India's Investment-led Revival

Why in news?

The Finance Minister, Nirmala Sitharaman, said that India's long-term growth prospects are embedded in public capital expenditure programmes.

What is the picture of India's investment pattern?

- **Post- Independence**- Public investment-led economic growth forms a credible strand of explanation for India's post-Independence economic growth.
- **Post Asian financial crisis** - When India was faced with a slow-down after the Asian financial crisis of 1997, the government initiated public road building projects.
- The Golden Quadrilateral and the Pradhan Mantri Gram Sadak Yojana sowed the seeds of economic revival
- **In the 2000s**- It culminated in an investment and export-led boom in the 2000s and the GDP grew at 8%-9% annually.
- **In the 2010s**- In comparison, the investment record during the 2010s has been poor.
- **Recent status**- However, a recent uptick is evident in the real gross fixed capital formation (GFCF) rate where the the fixed investment to GDP ratio recovered to 32.5% in 2019-20 from a low of 30.7% in 2015-16.
- As in the June edition of the Ministry of Finance's Monthly Economic Review, the fixed investment to GDP ratio was 32% in 2021-22.

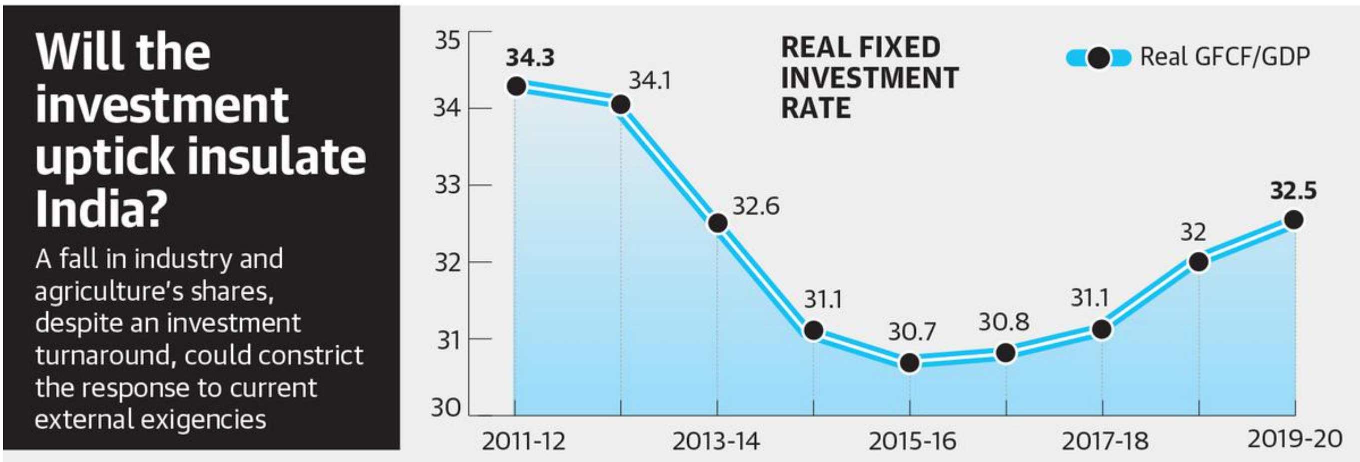

TABLE: SHARES OF GROSS CAPITAL FORMATION/GDP

Year	Agriculture	Industry	Manufacturing	Services	Transport	Road
	(1)	(2)	(2.1)	(3)	(3.1)	(3.1.1)
2011-12	8.5	38.1	19.2	47.3	8.1	3.7
2014-15	7.7	33.7	17.6	49.0	6.1	1.9
2019-20	6.4	32.5	16.5	52.3	12.9	3.1

Note: Gross fixed investment rate is defined as gross capital formation excluding "valuables" (read gold) and inventories. For this reason, the items (1), (2) and (3) do not add up to 100. | SOURCE: NATIONAL ACCOUNTS STATISTICS, 2021

What is the status of gross capital formation?

- Over 90% of gross capital formation (GCF) consists of fixed investments.
- The investment distribution has hardly changed over the last decade, with the public sector's share remaining 20%.
- Between 2014-15 and 2019-20, the shares of agriculture and industry in fixed capital formation/GDP fell.
- Services' share rose to 52.3% in 2019-20 and the rise is almost entirely on transport and communications.
- For healthy domestic output growth, there is a need for balance between directly productive investments (in farms and factories) and infrastructure investments.

What is the issue with manufacturing?

- **Fall in investment**- The share of manufacturing in the investment ratio fell from to 16.5% in 2019-20.
- **Failure of 'Make in India-** The 'Make in India' failed to take off, import dependence went up, and India became deindustrialised.
- India's position did go upto 63 in 2019 in Ease of Doing Business Index, but "Make in India' failed to boost industrial investment.
- **Import dependence**- Import dependence on China is alarming for critical materials such as fertilizers, bulk drugs and capital goods.
- This became acute during the COVID-19 pandemic, as China imposed export restrictions prompting the Prime Minister to announce the 'Atmanirbhar Bharat' campaign.
- **Foreign capital**- The contribution of foreign capital to financing GCF fell.
- With declining investment share, industrial output growth rate fell to a negative 2.4%

in 2019-20.

What scope does public investment hold in this scenario?

- Public investment is the pivot of the ongoing investment-led economic revival.
- The recent upturn in the aggregate fixed capital formation to GDP ratio is positive, though the rate is still lower than its mark in the early 2010s.
- The budgetary figures refer to financial investment indicating expansion of the economy’s productive capacity.

Reference

1. https://www.thehindu.com/opinion/lead/weighing-in-on-indias-investment-led-revival/article65678946.ece