development Report 2002: *Building Institutions for Markets* that "weak institutions, tangled laws, corrupt courts, deeply biased credit systems, and elaborate business regulations, hurt poor people and hinder development". Further, the report states "countries that systematically deal with such problems and create new institutions suited to local needs can dramatically increase income and reduce poverty. There are opportunities today that can make the transformation not only plausible but also very affordable. We live in an era where rapid technological change, especially empowered by the information revolution, is deepening the integration of the world economy, changing the structure of jobs, offering new economic opportunities for all countries, facilitating green growth and enabling many low income countries to leapfrog through economic transformation".

The reason for poor institutional performances is political preference, political influence and poor economic decision-making. There are examples in the analysis that institutional equilibrium that comprises economic institutions and political institutions definitely empower the nations and eradicate its grass root level problems. Whatever may be political or economic idealism, by watching people's sufferings, exploitations, poverty, and much carnage in socialism, dictatorship, it is found, economic and political institutions that follow free market economy is good or acceptable(ex: South Korea and China).

It is noted that across the world institutional breakdown is the major cause for human depression and sufferings. Globalization has brought countries together and provided new opportunities. Many institutions enjoyed the fruits of the globalization. However, there is also a widespread sense of unevenness in the world today—in livelihoods, personal security, in the environment and in global politics due to the institutional failure in some countries of the world. Complex and inefficient institutions are a common problem, especially for poor people in many of poor and underdeveloped countries.

### 2. Need for an Institutional Reform in India

Reforming political and economic institutions is a tedious and challenging task in a country. In a largest democratic country like India, the economic institutions are always subordinate to political institutions. India has completed 25 years of its economic reforms, and global level institutions expected more achievement from India. India, but failed to reach the expectations. The World Economic Forum's flagship publication, the *Global Competitiveness Index, 2015* describes India's situation as "Despite its tremendous performance of economic and political institutions, India continues to suffer from poverty, malnutrition, health and primary education. Global Competitive Index 2015 appreciating India's immense potential and promise also has concern on its debacle on many issues. It states, "a third of its population still lives in extreme poverty—possibly the highest incidence of outside sub-Saharan Africa—and many people still lack access to basic services and opportunities, such as sanitation, healthcare, and quality of schooling. Improving the standard of living of the Indian population will require the country to accelerate its growth. The health situation is indeed alarming: infant mortality and malnutrition incidence are among the highest in the world; only 36 per cent of the population have access to improved sanitation; and life expectancy is Asia's second shortest, after Myanmar" (GCI, 2015, p. 11).



Now, the responsibility is shifted to the present National Democratic Alliance (NDA) government led by Sri Narendra Modi to transform India as a prosperous, corrupt free and more than that a super power. Adding to this, the socioeconomic and caste census, 2011 released by the Government of India reveals that 30 per cent of rural households are landless and derive a major portion of their income from manual labour and casual labour. One in three rural households is landless. 90.3 per cent of the rural family members are without salaried job and 25.7 per cent of the India's rural population was the below poverty line in 2011-12, with an income below Rs 816 per capita per month (the Hindu). India needs to be more progressive and assertive to reform its political institution. Being a world's largest democracy India's political choice and political power has the ability to strengthen its economic institution. Strong willpower of India's political institution to support the economic institutions will certainly make the country as a global economic power by year 2030.

According to the World Bank's Global Economic Prospects (2017), in India 49% of the workforce still engaged in the relatively low productivity agricultural sector. It is right time to turn the country into a global manufacturing hub to help lift productivity and attract investment in India to ensure that external demand can be tapped upon as an additional engine of growth. India's record of accomplishment on this has been relatively poor. India today accounts for 17.5% of the global working age population and will continue to add workers over the next decade at a time when many other major economies are facing an ageing population. According to UN projections, India will add 124 million workers over the next decade that will account for 25% of the rise in the global working-age population. While India's share in the global working age population is high, its share of global exports remains disappointingly low at just 1.7%. In contrast, China, which also has a high share of 21% of the global working-age population, has a much higher market share in world goods exports at 12%, while other Asian economies like Japan and South Korea, which account for a much smaller proportion of the global working age population at 1.6% and 0.8% respectively, have export market shares of 3.8% and 3.1%. Correspondingly, the share of manufacturing in India's GDP also stands at 13%, which is lower than the rates of 21%, 30% and 31% in Japan, China and South Korea respectively. World Economic Forum in its report on Global Competitive Index, 2017 suggested to improve the following core areas to become one among the developed countries of the world by 2020 (WEF, 2017).

**Table 1: Most Problematic Factors for Doing Business in India**

Factors	%
Tax Regulation	11.7
Corruption	10.9
Tax Rates	9.6
Poor Public Health	8.5
Inflation	7.4
Crime and Theft	7.4
Insufficient Capacity to Innovate	7.3
Poor Work Ethics in National Labour Force	6.0
Government Instability	5.7
Foreign Currency Regulation	4.6
Restrictive Labour Regulations	4.4
Inadequate Supply of Infrastructure	4.2
Policy Instability	3.6
Insufficient Government Bureaucracy	3.6
Access to Finance	2.8
Inadequately Educated Workforce	2.5

Source: WEF, GCI, 2016-17, country/economy profile. P. 202.

### 3. Impact of the Central Government's Recent Economic Policies: A World View

The National Democratic Alliance (NDA) led new government sworn on May 27<sup>th</sup>; the Bharatiya Janata Party scored a landslide victory in India's parliamentary elections in May 2014. The new government has initiated economic reforms, including diesel price deregulation and rising natural gas prices, taken steps towards more flexible labor markets, commenced reforms in the coal sector, and is financial reforms, that is demonetization, creation of cashless economy, initiation to transform the Indian economy as a digital economy, creation of National Institution for Transforming India (NITI) Ayog by replacing of planning commission, more importantly, introduction of Goods and Service Tax (GST) in India. All these efforts are path breaking and no doubt yields long-term reforms in Indian economy. Already, move like demonetising has created a sense of corrupt free economy in the country. People completely heartily accepted all these efforts of present central government. The world is again looking towards India.



### 3.1 Wall Street Journal Review on Economic Policies

United State based *Wal street journal* in its report dated 25, may 2016 stated that “India’s macroeconomic prospects have definitely improved relative to the period just before Prime Minister Narendra Modi took office.” Despite the disappointment of the investors and executives who had hoped Mr. Modi would become New Delhi’s most business-friendly prime minister ever, India’s economy has been doing better relative to other countries and much better compared with the country before Mr. Modi and his party took over in New Delhi.

**Table 2: The Wall Street Journal Analysis on Indian Economy**

For the Year Ended March 31 <sup>st</sup> , 2014 (in Percent)		For the Year Ended March 31 <sup>st</sup> , 2016 (in Percent)
6.60	GDP Growth	7.60
9.46	Average Consumer Inflation	4.91
-9.40	Rupees Move Against Dollar	-5.70
18.70	Average Index Performance	-9.40
-6.00	Car Sales Growth	7.20
-0.10	Industrial Production Growth	2.40
4.00	Export Growth	-15.9
4.20	Forex Exchange Reserve Growth	5.40
10.20	Home Loan Rate	9.55
4.40	Fiscal Deficit as Percentage of GDP	3.90
\$24.3 billion	Foreign Direct Investment	\$40.0
\$4.4 billion	Government Company Stoke Sales	\$3.8 billiion

Source: WSJ, USA, Anant Vijay Kala, Wall Street Journal, Dated, May 25, 2016

The statistics shown in the above table is the comparison of NDA Governments performance and the state of the economy prior to it assumes office. It is clear from the below table that the GDP growth rate increased from 6.60 % to 7.60 %, average consumer inflation has reduced form 9.46 % in 2014 to 4.91% in 2016. There is growth in sales of car. Industrial production has increased, and most importantly, fiscal deficit has reduced from 4.40 to 3.90 percent of GDP. Reduction in fiscal deficit is clear sign of good performance of macroeconomic initiatives. Another notable change over the two years is increase in foreign direct investment that is \$23.3 billion to \$40 billions. Foreign investors have shown faith and confidence in the policies of the present central Government.

### 3.2 Increased Competitiveness at Global Level

World Economic Forum continuously assessing the performance of the emerging economies of the world. Every year it publishes Global Competitive Index. Below table shows India’s Global Competitive Index Rank from 2007 to 2017. During end of UPA-11, the India’s global competitive rank had drastically decreased to 71 out of 144 nations. Interestingly 2014 onwards, in the present NDA regime, consequently two years India’s competitiveness increased and its position in the global level climbs that is 16-place improvement from 2014-to 2017.

**Table 3: India’s Overall GCI Rank**

Year	Rank
2007-2008	48
2008-09	50
2009-10	49
2010-11	51
2011-12	56
2012-13	59
2013-14	61
2014-15	71
2015-16	55
2016-17	39

Source: World Economic Forum, Global Competitiveness, various reports. Compiled by the author: GCI=Global Competitive Index.

The World Economic Forum gives the following reason for increasing India’s global competitiveness. Reports says that Indian economy has stabilized and now boasts the highest growth among G20 countries. The report reveals “India’s GDP per



capita in PPP terms almost doubled between 2007 and 2016, from US\$3,587 to US\$6,599. Growth slowed after the 2008 crisis, hitting a decade's low in 2012–13. This experience triggered India to rethink its policies and engage more firmly in the reforms necessary to improve its competitiveness. Growth rebounded in 2014 and last year surpassed that of China, making it the fastest-growing large emerging market in that year. India's competitiveness score stagnated between 2007 and 2014, and the economy slipped down the GCI rankings. Since the new government took office in 2014, India climbed back up the rankings to 39th in this edition of the Report, from 48th in 2007–2008. (WEF, GCI, 2017).

World Economic Forum's report appreciated increased competitiveness rank of India at global level after the new government assumed office in 2014 May. According to the report, India's competitiveness increased at global level due to the following reasons (WEF, GCI, and 2016-2017).

- Since the new government took office in 2014, India climbed back up the rankings to 39th in this edition of the Report, from 48th in 2007–2008.
- In particular, in goods market efficiency, business sophistication, and innovation sector have shown remarkable progress.
- Improved monetary and fiscal policies, as well as lower oil prices
- Recent reform efforts have concentrated on improving public institutions, opening the economy to foreign investors and international trade, and increasing transparency in the financial system.
- India has made significant progress on infrastructure, one of the pillars where it ranked worst earlier.
- Macroeconomic environment is another basic requirement where India's performance has improved significantly (+0.34). As the country closes the infrastructure gap, new priorities emerge.
- Rate of infant mortality (62 per 1,000 in the 2007–2008 edition of the GCI versus 37.9 today). Life expectancy increased to 68, up from 62 10 years ago, while primary education has become almost universal (up to 93.1 percent from 88.8 percent).

The report suggested that India must utilise its ICT talents to overcome its technical deficiency where it lies behind many developing economies of the world.

### 3.3 World Bank Views

World Bank latest report on India Development Updates, 2017 reported, "Fundamentals of the Indian economy remain strong, with robust economic growth, strong fiscal consolidation, and low current account deficit, higher agricultural output, growing FDI, low inflation and higher wages in rural areas. Favourable monsoons boosted agriculture and rural consumption, while urban consumption remained robust and exports rebounded in the third quarter of 2016-2017. Giving value to the demonetisation of high value currency notes in year 2016 and upcoming timely and smooth implementation roll out of the goods and services tax (GST). According to the World Bank report the overall impact of the GST on equity and poverty is likely to be positive.

According to Junaid Ahmad, World Bank Country Director in India "India remains the fastest growing economy in the world and it will get a big boost from its approach to GST which will reduce the cost of doing business for firms, reduce logistics costs of moving goods across states, while ensuring no loss in equity,"

Democracy successfully works in India. More and more people are in the basket of literary group. Income levels of the people is increasing, employment opportunities are expanding its base, people get opportunities to involve in some action that yields income to their livelihood, more than that promising government is adding fruits to their dreams which may be realised soon. Thanks to the strong political stability given by the NDA government. People's expectations are, corrupt Free State, and bureaucrats, good basic infrastructure, safe drinking water, good and quality education, minimum good standard of living, affordable market prices and trust on administration.

### 4. Conclusion

It is rightly quoted in Human Development Report, 2015 that "**Any fool can make things bigger, more complex, and more violent. It takes a touch of genius and a lot of courage to move in the opposite direction**". Yes, it is exactly suits to the functioning of the present government under the leadership of Prime Minister Sri Narendra Modi. Changing the mindset, traditional behaviour and socio-economic-cultural attitude of 130 core people of India is not a joke or election gimmick. Consolidating the macroeconomic condition is a tedious and challenging task in India. Thanks to the political intuitions stability and long-term growth oriented macro level policies of the government. The foremost priority of every economy is to



get its house in order. The Indian economy is on the road to revive with various sectors expressing optimism. Providing employment to the huge human capital, education, good health, food, nutrition, and infrastructure are the major challenges before the government. Effective and efficient external trade may be the one among many measures to stimulate the economy.

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