INDIA'S GROWTH EXPERIENCE SINCE 1991

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For much of the 1990s and 2000s, India was seen as the "new kid on the block" among countries that were growth success stories, and was one of the three fastest growing economies in the world, along with China and Vietnam (Sen 2009). This narrative of India's emerging growth miracle came to a sudden stop in 2011-14, as growth slowed down considerably. The conventional wisdom on why economic growth in India stagnated usually attributes the growth slowdown to a combination of internal factors, such as the "policy paralysis" that befell the central government and increased macroeconomic uncertainty, and external factors, such as the slowdown in global economic growth since 2008. In this paper, we provide a different reading of India's growth experience in the 1990s and 2000s, emphasising political economy and institutional factors that have received less scholarly and media attention in the current discourse on India's economic stagnation. We do so by situating the growth experience of India within a wider understanding of the nature of economic growth in developing countries. Since the seminal work of Pritchett (2000), there has been the realisation that a view of economic growth that is more consistent with the stylized facts of economic growth is one that takes economic growth as
movements between different growth phases, rather than characterised by a "steady state" rate of economic growth. Massive discrete changes in growth are common in developing countries, and most developing countries experience distinct growth episodes: growth accelerations and decelerations or collapses (Kar et al 2013a). If economic growth in developing countries is strongly episodic, it is not surprising that India's growth has followed a similar pattern.

Based on more recent GDP data, we argue that India has entered a period of an incipient growth deceleration from 2011 to date. As the recent empirical literature on economic growth shows, economic growth in many developing countries involves discrete and quantitatively massive transitions between periods of high growth, periods of negative growth, and periods of stagnation (Kar et al 2013a). Using a rough-and-ready way to demarcate growth regimes, we classify growth regimes into four categories:
(1) a growth regime which we call "miracle growth" where the average increase in per capita income is 5% per annum or more;
(2) a growth regime which we call "stable growth", where the average increase in per capita income is between 0% and 5% per annum;
(3) a growth regime which we call "stagnant growth, where the average increase in per capita income is around 0% per annum; and
(4) a growth regime we call "growth crisis" where the average change in per capita income is negative.

Growth acceleration is the transition from stagnation or crisis to stable growth or miracle growth. The ability of a country to sustain stable growth or miracle growth in period $t+1$ if it has experienced the same in period t determines its ability to avoid growth collapses and can be defi ned as growth maintenance. If a country does not transition from growth acceleration to maintenance, it faces a growth collapse. It is necessary to understand the factors underlying these dynamics to characterise a country's growth dynamics.

It is not obvious that the factors leading to growth acceleration will lead to growth maintenance as well, as Rodrik (2005: 3) argues: Igniting economic growth and sustaining it are somewhat different enterprises. The former generally requires a limited range of (often unconventional) reforms that need not overly tax the institutional capacity of the economy. The latter challenge is in many ways harder, as it requires constructing a sound institutional underpinning to maintain productive dynamism and endow the economy with resilience to shocks over the longer term.

What now explains the ability of the economy to stay in a positive growth process and for growth not to slow down or collapse? To understand this, we defi ne "open deals" as deals that are widely available to all investors, large or small, and not confi ned to an elite or a small group of favoured investors (Pritchett and Werker 2013). On the other hand, "closed deals" are offered by the political elite only to a small group of investors. The move from growth acceleration to growth maintenance would depend on the movement in the deals space from closed ordered deals to open ordered deals. An ordered deals environment, even if closed, may be able to sustain growth for a considerable period. But for growth to be sustained over the long run, the deals space must – while maintaining order – also become more open. This is because openness in the deals space drives economic competition and facilitates the entry of new fi rms, which leads to structural transformation as countries produce more complex products and as resources shift /from low productivity sectors to high productivity sectors and firms.

A shift from disordered deals to ordered deals is associated with growth acceleration, and a shift from closed ordered to open ordered deals is associated with growth maintenance. In India, GDP per capita growth accelerated in 1993 to 4.23% per annum versus a predicted rate of 2.34% per annum and then accelerated again in 2002 to 6.29% per annum versus a predicted rate of 2.91% per annum. The net present value (NPV) (at a 5% discount rate) of the additional output from the 2002 growth acceleration was $2.65 trillion (purchasing power parity, PPP, dollars). The NPV of output gained from the 1993 acceleration was $1.05 trillion. Therefore, the total NPV gained from growth accelerations since 1993 was $3.7 trillion (Pritchett et al 2013). Taken together, India's two growth accelerations added about $4,000 in PPP terms to the average Indian's income as compared to the counter-factual of what the income would have been without the two growth accelerations.

India's political economy has been supportive of pro-business and pro-growth policies since the 1980s (Kohli 2012; Mehta and Walton 2014). When Indira Gandhi returned to power in 1980, the government's economic policy focused on promoting economic growth. This led to a growing alliance between the political and economic elites. As Kohli (2012: 30-31) notes: Just after coming to power in January 1980, … Indira Gandhi let it be known that improving production was now her top priority. In meeting after meeting with private industrialists, she clarifi ed that what the government was most interested in was production. Therefore, beginning in the 1980s, the Indian state clearly signaled to domestic capitalists its intention to credibly commit to an environment where private enterprise would be supported and growth-enhancing policies followed. This was reflected in changes in economic policies, such as the slow but steady liberalisation of import controls, especially on capital and intermediate goods. The shift in the relationship between
political and economic elites from one of mutual distrust to a more collaborative and synergistic relationship was further accentuated with Rajiv Gandhi's coming to power in 1985. Gandhi took particular interest in modern sectors, such as IT and engineering, and tried to bring in new economic elites from these emerging sectors into the relationship that the political elite had with the business sector. In addition, with the rise of non-traditional business groups in southern and western India, there was a growing diversifi cation of business ownership, leading to a broadening of the political connectivity of the business elite (Mehta and Walton 2014). Therefore, by the late 1980s, the macro-level deals environment had already become distinctly "ordered" and more open, with the emergence of new economic elites in both modern sectors and in regions outside the industrial heartlands of Gujarat and Maharashtra.
Two further developments in the early 1990s led to a strengthening of the ordered nature of the deals environment, particularly at the micro level. First, the dismantling of the industrial licensing system in 1991 removed an important source of "disorder" in the deals environment at the micro level. This development ensured that the approval of applications that fi rms made for their expansion or that new fi rms made to enter the industrial sector during the previous licensing regime no longer depended on the whims and fancies of individual bureaucrats in the government. Second, the removal of the import licensing system in the early 1990s for most commodities also meant that the highly discretionary and case-by-case nature of imports that were not on Open General Licence was done away with. As Bhagwati (1993: 50) noted: The industrial-cum-trade licensing system …had degenerated into a series of arbitrary, indeed inherently arbitrary, decisions, where for instance one activity would be chosen over another simply because the administering bureaucrats were so empowered and indeed obligated to choose. The growth acceleration of 1993 was in great part due to the "ordered deals" environment that had already taken shape in the 1980s and was enhanced by the dismantling of the industrial-cum-trade licensing system in 1991. These deals were largely open, as barriers of entry to many industries were removed. This was refl ected in the entry of new fi rms in manufacturing and services, and especially in pharmaceuticals and IT (Alfaro and Chari 2009).

At the same time, the Indian state's collusive relationship with certain sections of the business elite in the pre-reform period remained, and may have been accentuated by the rise of increasingly powerful regional business groups closely connected with regional political elites (Mehta and Walton 2014). Thus, during the 1990s, closed deals existed side by side with open deals and, consequently, many traditional industries (such as consumer durables) were still dominated by entrenched business groups that had emerged in the licence raj (Alfaro and Chari 2009). There is evidence from detailed firm-level analysis of the 1990s of significant dynamism in the corporate sector in this period. Harrison et al (2012) find a large allocation of market share from less productive firms to more productive firms in the first half of the 1990s, but not in subsequent years. Mody, Nath and

Walton (2011) find significant entry of new firms in virtually all industrial sectors in the early-to-mid 1990s, which stops in the late 1990s, with very little entry of new firms in the 2000s.4 Kathuria, Raj, and Sen (2010) show that the improvement in productivity performance in the manufacturing sector in the 1990s was not confined to the formal sector but encompassed the informal sector as well. The dynamism that one observes in the private sector in the 1990s is also reflected in indicators of growth and structural transformation. Thus, in the 1993-2002 growth acceleration phase, economic growth was mostly driven by the exporting competitive sectors (such as IT and chemicals) and domestically oriented service sectors such as hotels and restaurants.

There were two distinct growth episodes in the post-2002 period; (1) a further growth acceleration episode from 2002 to 2010; and (2) an incipient growth deceleration from 2011 onwards. In the 2002-10 episode, India's per capita economic growth (6.42% per annum) was faster than during 1993-2002 (4.15% per annum on average). However, there was a shift in the pattern of growth towards non-tradable sectors such as construction, communications, and banking and insurance – the average growth rates of these sectors in 2002-10 were 8.6%, 23.1%, and 11.2%, respectively, as compared to 3.4%, 15.7%, and 7.4% in 1993-2002 . There was also a shift in India's exports towards more resource-intensive sectors, such as refi ned petroleum and minerals, with the share of natural resource intensive exports in India's total exports increasing from 14.6% in 1993-2002 to 19.5% in 2002-10.

Thus, economic growth in the second growth episode was qualitatively different from the first episode, in that it relied more on rentier sectors (such as mining and petroleum refining) and other high rent power broker sectors (such as telecommunications and real estate). There was, however, strong growth in magician sectors such as IT (or business) services, which observed an increase in average growth from 2.9% during 1993-2002 to 17.4% during 2002-10 .

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