



India's Economic Trajectory: Challenges & Opportunities

This editorial is based on [“Five things the next government needs to focus on”](#) which was published in The Indian Express on 16/05/2024. The article examines the Indian economic performance in recent years and the key five areas that need to be focused on, for the upcoming government.

For Prelims: [GDP](#), [Contentious farm laws](#), [disinvestment](#), [foreign institutional investor \(FII\)](#), [NEP 2020](#), [economic growth](#), [current account deficit](#), [pandemic-induced disruption](#), [Production-Linked Incentive \(PLI\)](#), [PM Gati Shakti- National Master Plan](#), [Bharatmala Project](#), [Start-up India](#), [Make in India 2.0](#), [Atmanirbhar Bharat Campaign](#), [Consumer Price Index \(CPI\)](#), [National Statistical Office's \(NSO\)](#), [Periodic Labour Force Survey \(PLFS\)](#)

For Mains: Examine the Significance of Key Sectors of the Indian Economy.

In the wake of India's sustained [economic growth](#) above **7%** for three consecutive years, there's a need for a nuanced analysis of the Indian economy, over the past five years **until 2018-19**, the economy witnessed substantial real GDP growth, however, the subsequent five years until 2023-24 saw a **significant slowdown** due to [pandemic-induced disruptions](#), this should serve as a pivotal starting point for the incoming government's policy agenda.

What is the Current State of the Indian Economy in Different Sectors?

- **Robust growth:** India's economy has demonstrated robust and **resilient growth** over the past decade, catapulting from the 10th to the **5th** largest globally and positioning India as the fastest-growing economy among **G20 nations**.
 - The International Monetary Fund (IMF) forecasts India's GDP growth to be **6.8%** for the fiscal year 2024/25 and **6.5%** for **2025/26**.
- **Current Account Deficit:** As per the **Economic Survey 2024**, India's [current account deficit](#) has been significantly reduced to **1% of GDP** in the first half of FY24, attributed to resilient service exports and decreased oil import costs.
- **Foreign Investment:** Robust [foreign institutional investor \(FII\)](#) inflows have bolstered **forex reserves** to approximately **\$643 billion**, FII inflows stood at \$41 billion in 2023-24, contrasting with net outflows of \$5.5 billion in the preceding year.
- **Infrastructural Development:** The nation's **infrastructural development** has also been remarkable, with **74 airports** constructed in the last 9 years.
 - The government has significantly boosted its **capital expenditure (Capex)**, **The Capex-to-GDP** ratio surged to 3.3% for FY24 and is projected to reach 3.4% in the upcoming financial year.
- **Manufacturing Sector:** Manufacturing sector capacity utilisation is reaching **74%**, nearing the long-term average, there are signs of a potential acceleration in the private capital expenditure cycle in the upcoming quarters.

- **Inflation:** [Consumer Price Index \(CPI\)](#) inflation has dipped below the **Reserve Bank of India's** upper target band of **6%**, core inflation has remained below 4% in **april 2024**, primarily due to disinflation in the services sector
- **Decline in Urban unemployment:** In **2023-24**, the economy expanded by an estimated 7.3%, building upon the growth rates of 9.1% in FY22 and 7.2% in FY23 and concurrently, the **urban unemployment** rate saw a decline to **6.6%**.
- **Rural demand:** It is displaying positive trends, evident in the **Fast Moving Consumer Goods (FMCG)** volume growth in rural areas surging from 2.2% to 6.2% in the latter half of 2023, as per a **Nielsen report**.

What are the Various Challenges Faced by the Indian Economy in the Past Five Years?

- **Slowdown in Economic Growth:**
 - The COVID-19 pandemic led to a substantial **economic decline** in India in 2020, causing a **negative growth rate**.
 - However, the economy witnessed a strong rebound in 2021, recording a growth rate of approximately **9%**, subsequently, the growth rate has stabilized to around 7%.
- **Unemployment and Underemployment:**
 - The COVID-19 pandemic worsened the situation, as many businesses shut down or reduced their operations, leading to job losses.
 - According to the [Centre for Monitoring Indian Economy \(CMIE\)](#), over **1.8 crore** salaried jobs were lost between April and July 2020.
 - The unemployment rate was **7.4% in August 2020**, compared to 5.4% in August 2019.
 - According to the [National Statistical Office's \(NSO\) Periodic Labour Force Survey \(PLFS\)](#) report for the year 2021-22, the unemployment rate for 2021-22 was 4.1%.
- **Challenges in Agriculture and Allied Sectors:**
 - Despite the recent growth in India's GDP, the agricultural sector has not shown equivalent progress.
 - As per the **Economic Survey 2022-23**, the agriculture and allied sectors in India have experienced an average **annual growth rate of 4.6%** over the past six years, however, this falls short of the desired growth rate necessary for substantial improvements in farmer incomes.
 - The agriculture sector's contribution to India's GDP has shrunk over time, from 35% in 1990-91, it dipped to **15% in FY23**.
- **Slowing Household Consumption and Income Inequality:**
 - High levels of income inequality lead to **deterioration in consumption demand**, especially for the bottom income classes, which result in lower investment demand and further feed into low growth.
 - **India's Gini coefficient**, a measure of income inequality, was **0.38 in 2019-20**, indicating significant income disparities.
- **Infrastructure Deficit and Private Investment:**
 - According to the [World Bank](#), India's infrastructure gap is estimated to be around **\$1.5 trillion**.
 - Private investment continued to decrease, hitting a low of **19.6% of GDP** in 2020-21.
 - India's infrastructure deficit is estimated at over **\$1.4 trillion**, with key areas of concern including transportation, energy, and healthcare infrastructure
 - Private investment remains subdued, with Gross Fixed Capital Formation (GFCF) by private corporations declining by -14.5% in FY 2020-21
 - GFCF comprises **fixed asset acquisitions minus disposals** by resident producers.
 - Fixed assets are tangible or intangible assets from production processes that are used repeatedly and continuously in other production processes for at least one year.
- **Export Challenges Amid Geopolitical Tensions:**
 - Geopolitical tensions, such as border disputes and trade conflicts like **Russia-Ukraine war**, can disrupt global trade patterns.

- Industries like **textile exports** have witnessed a decrease and In the footwear sector the global trade expanded by **5 per cent**, but India's exports have contracted.
- Moreover, India's endeavor to become a leading force in the **global pharmaceutical industry** encounters hurdles, despite its aspirations, India's growth has failed to keep pace with demand, falling behind at 9 percent, whereas the global market expanded by 12 percent over the past four years.e.

What are the Multiple Initiatives Taken for the Growth of the Different Sector in India Economy?

- **New Economic Policy, 2020:**
 - **NEP 2020**, encompasses a substantial stimulus package amounting to Rs 20 lakh crore, **equivalent to 10% of GDP**, aimed at bolstering different sectors and segments of the economy.
 - Additionally, the policy entails a range of reforms spanning agriculture, labor, education, health, defense, mining, power, and taxation and objective of this policy is to foster self-reliance in India's economic landscape in the aftermath of the Covid-19 crisis.
- **Strategic Disinvestment :**
 - India has also embarked on the privatization of public sector enterprises (PSEs), which are entities **owned or managed by the government**.
 - The goals of privatization include enhancing the efficiency, profitability, and competitiveness of PSEs, easing the fiscal burden, and mobilizing resources for developmental purposes.
 - Privatization can manifest in various forms, including **disinvestment** (selling shares to private investors), strategic sale (transferring management control to private buyers), or closure (shutting down unprofitable units).
 - Since 1991, India has privatized more than **60 PSEs, raising over Rs 3 lakh crore in the process**.
- **Comprehensive Labour Codes:**
 - Four codes have been introduced to streamline and consolidate central labor laws into four main categories: **wages, industrial relations, social security, and occupational safety and health**.
 - These codes aim to offer employers flexibility in workforce management, simplify registration and compliance procedures for businesses, expand social security coverage for informal workers, and strengthen the influence of trade unions and collective bargaining.
- **Production-Linked Incentive (PLI) :** **Production-Linked Incentive (PLI)** is to scale up domestic manufacturing capability.
- **PM Gati Shakti- National Master Plan :** **PM Gati Shakti- National Master Plan** formulated to Multimodal connectivity infrastructure project.
- **Bharatmala Project , Bharatmala Project :** **Bharatmala Project , Bharatmala Project** is to Improve Connectivity in North East India
- **Start-up India :** **Start-up India** has been formed to catalyze Startup culture in India
- **Make in India 2.0 :** **Make in India 2.0** is to transform India into a global design and manufacturing hub.

What are the Potential Areas of the Indian Economy that Need to be focused on?

- **Creating Employment Opportunities:**
 - **Employment generation**, primarily driven by the private sector, requires a conducive environment.
 - While the government can fill vacant positions to some extent, **sustainable job creation** hinges on **consumption-led growth**.
 - Therefore, policies aimed at boosting consumption will indirectly contribute to employment generation.
- **Reviving Private Investment:**
 - While the government has been proactive in capital expenditure, particularly in infrastructure development, the private sector's participation is crucial.

- Although investments in sectors like **roads and railways have driven growth, private companies, driven by profit motives, need conducive conditions.**
- The Production-Linked Incentive (PLI) scheme has shown limited success and should be expanded, particularly to support small and medium enterprises (SMEs).
- Introducing incentives like **investment allowances** could also stimulate private investment.
- **Agricultural Reform:**
 - Addressing the agricultural sector's challenges, particularly in the context of **contentious farm laws**, is crucial.
 - Government participation in farming through **state cooperatives and clarifying agricultural trade policies** can provide certainty to farmers.
 - Moreover, standardising procurement and distribution procedures is essential to minimise market disruptions.
 - Revisiting bans on futures trading in agricultural products can enhance market efficiency and overall productivity.
- **Boosting Household Consumption:**
 - Household consumption, though volatile, has shown **signs of recovery** post-pandemic.
 - However, demand for consumer goods remains subdued, partly due to surplus capacity and high inflation.
 - To stimulate consumption, fiscal measures such as **revisiting tax rates and rationalising GST slabs are essential.**
 - Additionally, addressing declining household savings through revamped tax structures is imperative.
- **Integration into Global Supply Chains:**
 - India's participation in global supply chains, particularly in merchandise exports, requires a strategic approach.
 - This entails forging more **free trade agreements** with major trading partners to boost exports.
 - While the **IT sector has excelled in services exports**, emphasis on **merchandise exports** is necessary for balanced economic growth.

Drishti Mains Question

Examine the challenges and opportunities presented by the changing landscape of the Indian Economy, Evaluate the significance of different sectors in fostering sustainable and inclusive growth.

UPSC Civil Services Examination Previous Year's Questions (PYQs)

Prelims:

Q: Consider the following statements: (2018)

1. Human capital formation as a concept is better explained in terms of a process that enables individuals of a country to accumulate more capital.
2. increasing the knowledge, skill levels and capacities of the people of the country.
3. accumulation of tangible wealth.
4. accumulation of intangible wealth

Which of the statements given above is/are correct?

- (a)** 1 and 2
- (b)** 2 only
- (c)** 2 and 4
- (d)** 1, 3 and 4

Ans: (c)

Q. Disguised unemployment generally means (2013)

- (a) large number of people remain unemployed
- (b) alternative employment is not available
- (c) marginal productivity of labour is zero
- (d) productivity of workers is low

Ans: (c)

Mains

Q. Most of the unemployment in India is structural in nature. Examine the methodology adopted to compute unemployment in the country and suggest improvements. **(2023)**

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