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Productivity Growth and Global Slowdown: Insights from Transition Economies- India, China and Russia

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The most profound economic events of the 1980s and 1990s were the collapse of communism in the Soviet Union and the rapid emergence of the market system in China. Along with these, significant changes were taking places in India towards the reversal of the closed economy oriented input substitution based development paradigm. China and India alongside other transition economies- notably Russia are important stakeholders for driving the engine of global growth and significant in shaping the global integration of the world economy. These 3 economies have moved ahead as major players in the world economy and drivers of the growth engine, however the global slowdown observed since mid 200os and in particular, the growth dynamics in these emerging market economies (also known as transition economies in case of India, China and Russia) about how they have behaved against the developed economies narrative of productivity slowdown even before the onset of global financial crisis brings to the foreground once again the importance of cross country growth comparison since the onset of global slowdown .

The period post 1995 saw the Russian economy undergoing several challenges- structural transformation, terms of trade and growth of informal economy including growth stagnation after the global economic slowdown (Voskoboynikov, 2018). Today, we find that the structure of the Russian economy is geared more towards energy-related industries, especially the mining and oil and gas extraction. For India, the gradual reform of 1990s and benign global growth before financial crisis of 2008-09 helped India's march to a higher growth levels. The long-term trend growth of GDP accelerated after 2001-02 and reached its peak in 2007-08. The growth experience of 21st century India had two distinct phases- In phase I (2001-02 to 2007-08) India's growth moved in sync with world growth and enjoyed buoyant Global growth impetus. In phase II (2008-09 to 2015-16), India has gone through a cycle where domestic factors influenced more to the cyclical downturn, the cycle has started to revise in last few years (Das et al 2018). China, despite series of reforms over the past three decades, its economic growth continues to be government engineered but under a regional decentralized regime (Xu 2011). Further China's accession to WTO at the end of 2001 by providing an outlet for huge labor intensive industrial capacity constituted a significant move towards China's march to economic prosperity.

The global economy has seen downturn in productivity growth in the recent years. Indeed the global financial crisis might have aggravated the productivity slowdown, but the decline started even before the onset of the crisis [OECD 2015, Van Ark and Jager 2017, and Erumban and van Ark 2018]. Hence there emerged a debate on whether the world is seeing the end of massive productivity improvements. The discourse has centered on two views- (1) the importance of general purpose technologies – in particular electricity and information and communication technology (ICT) –, demography, education, inequality, globalization, environment and debt on understanding growth and productivity (See Gorden, 2016, Brynjolfsson and McAfee, 2011) and (2) secular stagnation, where advanced economies are entering into a long-term productivity stagnation due to multiple factors [Summers L, 2014 versus Eichengreen B, 2015).

This paper is an attempt to understand productivity dynamics in India, China and Russia in the context of financial crisis and global slowdown. The present paper examines the labor productivity growth performance for the 3 economies for the period 2001-2015 and compares the pre global slowdown period (2001-2007) with the post crisis period (2008-2015) with an industry perspective. Using TCB as well as the KLEMS dataset, which provides detailed industry level data, and growth accounting technique we analyze the sources of productivity for aggregate economy as well as disaggregated industrial sectors. This will help us understand how badly industries are affected, or how well they are insulated from the global financial crisis. Further, the paper will examine analyze the factors that played a role in driving productivity growth in industries pre-and post financial crisis.

The paper is structured as follows. We review the growth performance of 3 economies- India, China and Russia in the period and aftermath of global crisis in section 2. The sources of productivity (both labor as well as multifactor) growth including methodology and dataset are discussed in section 3. Section 4 analyzes the productivity growth story for the aggregate economy for both pre and post global slowdown phases. In section5, we compare and contrast the aggregate macroeconomic story by having a disaggregated picture of 3 economies. The final section provides our summary and conclusions.

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