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India to become world's fastest growing economy by 2013-15: Morgan Stanley

NEW DELHI: The two hands to produce count for more than that one mouth to feed, after all. Driven by a sterling demographic dividend, continuing structural reform and globalisation, India is poised to accelerate its growth rate to 9-9.5% over 2013-15, even as China will cool down to a more sedate 9% by 2012 and to 8% by 2015. So finds a new report by Morgan Stanley, authored by Chetan Ahya (managing director for Asia and India economist, who writes a monthly column for ET) and Tanvee Gupta.

India has one of the lowest median ages among the major economies. When an economy prospers, first its death rate and then, its birth rate falls. As this trend proceeds, there is a big bulge in the working age population while the non-working population (the young and the old) shrink as a share of the population. The lowering of the dependent (non-working) population to working age population ratio has twin effects.

One, it allows people to save a large proportion of their income, raising the country’s rate of savings; two, it boosts the number of people who work and contribute to growth. Thanks to structural reform, the additional hands available for work find work. Even with stagnant per capita output, the sheer increase in the number of workers would raise GDP growth. With reform pushing up productivity per worker, GDP would rise even faster.

Globalisation gives additional job opportunities, additional capital to augment rising domestic savings and additional know-how. With this happy combination, the report expects India to become the world’s fastest-growing economy. The government’s chief economic advisor Kaushik Basu has been forecasting such a development as well.

“Real GDP growth in China has averaged 10% annually over the past 30 years, compared with 6.2% in India. During this period, China’s GDP grew 16 times to $5 trillion whereas India’s rose seven times to $1.2 trillion. China’s exports (including services) surged 65 times over this period to $1,330 billion while India’s exports increased 22 times to $250 billion” says the report.

China has overtaken Japan to become the world’s second-largest economy. China’s demographic transition pushed up its savings rate above 30% in 1985, while India’s savings rate crossed that level only in 2005. India’s consumption level will now come down, even as China’s will rise.

Underlying the Morgan Stanley forecast is the assumption that India will significantly jack up its expenditure on infrastructure and in plant and machinery. Infrastructure expenditure has gone up from 5.4% of GDP in 2005 to 7.5% in 2009 and is poised to go up to 8% of GDP in 2010. Over

2012-17, the forecast is that India's infrastructure spend would be $1 trillion as compared with $530 million over the previous five-year period.

Another assumption is on the quantity and quality of the young people coming into the workforce. While India will be the largest contributor to the world's workforce — all of 136 million people — over the next 10 years (fully a quarter of the entire world's additional workforce), China will add just 23 million.

The report also assumes that less than 5% of those who enter the workforce will be illiterate in India in the next two-three years, and that there would be a big jump in the number of young people, who go to and finish college, making India the largest contributor to the pool of tertiary educated workforce in the world.

All these changes would be supported and complemented by further reform by the government in fiscal consolidation, opening up of retail to foreign direct investment, public sector reform and divestment, and improvement in governance that would reduce transaction costs.