



India's Transition to a Developed Economy

This editorial is based on “[Developed country ambitions need deep structural reforms](#)” which was published in Hindustan Times on 13/06/2024. The article brings into picture the ambitious goal of India becoming a developed country by 2047, requiring significant economic growth and structural reforms. It emphasises the need for inclusive growth, focusing on job creation in manufacturing, export expansion, and fiscal discipline

For Prelims: Key Characteristics of Developed Countries, [Gross Domestic Product](#), [Human Development Index](#), [International Monetary Fund](#), [Pradhan Mantri Gati Shakti National Master Plan](#), [Unified Payment Interface](#), [Red Sea and Panama Canal Crisis](#), [Jobless Growth](#), [National Education Policy](#), [India Skills Report 2021](#), [Infrastructure investment trusts](#), [Real estate investment trusts](#)

For Mains: Major Growth Drivers Propelling India Towards a Developed Economy, Major Roadblocks to India's Goal of Developed Economy.

India's impressive [economic growth](#) has kindled hopes of it attaining [developed country status by 2047](#), the centenary year of its independence. However, this aspiration demands an arduous journey of raising the country's per capita income by **more than five times**, from the current **USD 2,600 to USD 10,205**, within the next 25 years. Achieving this ambitious target effectively translates into sustaining a per capita income growth rate of **7.5% annually** and an **aggregate GDP growth rate of 9%** over this period.

Merely accelerating growth is insufficient; inclusivity is equally crucial. The daunting challenges include creating jobs for the **four million individuals entering the workforce annually**. Therefore, India's journey towards becoming a **developed nation** requires a multi-pronged approach. Addressing fiscal and structural challenges, while fostering inclusive growth and a robust export sector, will pave the way for this ambitious goal.

What are the Characteristics of a Developed Country?

- **About:** A developed country refers to a **nation with a mature and advanced economy**, characterized by high levels of industrialization, technological infrastructure, and overall societal well-being.
 - The term "**developed**" is used to distinguish these countries from "**developing**" or "**underdeveloped**" nations, which are still in the process of economic and social growth.
 - India, which is the world's fifth largest economy with a GDP of 3.42 Lakh Crores USD, is currently classified as a **developing nation**.
- **Key Characteristics of Developed Countries:**

- **Economic Factors**

- **High per capita income** (typically above **USD 12,000 to USD 25,000 or more**)
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	Low Income	Lower-middle Income	Upper-middle Income	High Income
July 1, 2023 - for FY24 (new)	<= 1,135	1,136 - 4,465	4,466 - 13,845	> 13,845

- Diversified and **advanced industrial and service sectors**
- Robust infrastructure, including transportation, communication, and utilities
- Stable and efficient financial markets
- **Social and Human Development Factors**
 - High levels of education and **literacy**
 - Access to quality healthcare and social services
 - **Low infant mortality** and high life expectancy rates
 - Robust legal and political institutions, with democratic governance
- **Technological and Innovation**
 - Advanced technological infrastructure and capabilities
 - Strong emphasis on research and development (R&D)
 - High levels of innovation and productivity

- **Measurements and Indicators:**

- **Per Capita Income:** One of the primary indicators used to determine a country's development status

- Calculated by dividing the **Gross Domestic Product (GDP)** by the total population

- **Human Development Index (HDI):** A composite index used by the United Nations to measure a country's overall well-being

- Factors include life expectancy, education levels, and standard of living
- Countries with an **HDI score above 0.8** are generally considered developed

- **Examples of Developed Countries:**

- According to the **International Monetary Fund (IMF)**, some developed countries include the United States, Canada, Japan, Australia, New Zealand.

- Other examples include Singapore, South Korea and Hong Kong in Asia.

What are the Major Growth Drivers Propelling India Towards a Developed Economy?

- **Rise of the Services Sector:** India's **services sector** is experiencing rapid growth, accounting for over 50% of GDP. This sector offers high-value jobs and attracts foreign investment.

- **Example:** The **IT and Business Process Outsourcing (BPO)** industries in India have become global leaders, providing services to international clients.
 - This growth in the service sector signifies India's increasing integration into the global economy.

- **Demographic Dividend:** India has a young and growing population, with a median age of **28.2 years (2023)**. This vast pool of human capital can fuel economic growth if properly skilled and employed.

- **Government Initiatives for Infrastructure Development:** The Indian government is actively investing in infrastructure development projects through initiatives like **The Pradhan Mantri Gati Shakti National Master Plan**.

- This will enhance efficiency and boost economic activity across sectors.

- **Digital Transformation and Startup Ecosystem:** India is witnessing a digital revolution through **Digital India Initiative** and democratization of **Unified Payment Interface**, with

increasing internet penetration (**8% year-on-year basis growth in 2023**).

- Digital technologies are transforming industries and creating new growth opportunities.
- **Economic Resilience Despite Global Slowdown:** Despite global economic uncertainties, geopolitical tensions such as the [Russia-Ukraine War](#), disruptions in supply chains like the [Red Sea and Panama Canal Crisis](#), and tightening financial conditions in major economies like the US, India's domestic demand has shown relative resilience.
 - The [Reserve Bank of India](#) expects India's real GDP to grow by **7% in 2024-25**.
- **Innovation and Entrepreneurship:** India is fostering a culture of innovation and entrepreneurship.
 - This is evident in the **growing number of startups** (1,12,718 DPIIT-recognized startups across 763 districts) and research institutions focused on developing new technologies and solutions.
 - This technological prowess can lead to advancements in various sectors and attract global collaborations.

What are the Major Roadblocks to India's Goal of Developed Economy?

- **Jobless Growth:** While India boasts impressive economic growth of **7.8% in the 2023-24** fiscal year (FY) it has not translated into sufficient job creation.
 - Millions remain trapped in low-productivity agriculture (nearly **15% GDP contribution but employing 44% of the workforce**).
 - India needs to create **115 million (11.5 crore) jobs by 2030** to meet its rising workforce.
- **Poverty-Education-Skill Trap:** Poor quality primary and secondary education limits **cognitive development** and reduces the potential benefits of higher education.
 - This creates a workforce less prepared for higher-skilled jobs (**shortage of 150 million skilled workers**).
 - Education system in India despite [National Education Policy](#) is not adapting quickly enough to changing industry demands.
 - This leads to **graduates lacking the specific skills sought by employers**, further hindering employment opportunities (The [India Skills Report 2021](#) argues that nearly **half of India's graduates are unemployable**).
- **High Public Debt:** India's public debt stands at **81.9 % of GDP** raising concerns about fiscal sustainability. This high debt burden necessitates **high-interest rates, crowding out private investment** and hindering economic growth.
- **Vast Income Inequality: India has a high level of income inequality, with a substantial portion of the population living in poverty.**
 - In 2022-23, 22.6% of national income went to just the top 1%. This income disparity hinders inclusive growth and access to basic services for a significant portion of the population.
 - India's HDI score in 2022 was 0.644, placing it at 134th out of 192 countries ranked by the [United Nations Development Programme \(UNDP\)](#).
- **Rural-Urban Divide and Unbalanced Development:** While India's urban centers have experienced economic growth, rural areas remain mired in **poverty, lack of infrastructure, and limited access to basic services**.
 - Neglecting rural development and failing to bridge this divide could lead to social unrest, **hampering overall progress**.
- **Climate Change Vulnerabilities: India's rapid industrialization and urbanization have come at the cost of environmental degradation, including air and water pollution, deforestation, and biodiversity loss.**
 - This not only impacts **public health and quality of life** but also undermines the sustainability of economic growth.
 - The **economic and social costs of climate change could derail India's development trajectory** if adaptation and mitigation measures are not prioritised.

- The **Reserve Bank of India** suggests that up to **4.5% of India's GDP** could be at risk by 2030,
- **Infrastructure Deficit and Financing Challenges: India's infrastructure gap, particularly in sectors like transportation, power, and urban infrastructure, acts as a bottleneck to economic growth and development.**
 - India's infrastructure gap is estimated to be around **USD 1.5 trillion** ([World Bank](#))
 - The challenges of land acquisition, environmental clearances, and regulatory hurdles further compound the issue, leading to project delays and cost overruns.

What Measures can India Adopt to Accelerate Progression Towards a Developed Economy?

- **Leveraging Demographic Dividend through Skill Development: India needs to invest heavily in vocational education, skill development programs, and apprenticeship initiatives to create a globally competitive and employable workforce.**
 - Collaborating with industry partners to design curricula aligning with market demands and emerging technologies like **AI, robotics, and renewable energy** (India can learn from **Norway Model** in this regard).
- **Balanced Regional Development and Rural Transformation: Prioritizing investment in rural infrastructure, including roads, electrification, healthcare facilities, and digital connectivity, to bridge the rural-urban divide.**
 - Incentivizing the **establishment of [agro-processing units](#) and manufacturing hubs** in rural areas to create non-farm employment opportunities.
 - Promoting sustainable agriculture practices, **precision farming techniques, and access to institutional credit** and insurance to enhance rural incomes and food security.
- **Preventive and Affordable Healthcare: Healthy population is the fundamental requirement in the push towards the country becoming a developed country by 2047, (Chief Economic Adviser V. Anantha Nageswaran).**
 - Increasing public spending on healthcare to at least 2.5% of GDP, as recommended by the [National Health Policy 2017](#), to strengthen the public healthcare system and perform better in Human Development Index parameters.
 - Promoting **preventive healthcare** through awareness campaigns, early detection, and lifestyle interventions to **reduce the burden of non-communicable diseases.**
 - Leverage digital technologies like **telemedicine and e-health initiatives** to improve access to quality healthcare in remote areas and reduce costs.
- **Innovative Infrastructure Financing and Public-Private Partnerships: Exploring innovative financing models like **asset monetization, securitization of infrastructure assets,** and tapping into global capital markets **to bridge the infrastructure deficit.****
 - Promoting [infrastructure investment trusts \(InvITs\)](#) and [real estate investment trusts \(REITs\)](#) to attract long-term institutional investors and unlock capital for infrastructure projects.
- **Fostering Innovation and Technological Advancement: Increasing investment in [research and development \(R&D\)](#) to at least 2% of GDP, in line with the target set by the Science, Technology, and Innovation Policy 2020.**
 - Establishing **clean technology parks, incubation centres, and circular-economy zones** to attract global technology leaders and foster a vibrant innovation ecosystem.
- **Unlocking the Potential of the Blue Economy: Harnessing India's vast coastline and marine resources through sustainable maritime activities like coastal shipping, marine tourism, offshore wind energy, and deep-sea mining.**
 - Developing world-class [ship repairing infrastructure](#), logistics hubs, and **coastal economic zones** to boost trade, employment, and economic growth.
 - Promoting marine biotechnology and the **production of value-added marine products** to tap into the growing global demand.
- **Formalising Informals and Startup Hubs Beyond Metros: Implementing a **portable social security system** that allows informal sector workers to carry their benefits across different jobs, incentivizing formalisation.**

- Create a network of well-funded startup hubs in **Tier-2 and Tier-3 cities** to nurture disruptive innovation across diverse sectors beyond major metropolitan areas.
- **MSMEs, the backbone of India's economy** also needs a forward push by better financing and marketing schemes.
- **Green Collar Jobs Revolution:** India can Implement green jobs training programs with industry partnerships to equip the workforce with skills required for **renewable energy sectors, waste management, and sustainable infrastructure development**.
 - Provide **tax breaks and subsidies to companies** that hire and train workers in green sectors, stimulating green job creation and workforce transition.

Drishti Mains Question:

Evaluate the potential for India to achieve developed country status. Discuss the key challenges and opportunities that could influence this transition.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. In the 'Index of Eight Core Industries', which one of the following is given the highest weight? (2015)

- (a) Coal production
- (b) Electricity generation
- (c) Fertilizer production
- (d) Steel production

Ans: (b)

Q. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if: (2018)

- (a) Industrial output fails to keep pace with agricultural output.
- (b) Agricultural output fails to keep pace with industrial output.
- (c) Poverty and unemployment increase.
- (d) Imports grow faster than exports.

Ans: (c)

Q. In a given year in India, official poverty lines are higher in some States than in others because: (2019)

- (a) Poverty rates vary from State to State
- (b) Price levels vary from State to State
- (c) Gross State Product varies from State to State
- (d) Quality of public distribution varies from State to State

Ans: (b)

Mains

Q.1 “Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period” Give reasons. How far the recent changes in Industrial Policy capable of increasing the industrial growth rate? **(2017)**

Q.2 Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? **(2014)**

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