Racing towards being a US$ 5 trillion Economy

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The world has always been divided into Developed Nations and the Developing Nations. The Developed Nations have less than 20% of world population and consume almost 88% of world's resources. India, in spite of having the potential and all the ingredients of a developed nation, has been tagged as a Developing Economy for ages because of its large number of people living below poverty line. A key indicator of being a Developed Nation is the Per Capita Income. India needs to almost double its Per Capita Income to get into the league of Developed Nation.

"Development" has been the key plank of the vision given by the Prime Minister Narendra Modi since his party came to power in 2014. The country saw a growth of GDP from $1.85 Trillion to $2.67 Trillion in these 5 years. The Prime Minister, in his second term, has given a Vision of India becoming a $ 5 Trillion economy by 2024, thus becoming the third largest economy in the world and probably, rather certainly, a "Developed Nation".

After coming back into power, Prime Minister Modi reduced complex macroeconomic theory to basics to explain that why he was pushing hard for such an ambitious growth target. "The size of the cake matters," he told. "The larger the cake, the larger the pieces people will get. So, we have set a target of making India a $5 trillion economy in five years. The larger the size of the economy, the larger the prosperity it will bring to the country." The prime minister then went on to say that the focus would be on doubling per capita income in the country.

This vision was further reiterated in the Economic Survey presented to the Parliament and Budget speech for fiscal 2019-20 by the Finance Minister Nirmala Sitharaman. The Finance Minister has stated it is well within our capacity to reach the US$ 5 trillion mark in the next five years.

The economy had grown during last 5 years at an annual average of 8 per cent to reach $2.67 trillion. Now to reach $5 trillion by 2024, the economy needs to maintain this growth rate of 8% plus. The Prime Minister's optimism is reflected in his statement that "Earlier, India was walking, but New India will be running."

The Economic Survey 2018-19 highlighted that international experience, especially from high-growth East Asian economies, suggested that such growth can only be sustained by a "virtuous cycle" of savings, investment and exports catalyzed and supported by a favorable demographic phase. "With the microeconomic and macroeconomic foundations laid over the last five years, the Indian economy is ready to shift gears so that economic growth, jobs and exports can be pushed up to the next level," the survey said. By presenting data as a public good, emphasizing legal reform, ensuring policy consistency, and encouraging behaviour change using principles of behavioural economics, the Survey aims to enable a self-sustaining virtuous cycle.

Exports must form an integral part of the growth model because higher savings preclude domestic consumption as the driver of final demand. Similarly, job creation is driven by this virtuous cycle. While the claim is often made that investment displaces jobs, this remains true only when viewed within the silo of a specific activity. When examined across the entire value chain, capital investment fosters job creation as the production of capital goods, research & development and supply chains generate jobs. Key ingredients include a focus on policies that nourish MSMEs to create more jobs and become more productive, reduce the cost of capital, and rationalize the risk-return trade-off for investments. Investment, especially private investment, is the key driver that drives demand, creates capacity, increases labour productivity, introduces new technology, allows creative disruption and generates jobs.

India needs to grow in all the sectors of the GDP to make this Vision come true. A snapshot of these constituent sectors of GDP of India is visualized as following:

1. **Agriculture Sector**
   Agriculture sector accounts for 17.1% of India's GDP, but provides livelihood to about 53% of India's population. Thus, this sector has a great importance in carrying the fruits of the development to the grassroot levels. In 1951, this sector accounted for 51.81% of GDP. Thus the dependence of agriculture has reduced considerably during last 7 decades, but the sector remains to be extremely important for sustaining the economic growth in all other sectors. The annual growth in this sector which has not been very impressive needs a paradigm shift.

   Large opportunities exist in this sector. These include increasing Farm productivity, Fisheries & animal husbandry, Food preservation & processing, Dairy, Forestry, Farm mechanization, Irrigation, Biotechnology & Genetic Engineering, etc. Apart from these, this sector is also open for micro finance, rural insurance covering crop, livestock, and agro & forest produce micro industries, education including skill training, and remote sensing and GIS technologies.

2. **Industry**

Industry sector accounts for 29.17% of India's GDP. This includes Manufacturing Sector which is about 16.7%. The growth in this sector is important to keep pace with global trends and provide infrastructure support to the other sectors. This sector provides livelihood to about 22% of India's population. This sector has almost doubled in last 7 decades. In 1951, Industry accounted for mere 14.16% of the economy. The growth in this sector in last 5 years has been around 7.6%, which is almost the national average.

Industry Sector can be divided into two major segments i.e. Manufacturing and Infrastructure. The major industries in India are Electronics, Textiles, Chemicals & Pharmaceuticals, Cement, Steel, Mining, Capital Goods, Automobiles, etc. Under Infrastructure, the major segments have been Roads, Transportation (Railways, Aviation, Shipping), Energy, Power, Oil & Gas, etc.

3. **Services**

Service Sector is the backbone of Indian economy and accounts for 53.9% of the GDP. About 25% population gets its livelihood from this sector. This has been the fastest growing segment of Indian economy. The contribution of this sector in 1951 was only 33.25%. The growth in this sector in last 5 years has been around 9%, i.e. above national average.

Vast opportunities for growth exist in Service Sector. The fastest growing segments of the Indian economy are mostly in this sector viz. Information Technology, Education, Telecom, Healthcare and Retail. The other important segments in this sector include Tourism, Financial Services, Transport, Trade, Real Estate, Insurance, etc.

The Government has taken several initiatives to foster growth in these sectors by stimulating demand, developing a conducive eco-system for investment & trade, and encouraging investment. Major initiatives taken by the government in this direction are as following:

1. Make in India initiative.
2. Insolvency & Bankruptcy Code
3. Goods & Service Tax,
4. Simplification of laws – Companies Act, Labour Law reforms, RERA, Land Bill.
5. Schemes like Jan Dhan Yojna, Ujjawala Yojna, Uday, Gram Jyoti Yojna, Udan, etc.
6. Affordable Housing
7. Ayushman Bharat
8. Swatch Bharat
9. Mudra Loans
10. Credit Guarantee scheme for MSME
11. Stand Up India
12. Skill India
13. Digital India – E-Governance
14. Direct Bank Transfer of subsidies
15. Sectoral reforms including making of perspective plans for the development of various sectors on a long-term sustainable basis.

Discipline also needs to be imposed on the Gross Fiscal Deficit (GFD). The Fiscal Responsibility and Budget Management (FRBM) Act of 2003, which got a new lease of life since 2016, determines the glide path for the ratio of GFD to GDP to reach an eventual target of 3 per cent. The ratio declined from 4.5 per cent in 2013-14 to 3.4 per cent in 2018-19. Other macro-stability indicators have similarly improved. In addition to re-establising macroeconomic stability, the government also focused on last-mile delivery of basic services to the poor, on basic safety-nets, and on creating pathways for the benefits of growth to reach the bottom of the socioeconomic ladder.

The creation of physical infrastructure accelerated significantly during 2014-19. In April 2018, electricity finally reached every village in India with the effort to electrify every home still ongoing. The construction of national highways (NH) proceeded at a rapid pace with more than 20 per cent of the existing highway length of 132,000 km being constructed in the last four years alone. The UDAAN scheme was launched in 2017 to foster regional connectivity by extending flight connectivity to Tier-3 and Tier-4 towns in the country. Over 30 unserved and underserved airports have been mainstreamed under UDAAN with flights creating additional 40 lakh seating capacity. The scheme has also sparked significant increase in helicopter services in hilly areas and islands that engage31 heliports. The infrastructure of the North Eastern states was a special focus and there has been a significant improvement in connectivity with the building of key bridges, and the expansion of railways/highways. The 4.94 km long Bogibeel bridge in Assam was inaugurated in December 2018; it is the second longest rail-cum-road bridge in Asia.

Meeting the energy requirements is also a major trigger of growth. The power sector has grown at a substantial pace and the demand supply gap has almost vanished. The share of thermal sources, primarily coal, remains at nearly 80 per cent. These thermal power plants are not operating at the most optimum level and a number of remedial measures and initiatives have been taken to improve the present situation. Keeping in view the commitment of the Government to reduce emissions, the Renewables have stepped in to compensate for the reduction in the growth of thermal sector. Government has also come up with a revised

Hydro Power policy to give a boost to this non polluting power source. What needs to be stepped up is the supply of gas to the gas based power plants starved of inadequate supply by creating LNG terminals and a network of pipelines.

The Power Sector is also reeling under the burden of a huge NPA resulting out of various disruptions in this sector namely, Tariff Disputes, Fuel Availability, Coal Mines Deallocation, Delays in Environmental Clearances, Land issues including Right of Way, Water allocation, Equity constraints, etc. There are about 39 power plants under various stages of financial stress involving a debt of over Rs 1.76 lac Crores. Resolution of these stressed assets is a major task before the government to reinstall the investor's confidence. Government has taken several measures for resolution of these stressed assets which include awarding of coal linkage through auction, instructions to power regulators not to reduce tariff of these plants post resolution, and procurement of bulk power by a nodal Agency against pre-declared linkage. It is expected that these steps would go a long way in resolution of these stressed assets.

As a part of its commitment to environment pollution reduction, Government plans to install 175 Gigawatt of Renewable Power in the country by 2022. This would be further scaled up to 500 Gigawatts by 2030. Around 80,000 MW of Renewables has already been installed and the government is bracing to create conducive policies and a green transmission corridor to enable interstate transmission of green power.

Steel is another major sector where there have been large NPAs. While this sector has lately seen an upswing through rise in demand and resolution of some major Steel companies like Bhushan Steel, Electrosteel, Monnet Steel under Bankruptcy Code, concrete steps need to be taken to ensure that enough resilience in built into this industry to ride through any future shocks. The resolution plan of some other large Steel Companies like Essar Steel, Bhushan Power are also in the last leg of the approvals. The Government of India , after detailed Consultations with the various Stakeholders have announced the National Steel Policy, 2017 which enshrines the long-term vision of the Government recognizing the fact that development of the Steel industry is the backbone for economic development of the country. It envisages Crude Steel Capacity of 300 MTPA by 2030-31 from the present level of 125 MTPA, with an incremental capital investment outlay of more than Rs. 5 lac crore, with per capita Steel consumption going to a level of Rs. 158 Kg. as against the current consumption of 61 Kgs.

A big thrust is required for Indian railways by enhancing their freight transport capabilities and track modernization including a manifold increase in the network to become backbone of infrastructure development. This is not to undermine the promise of improving bulk cargo movement by inland waterways. Another notable area to be addressed is the need to improve in rural roads with the cooperation of state governments. Port connectivity has been mentioned which requires regulatory reforms to enable public and private ports to compete fairly. Government has come up with a scheme for Public Private Partnership model for investments in the Railways and has allocated Rs 68,000 Cr for this sector in the Budget for 2019-20.

The major pain points in the path of growth of Indian economy and the probable action plan to mitigate them can be broadly summarized as following:

1. The interest rates in India continue to remain high, thus making it difficult for Indian industry to become competitive. This also pulls down the real GDP growth. The Monetary Policy Committee of RBI is quite seized of this matter and hope would do its best to reduce the interest rates gradually in a balanced manner.
2. The Government's subsidy bill is likely to grow with increasing subsidies in agriculture and petroleum sector. Government to gradually withdraw subsidies and strengthen the basic economic status of the farmers and the poor. Government has already taken action in this regard by withdrawal of subsidy from kerosene and diesel. Other subsidies are also expected to be reduced, optimised or withdrawn depending upon its impact on the target beneficiaries. More and more subsidies shall be given through DBT to deserving persons.
3. Poor Quality of Human Capital. India's labour force participation rate is rather low. Far too few women are in the labour force and there is also a problem with skill endowments of youngsters that prevent them from being absorbed into labour force. Another concern is India's abysmal Total Factor Productivity Growth. Government to promote improvement in education quality and strengthen the Skill India Mission. Government has come up with several schemes for women empowerment including "Beti Bachao Beti Padao", STEP (Support to Training and Employment Programme for Women), & Business Loan Schemes For Women Entrepreneurs in India. These measures are expected to bring a positive impact in this area.
4. Indian economy is marked by great inequalities in the distribution of income and wealth. India's top 1% bag 73% of the country's wealth. Government needs to improve labour law enforcement, promote entrepreneurship, and create an eco-system to enhance the livelihood standards of the population. Union Cabinet has recently approved a unified Labour Code merging various statutes and making them more effective.
5. The rate of growth of population is very high. The growth rate of population in India is around 1.2% per annum, which is quite high, as compared to the growth rate of population of the other countries. A proper opinion building and a pragmatic approach is the need of the hour in this regard.
6. The use of advanced or sophisticated technology is rather an exception in India. Because of the limited

growth of technological institutions, we many a times, have to use primitive methods of technology whose productivity is low. Government to come up with schemes to promote adaption of latest technologies and provide incentives for their promotion and use. Since these would affect the viability of many industries, suitable incentives will be required to absorb the impact on the cost. Department of Scientific & Industrial Research has initiated a number of schemes to support the technology development and cluster R&D in various fields for Engineering enterprises; MSMEs; Engineering Clusters, etc. These measures, in due course of time, will improve the situation.

Concluded

The big question then is "Whether India would achieve the US$ 5 trillion mark"? The answer would depend essentially on the assumption about the economic growth.

Major initiatives have already been taken by the government in various sectors as enumerated above and the results are evident. A larger emphasis will now be on successful implementation of these initiatives and a strong monitoring mechanism for mid-course corrections. A large emphasis would be on successful PPP models in various sectors to enable the private sector get involved in this task of nation building with all their management expertise and synergy with their existing businesses. This model has been highly successful in the Roads sector and is slowly becoming popular in all other sector, especially, infrastructure sector. Government has put great emphasis on improving the status of people engaged in agriculture by promising doubling of income of farmers by 2022, introduction of crop insurance, short term credit facilities under interest subvention scheme, and Kisan Samman Nidhi scheme, etc.

With these initiatives and more to come, it goes without doubt that India will grow at 12% nominal growth (that is 8% real GDP growth and 4% inflation) which is quite likely and will don the status of a "Developed Nation" in 5 years by becoming a US$ 5 Trillion economy and will march thereafter to become an economic superpower.