Prospects For India Becoming a 5 Trillion $ Economy by 2024- An Analysis

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Abstract

India has set for herself an ambitious target of becoming a 5 trillion USD Economy by 2024. Economists voice different views on whether the target is realistic and achievable for the country.

The current nominal GDP of India as of April 2019 as estimated by IMF is $2.9 trillion. To reach the target of 5 trillion$ economy in five years, it is estimated that India should grow at a rate of 11% pa. India has demonstrated the fastest growth at 7.7% pa between 2014 and 2019 and was regarded as the fastest-growing major economy in the world. Some of the other favorable parameters that fuel the hopes of reaching the target include, the low inflation rate (3.05% May 2019); 77th position among the world nations in 'Ease of Doing Business Ranking'; Demographic dividend of more than 65% of Indian population is below the age of 35. Several major structural reforms like Demonetisation, Introduction of GST, Digitization, and E-Governance have set the pace for the growing Economy.

The current downward trend in the economy since April 2019 with the crashing of GDP growth rate to 5% during the first quarter has manifested itself in the form of reduced employment and lower consumption across the country. This downward trend is the impact of the global recession. Most countries in the world are experiencing a recession now. India had opened up herself since 1990 and is now well integrated with the world trade. Therefore India is also facing the winds of the global economic recession. The automobile and Real estate sector are witnessing the worst crisis due to the recession in terms of low demand, unemployment, and close down of units. In other manufacturing sectors also demand has become sluggish.

Reacting to the slowdown of the economy, the Finance minister has taken several bold measures to support the economy and make it buoyant. This paper tries to study the prospects for India becoming a 5trillion USD economy by 2024, based on the analysis of the economic factors that promote and deter the growth of the country.

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Prospects Of India Becoming a 5 Trillion $ Economy by 2024- An Analysis

India is set to become a 5 trillion $ economy if it continues to grow at the rate of 7.5% of GDP, with an average inflation of 4-4.5% translated into a nominal growth rate of 11.5% pa. [1]. The Global economy is witnessing a recession , and the impact of the US- China trade war has far reaching impact on the world trade leading to a stagnation in the global growth prospects. India being well integrated with the world trade is likely to face the impact of the global recession.

The vicious cycle of recession begins with a fall in demand and therefore production, leading to unemployment, lower income, lower savings, again leading to lower demand and lower investment. In order to break the vicious cycles and improve demand, countries ensure flow of money and encourage investment activity. Since the global scenario is dismal, India has to strengthen herself from within through structural reforms and policies.

To counter the global recession India has initiated several policy initiatives and tax reforms that will help in keeping the growth intact. The effective corporate tax rates have been cut to 25.2% from 35% previously to boost demand and investments [2]. India has initiated process of merging Public sector banks to create banks with a larger net worth that can to fund global and large scale projects. The banks will benefit from scale and size of their operations and will have a larger net work.[3] Sector wise tax and other reforms have been introduced to revive the industries. Automobile and Real sector have been given special attention for recovery. All these reforms are expected to spearhead the economic growth.

In order to analyse whether India will be able to grow at 11.5% nominal GDP with all these reforms, one has to study India's position both in the global and domestic perspective.

THE GLOBAL PERSPECTIVE:

A. GDP & Growth rate of countries
B. Poverty level & Per capita income
C. FDI ,Currency rate, Fiscal Deficit, Trade Deficit

THE INDIANROAD MAP

A. Education and Literacy
B. Skill development for youth
C. Infrastructure Development
D. Triggering growth of Housing & Real Estates Sector
E. Renewable energy sources
F. Electronics industry demand & manufacturing
G. Agricultural reforms

A. <u>GDP and GROWTH RATES</u>

As per IMF (2019 estimates) the major economies of the world based on the nominal GDP are given below [4]

Country	United States	China	Japan	Germany	India	United Kingdom
Rank	1	2	3	4	5	6
GDP US$ trillion	21.34	18.70	5.17	3.96	2.97	2.82
Growth rate	2.54%	6.18%	0.94%	1.86%	7.44%	1.49%

India has witnessed an amazing growth rate of 7.44% among the major economies of the world in the last 4 years bringingher into the lime light. GDP of United States is 7 times that of India and that of China is 6 times, Japan 1.7 times that of India. India has fast forwarded her growth to come to the 5th position from 9th position, a decade ago.

<u>Trend in nominal GDP, Ranking of world nations(top 6 only) in billion USD</u>[5], [6]

Country/ Year	1960	1970	1980	1990	2000	2010	2015	2019
United States	520 (1)	1075(1)	2862(1)	5979(1)	10284(1)	14964(1)	18036(1)	21482(1)
China	61 (6)	91(8)	226(10)	-	1215(6)	5812(2)	11226(2)	14172(2)
Japan	44 (7)	209(3)	1099(3)	3140(2)	4887(2)	5793(3)	4382(3)	5220(3)
Germany	(3)	208(4)	919(4)	1592(4)	1956(3)	3309(4)	3365(4)	4117(4)
India	36 (10)	62(10)	-	-	-	1729 (9)	2088(7)	2957 (5)
UK	72 (4)	125(6)	536(6)	1093(7)	1328(5)	2246(6)	2863(5)	3257(6)

It is very interesting to observe the explosive growth of China among the world nations between 2000 and 2019. The remarkable transition between 2000- 2010 have been key drivers of the growth of the economy. China fuelled its growth by massive government spending. Government owns strategically important companies – The energy companies, industries in high priority projects. People's Bank of China the central bank of the country controls the Yuan dollar value. China's poverty rate is very low at 3.3%, Chinese Tech companies have become global market leaders in cellular equipment, 5G technology, smart phones and so on. China contains 20% of world population making it a largest market by itself and for the world. [7]

Yet another interesting observation is the growth of India between 2014 -2019 where it has carved a space among the top 5 nations.

Undoubtedly India's economic position among the world nations, in terms of nominal GDP and Growth rate is very admirable as of 2019.

B. POVERTY LEVEL & PER CAPITA INCOME

Country	United States	China	Japan	Germany	India	United Kingdom
% of Population BPL (Jan 2018)[8]	15.1%	3.3%	16.1%	16.7%	21.9%	15%

India has highest percentage of population below BPL. There is a steep decline in the BPL population in recent years. ***Between 2006 and 2019 India has shown significant progress in reducing the population below BPL. Nearly 271 million people have been removed out of poverty between 2006 and 2016 and this is record of fastest poverty reduction.[9]***States like Jharkhand and Bihar have shown very impressive growth in GDP. This is another achievement of India that has to be reckoned with.

Country	United States	China	Japan	Germany	India	United Kingdom
Per Capita Income$ (Mar 2019) [10]	65,065	10,099	41,418	49,692	2188	42,036
World ranking	8	72	26	18	145	23

Per capita income of India is far below the major economies. High population, low literacy and education, Size of family, Lack of employment opportunities, Unequal distribution of wealth are causes of low per capita income in India.

India has shown progress in terms of per capita income also. In Mar 2019 the per capita income was estimated at Rs 10,534 per month. In 2017-18 it stood at Rs. 9580. This is a positive indication of progress, but not adequate for a major economy as India. [11]

C. FDI, CurrencyRate,Fiscal Deficit, Trade deficit.

Country	United States	China	Japan	Germany	India	United Kingdom
Foreign Direct Investments Confidence Index (Rank)[12]	2.1 (1)	1.72 (7)	1.78 (6)	1.9 (2)	1.54 (16)	1.85 (4)
Currency exchange rate[13]	1 US$	7.15 CNY	106.84 JPY	0.9106 EURO	71.02 INR	0.9106 EURO
Literacy rate[14]	86%	95%	99%	99%	74%	99%
Fiscal Deficit [15] in million USD, (% of GDP) yr-2016	-887,204 (-4.6%)	-474,937 (-4%)	-210,000 (-4.6%)	25,000 (0.7%)	-180,630 (- 6.9%)	-43,000 (-1.1%)
Trade Surplus/ Deficit (CAB) in million USD[16] , yr-2017	-4,66,200	1,64,900	1,95,400	296,600	-57,200	- 106,700

FDI index is lowest among the major economies. ***But India is an emerging economy. Holding a position among the top 25 investment destinations*** indicate that the environment in India has become more supportive for business and less regulatory than before. Availability of skilled labour and large domestic market are other factors favouring FDI in India. India has moved forward to 77th position among the world nations in 'Ease of Doing Business Ranking'; Average age of Indians is 35 (young manpower).

Currency exchange rates affect the trading relations of a country with the other. It is one the important determinant of economic health of a country. Because of the lower value of the Indian currency Indian exports have increased. Developed countries import Indian products at a lower price because of the low currency rate. ***Indian currency value has been depreciating over years. The Increase in Oil prices, Trade Deficit and Fiscal deficit are some of the major factors contributing to depreciation of INR against US$.***

Literacy rates: India has the ***lowest literacy rate of 74%*** among the major economies discussed. This is much below the global average literacy rate of 86%.Certainly this is a great disadvantage to an emerging economy. India should focus on 100% literacy and make it is priority if it wants to realise its great dream.

Fiscal deficit : Fiscal Deficit increases when the Government Expenditure is above the Government revenue. India's Fiscal deficit has been declining in the last 5 years. ***In 2019 the Fiscal deficit has gone down to 3.4%. This is a commendable achievement of the Government and India has to take credit because even US, China and Japan have a greater rate Fiscal deficit to GDP.***

Trade Deficit: India is among the ***top 20 countries with largest trade deficit***. India is the 3rd **largest deficit** economy next to US and UK. India's import of crude oil, electronic goods, Iron & steel, Chemicals, fertilisers, Heavy machinery, Vegetable oil account for nearly 70% of the imports. India should focus on manufacture of Electric vehicles and Electronic Goods to reduce imports, to combat the trade deficit. Make in India scheme on these selected thrust areas will help India come out of Deficit. Higher export promotion will also help in reducing the deficit.

KEY INDICATORS

- ➢ India has emerged as the Fifth major economy by GDP. It is a remarkable achievement.
- ➢ India is among the fastest growing economies growing at the rate of 7.7%
- ➢ India's BPL rate has been reducing significantly, with many economically backward states showing good economic progress.
- ➢ India is one among the top 20 favoured Investment Destinations across the Globe
- ➢ India has reached an admirable low Fiscal Deficit of 3.4% of GDP
- × India's currency is weak against US$ and has been depreciating.
- × India's literacy rate (74%) is far below the world average.
- × India's trade deficit is high due to high import costs – crude, electronics, chemicals, fertilisers, machinery.

The growing US, China trade war may shift winds more in favour of our country. If India grabs this opportunity the dream may become reality very soon.

INDIAN ROAD MAP TO 5TRILLION$ ECONOMY

A. Literacy & Education: The new education policy 2019 has been drafted with the aim of universalizing pre-primary education and **providing foundation literacy to all by 2025.** India is on its path of reaching100% literacy by 2025 and also enhancing quality of higher education emphasizing on research[17]. The great challenge in reaching higher literacy rate is increasing the number of schools in the rural areas so that schools are accessible to all. Second important challenge is that of recruiting good and committed teachers.

B. Skill development for Youth : The National Skill Development Corporation works towards skilling the people of India, by imparting sector specific skills through Public Private partnership. Only 2.3 % of the workforce in India has undergone formal skill training which leaves even the educated workforce unemployable. The youth have to be trained on employment skills that will help the industries in absorbing fresher. The Skill India mission seeks to enhance skill of the Indian youth to meet global demands. But the challenge of skilling the youth lies in the multiplicity of stake holders like the Central and State Government Departments, the educational institutions, Training Institutions and the employers. [18]

C. Infrastructure Development [19]

Infrastructure development is the key to economic progress. Developed nations have invested huge funds and developed infrastructure that support the development of the economy. Infrastructure sector includes Power, Bridges, Dams, Roadways, Railways, Telecom, Water supply, Housing and Health care institutions.

India is ranked 44th among the world nations in terms of infrastructure. There is great scope for development. There is robust demand for infrastructure development in the country, especially in the North eastern states and rural areas.

Faster and cheaper modes of Transportation, Communication and Energy are crucial inputs to all sectors of the economy. Housing for all, Smart city projects are initiatives under this sector. FDI investment in this sector is permitted up to 100%. Countries like Japan have partnered with India in infrastructure projects. The Government has made massive budget allocation for infrastructure development. Telecom, Railways, Green energy projects, Road transport, and Water supply have received maximum fund allocation in the budget. India's energy deficit has been reduced to 0.7% FY 2018 from 4.2% in 2014. Number of airports has increased to 102. National highway construction has increased by 20%. Economy will reap the benefits of the investment in the forth coming years.

D. Triggering growth of Housing & Real Estates Sector [20]

The real estate sector is among the major sectors that attract FDI in India. It is expected to contribute close to 13% of GDP by 2025. The construction development sector has received FDI inflows of 25billion USD between 2000 and 2019. SEBI has approved all kinds of investors to invest in Indian real estate market. More than 8.09 million housing projects have been sanctioned in 2019. Smart City Project is a great opportunity to this industry.

E. Renewable energy sources[21]

India being a fast growing economy is facing significant challenges in meeting its energy needs. Coal is the major source of energy in India and caters to 67% of the commercial requirements. Petroleum is next major source of energy that supports transportation sector. One of the key problems of India is the rising crude oil consumption and imports. India is the third largest importer of crude oil next to USA and China. Coal and petroleum have caused environmental pollution leaving many of the Indian cities unfit to live in, because of very high carbon imprint.

The Energy policy of India has shifted India's focus to developing the alternate renewable sources of energy particularly nuclear, solar and wind energy. In its endeavour to support use of renewable sources of energy, major reforms have been introduced in the power sector. Global companies have been invited to set up plants in technology areas of solar electric charging infrastructure, solar photovoltaic cells, lithium storage batteries, semi conductor fabrication to develop manufacturing capacity and meet the energy demand cost effectively.

F. Electronics industry demand & manufacturing[22]

The Indian electronics industry has become a key driving force for growth in the digital economy. India's production of electronic products has increased by 26% within span of 4 years. Not many industries have witnessed such high growth rates. Government foresees great growth in Medical electronics, Defence electronics, automotive electronics, IOT, Robotics and Artificial intelligence.
Despite heavy demand for electronic products, India is still lagging behind in manufacture of Electronic goods. India has been mainly into Assembly of electronic goods. China is the market leader in cell phone manufacturing. Japan, Korea, Taiwan, China, Vietnam Thailand have seen double digit growth in GDP because of the electronics manufacturing.

India must quickly enter the main stream of manufacturing segment and become a manufacturing giant catering to local and global demand. Skilling the youth to match the demand of the digital economy is the need of the hour.India has to go a long way in terms of Research and Innovation in the field of electronics.

G. Agricultural reforms[24]

India is predominantly an agrarian economy. However its contribution to GDP is only 17% and more than 50% of the population is employed in the sector. Farmers are in distress due to poor income and returns. Although the demand for food grains and agro products is high, floods, droughts, lack of finance, technology have pushed the sector to crises situation. Slew of measures have been taken to revive this sector. Providing global market for farm and fishery products, infrastructural and technological support, waiver of farm loans, providing farm insurance, encouraging private investments, improving warehousing for exports, cash transfers to farmers are some of the initiatives taken in this direction. The agriculture sector is one major sector which has huge potential to take off with right policy measures.

SUMMARY:

There are several positive indications that India will reach its ambitious target of becoming a 5 trillion $ economy by 2024. It is a realistic vision. The youth of India deserve this gift. India deserves more. For the several years of colonisation that India has suffered, and for the sacrifices of many great leaders and undeterred enthusiasm with which the Indians have contributed to the development of the country India deserves her place among the major world economies. India's growth has showcased unity in diversity, persistence and her potential. India's share of world economy was 25% of the world during 1750.India was among the richest in the world. India's share in the world economy declined from 25% to 4% between 1750 and1950. India will regain its lost glory, may be slowly, but certainly. [25]

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