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5 TRILLION DOLLAR ECONOMY

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In the recent Budget and the Economic Survey, the government laid out the aim of transforming India into a USD 5 trillion economy by 2024. India is, currently, a **$2.8 trillion economy**; to reach the $5 trillion mark by 2024, the economy would require **nominal growth** in dollar terms of **over 12% a year**. To put this in context, in the last quarter for which data is available, **India grew at slower than 6% in real terms.**

The Budget also specified the initiatives government proposes to achieve the above stated goal:

Though the government is clearly high on ambition, experts give the following analysis of whether and how we can achieve this goal:

CONTRIBUTION OF DIFFERENT SECTORS IN ACHIEVING THE GOAL OF $5 TRILLION ECONOMY

PRIMARY SECTOR

- Investment is the key for the flourishment of areas like agro-processing, and exports, agri-startups and agri-tourism, where the potential for job creation and capacity utilisation is far less.
- Investment needs to be driven to strengthen both public and private extension advisory systems (educating farmers about technology and management practices) and the quality of agri-education and research through collaboration and convergence.
- It would also serve as a stage to demonstrate resource conservation and sustainable use through organic, natural and green methods, and also zero budget natural farming.
- India has the highest **livestock population** in the world, investment should be made to utilise this surplus by employing next-generation livestock technology. This would lead to a sustained increase in farm income and savings with an export-oriented growth model.
- Investment in **renewable energy generation** (using small wind mill and solar pumps) on fallow farmland and in hilly terrain would help reduce the burden of debt-ridden electricity distribution companies and State governments, besides enabling energy security in rural areas.
- A **farm business organisation** is another source of routing private investment to agriculture. Linking these organisations with commodity exchanges would provide agriculture commodities more space on international trading platforms and reduce the burden of markets in a glut season, with certain policy/procedural modifications.

MANUFACTURING SECTOR

- A three-pillar strategy has been suggested to achieve required expansion of output -- focus on existing high impact and emerging sectors as well as MSMEs.
- To boost **electronics manufacturing**, it said the government should consider offering additional fiscal incentives such as a limited-period tax holiday to players investing more than an identified threshold of investment.
- Similarly for the auto and **auto-components sector**, it recommended encouragement of global leaders for the identified components to set up manufacturing bases, and incentivising players willing to invest more than a threshold in identified areas.
- The report suggested measures to **boost manufacturing** in other areas including **aeronautical, space, garments, organic/ayurvedic products** besides emerging areas such as biotechnology, electric mobility, unmanned aerial vehicles, medical devices, robotics and chemicals.
- For **micro, small and medium enterprises**, the working group said there is a need to improve access to funding by way of development of SME credit risk databases, SME credit rating, and creation of community-based funds.

SERVICE SECTOR

- Services sector include improving **rail connectivity and seamless connectivity** to major attractions; facilitating visa regime for medical travel; allowing expatriate professional to perform surgeries in identified hospitals; and e-commerce policy and regulatory framework for logistics segment.
- This sector contributes significantly to India's GDP, a goal of around 60 % contribution of services sector has been envisaged for 2024. Exports and job creation, increased productivity and competitiveness of the Champion Services Sectors like IT, tourism, medical value travel and legal will further boost exports of various services from India.
- The Commerce Minister has identified 15 strategic overseas locations where the **Trade Promotion Organisations (TPOs)** are proposed to be created.

- **Multi-Modal Logistics Parks Policy (MMLPs)** aims to improve the country's logistics sector by lowering over freight costs, reducing vehicular pollution and congestion and cutting warehouse costs with a view to promoting moments of goods for domestic and global trade.
- In the **defence sector**, there is a need to identify key components and systems and encourage global leaders to set up manufacturing base in India by offering limited period incentives; and ensure incentives result in technology/process transfer.
- To promote growth of **accounting and financial services**, there is a need to FDI in domestic accounting and auditing sector, transparent regulatory framework, and easing restriction on client base in the accounting and auditing sector.
- Measures like exploring introduction of insurance in the film industry, promoting private investments in film schools, exploring franchise business models to exploit film franchise, and promoting gaming industry value chains aims to push **audio visual services**.
- Foreign universities are allowed to set up campuses in India, easy visa regime for students and education service providers, removing regulatory bottlenecks, providing recognition of online degrees and setting up appropriate evaluation techniques for online courses for the **education sector**.

CHALLENGES

- **Depressing pace in carrying out land and labour reforms**: This has been a major turn-off for investors looking at setting shop in the country. Budget talks about narrowing labour laws. This is a step in the right direction but quick execution is important. Since land is a state subject, respective state governments need to work with the Centre to bring about the change. In the past, investors got a shocker from episodes such as Singur.
- **Slow pace of infrastructure development in the last decade**: India is still at the position where China was 20 years ago in terms of infrastructure development. The plans are ambitious, but the problem is resources.
- **Funding Problem**: India does not have powerful institutions that can fund long-gestation infrastructure projects. Banks do not have enough long-term liabilities to match such loans. Lenders have gone terribly wrong in the past by not following healthy lending practices.
- India does not have a **deep bond market** to take up the financing burden. The state-insurer **Life Insurance Corporation of India** (LIC) has been overexploited to do businesses it has never understood. There aren't many other options left to take up the infra-funding burden. The government's plan to borrow off-budget is risky and unadvisable.
- **Government's excessive involvement in businesses**: The government remains active participant in several entities including banks, airline, and infrastructure firms. It controls 70 % of the banking industry. This participation has resulted in a lot of money getting stuck in these entities. The government will have to exit these businesses backed by a solid, aggressive disinvestment plan to unlock this money.
- **Private investors back**: This is even more critical now since domestic consumption is dropping to dangerous levels. Investment in new projects plunged to a 15-year low in the quarter ending June 2019. Both private and public sectors announced new projects worth Rs 43,400 crore in June 2019 quarter, 81 % lower than what was announced in the March quarter and 87 % lower than during the same period a year ago.

- According to the finance ministry's data, projects worth almost Rs 11 lakh crore remain 'stalled' or are having issues. Railways, roads, and power sectors account for more than half of these stalled projects.
- **Public money:** Government spending has largely aided GDP growth. Sure, this was needed at a time when private investors were absent. However, an economy which rides largely on government money for a prolonged period of time does not promise much to the economy in the long run. What is needed is the participation of private investors.
- **Large scale under and unemployment** discourages the public sentiment and also **reduces household savings**, thus investment. A **poor incremental capital output ratio (ICOR)** further adds to the problem.

CONCLUSION

If India grows at **12% nominal growth** (that is 8% real GDP growth and 4% inflation), then from the 2018 level of $2.7 trillion, India would reach the 5.33 trillion mark in 2024. But last year, India grew by just 6.8%. This year, most observers expect it to grow by just 7%. So India must keep growing at a rapid pace to attain this target.

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** catalysed and supported by a favourable demographic phase. Investment, especially **private investment**, is the key driver that drives demand, creates capacity, increases labour productivity, introduces new technology, allows creative destruction and generates jobs.

Though the target is difficult to achieve, given the presently declining state of India's economy, multi-stakeholder effort and sustainable growth, while attracting foreign investment to capture the potential of domestic market, will make it possible.