

India's lost decade: Falling behind BRIC economies between 2004 and 2014 and the subsequent recovery

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While India fell behind other BRIC economies in the early 2000s and 2010s, it has powered ahead in the last several years

At the recent summit in South Africa, it looked like everyone wanted to join the BRICS. Leaders from over 60 countries attended the meeting. Six new members were added. Some of these new members, such as Iran, are deeply hostile to the United States. But others are old US allies, such as Saudi Arabia or the UAE. Then, there were Argentina, Ethiopia and Egypt. The waiting list remains long.

At the core of the BRICS grouping, which began only as BRIC in 2006, are India and China. They are expected to account for most of global economic growth in the years to come. Everyone wants to get close to them. China has firmly established itself as the world's second largest economy, and India is the fifth. In a couple more years, India is expected to rise to the third position.

Over the last few years, India's economy has roughly kept up pace with China. Since 2014, India's GDP has expanded by 83 per cent, while China has expanded by 84 per cent. The United States comes in at 54 per cent. But for every other nation in the top ten, the size of the economy has remained the same, or fallen even lower. This shows just how difficult the last nine years have been for the world economy. Only India and China, and to a lesser extent the United States, have held out against the storm.

Of course, China's growth has come off a much higher base than India. In 2014, China's GDP was already five times that of India. But how did it become that way? In 2004, China's GDP was two and a half times bigger than India. The gap doubled in ten years. India posted high growth rates between 2004 and 2014. But at a time of high global growth, this was not enough. Not only China, but also Brazil and Russia raced away, leaving India as the smallest economy among the BRIC countries. In 2012, a report by S&P argued that India would be the first BRIC to fall. By 2013, India was struggling with falling currency, soaring inflation, and a rising current account deficit. The government considered closing petrol pumps by 8 pm, hopefully to reduce demand. To save the rupee, the government appealed to people to stop buying gold. There were even calls to replace India by Indonesia as the "I" in BRIC. But why?

Lost decade: India was the worst performing BRIC economy between 2004 and 2014

In 2004, India's GDP stood at \$721 billion, which rose to \$2.03 trillion in 2014. That is an increase of 182 per cent. That looks excellent on paper. But only until you compare it with India's peers in the BRIC. In the same period, China's GDP expanded by an astonishing 440 per cent. The GDP of Brazil expanded by 267 per cent, and that of Russia by 223 per cent. Unfortunately, this made India the worst performing BRIC economy during the period.

Since 2014, global growth has slowed down. So have all the BRIC countries. The GDP of Brazil has actually declined by 16 per cent, while Russia is stuck at the same level as in 2014. As mentioned before, China has grown by 84 per cent and India by 83 per cent. That means India is not falling behind any further, at least. But it will take a massive effort to close the gap created between 2004 and 2014.

Other BRIC countries crossed India in GDP rankings by 2014

Everyone knows about the rise of China in the early 2000s. In 2004, China was still the sixth largest economy. Just six years later, it became the second largest. But here are some lesser-known facts. From 16th in 2004, Russia made it to 9th in 2014. Brazil jumped all the way from 13th in 2004 to 7th in 2014. But India's rank proved to be a disappointment, going from 12th in 2004 to only 10th in 2014. In other words, India went from being the second biggest BRIC economy in 2004 to the smallest by 2014.

But that was then. As of 2023, India has become the fifth largest economy. India's GDP is now nearly twice that of Brazil or Russia. And the chances of either of these countries catching up to India in the near future seem remote.

Other BRIC countries grew faster than India on per capita basis between 2004 and 2014

The per capita GDP tells a similar story. Between 2004 and 2014, India's per capita GDP increased by 150 percent. Again, this looks good, unless you compare it to the other BRIC countries. For comparison, China increased its per capita GDP by 406 per cent during the same period, Russia by 243 percent and Brazil by 233 percent. India grew fast, but the others grew faster. Note here that India has by far the lowest per capita GDP among BRIC economies. This means that India has a low base. Hence, one would expect India to grow fastest in terms of percentages. But the opposite happened.

For the period after 2014, China still leads, but the gap is vastly reduced. Between 2014 and 2022, China's per capita GDP increased by 66 per cent, while that of India by 53 per cent. Russia has stayed almost flat at only 8.8 percent, while Brazil actually saw a decline of 27 per cent. Looking ahead, this means that most of the growth, and hence the economic power in the BRIC countries will come from China and India.

India used to have the highest unemployment among BRIC countries

Compared to other BRIC economies, unemployment in India continues to remain high. With the sudden exception of the pandemic years, it has been gradually coming down since 2004. But not fast enough. In the 2004-14 period, it remained between 8 and 8.6 per cent. In 2014, it stood at 8 per cent. Especially for the years between 2010 and 2014, India's unemployment rate was the highest among BRIC economies. Note that there might be problems with this number, due to data quality issues. The reality might have been a lot worse. For instance, the 2011 census found that unemployment was as high as 9.6 percent.

It currently stands at around 7.3 per cent for 2022, a bit lower than the 8 per cent unemployment in 2014. This is as per modeled estimates of the International Labor Organisation (ILO) recorded in the World Bank database. Creating enough jobs for India's large population will always be a challenge. A large manufacturing sector is the key to solving this problem. India already has a solid base in sectors such as steel, chemicals, pharmaceuticals and automobiles. However, India needs much more in terms of electronic items, consumer goods, and joining the race for electric vehicles, solar panels and

semiconductors. As the world seeks to move its supply chains away from China, we need to seize the opportunity.

India used to have the highest inflation among BRIC countries

Beginning from just 3.9 percent in 2004, inflation in India spiked almost continuously, reaching 11 percent in 2009. From there, it climbed even higher to 12 percent in 2010. From 2010 to 2013, India's inflation was the highest among all BRIC economies. This led to severe problems with the rupee. The current account deficit widened. Fears of another balance of payments crisis emerged. It could have been much worse. In 2014, RBI governor Raghuram Rajan suggested to the new government to start printing Rs 10,000 notes. The reasoning was that the existing Rs 1,000 note was losing value quickly due to inflation.

Luckily, the hyperinflation nightmare never happened. After the pandemic, inflation soared all over the world. Countries such as the US and the UK saw inflation at 40-year highs. Sometimes, it rose above 10 per cent. But India managed to keep inflation close to the 6 per cent range, an achievement for a developing economy.

India has an opportunity to become the anchor of an expanded BRICS

While China's economy remains much bigger, India has finally caught on in terms of GDP rankings. From 10th largest in 2014, India has jumped to 5th in 2023. And India is looking to be 3rd largest in just a few more years. In that sense at least, if the early 2000s belonged to China, the 2020s could be India's decade.

Looking ahead, the only thing that matters is where most of the global economic growth will come from. The numbers for the first quarter of the 2023-24 fiscal year have just come in. India's GDP expanded 7.8 per cent. This is on top of an extremely high base of 13.3 per cent in the same quarter last year. For the 2022-23 fiscal year, GDP growth was 7.2 per cent, while it was 9.1 per cent for 2021-22. In each case, India is easily the fastest growing among major economies.

India has overcome a lot of challenges in order to achieve this. While India fell behind other BRIC economies in the early 2000s and 2010s, it has powered ahead in the last several years. India is also putting in place the first few bricks (pun intended) for it to become a true economic superpower. This means incentives for domestic manufacturing, with an export outlook. It means a focus on semiconductors, lithium batteries and electric vehicles. These might well be the technologies that define this century. India is massively expanding its own infrastructure. India is also building railways in Bangladesh, waterways in Myanmar, and even the new Gulf railway in UAE and Saudi Arabia. The last two countries are now part of the expanded BRICS grouping. India is also exporting UPI, our cutting edge payments system, to the Middle East and Singapore. India has also made its first rupee purchase of crude oil from the UAE. For India, the future looks bright.

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