

A \$5 trillion Economy

Posted at: 05/09/2024

Context:

Recently Indian Prime Minister announced the extension of the Pradhan Mantri Garib Kalyan Anna Yojna (PMGKAY), a scheme providing 5 kg of foodgrains free every month to beneficiaries of the National Food Security Act (NFSA), by five years because he does not want any citizen to sleep hungry. This means that 80 crore Indians will still be receiving free foodgrains to stave off hunger in 2028.

- This is the year the government expects India to become the third largest economy in the world, with a GDP of \$5 trillion. Will large swathes of Indians still be hungry with a GDP of \$5 trillion? Who will benefit from the five year dash to these targets?

The story of Japan and China:

1. For reference, let's take a look at Japan today, the third largest economy by GDP in the world. For 40 years, Japan was the world's second largest economy, powered by manufacturing and exports. But after the 2008 world financial crisis, the wheels came off the Japanese economy. Japan's population started spending less, exports shrank, and government incentives dried up.
2. On the other hand, China enjoyed a manufacturing boom and dislodged Japan to become the world's second largest economy by GDP. On losing rank, however, Japan displayed remarkable ego free economic diplomacy. As soon as the economy plunged to the third position, Japan's leadership publicly welcomed China's ascent, stating that sustained demand from the (then) most populous country could only be good for Japan's exports.
3. However in Japan, as the high value industrial economy took centre stage, the strength of personal and professional relationships withered and the multigenerational family and social structure became atomised. They fell through the cracks into financial collapse and social withdrawal.

A deep divide:

1. Today, the Government of India claims that the country is on the cusp of an economic tsunami. How does the sprint to the target of \$5 trillion bode for citizens, especially the 80 crore who will still be on free rations in 2028?
2. India's economic growth pivots on capital, productivity and labour, and data show that for over 4/5th of Indians, the \$5 trillion economy is a bridge too far.
3. Consider capital: in 2021, 1% of the population owned about 41% of the nation's wealth, while 50% owned 3% of its wealth, according to Oxfam. In such an environment, the dash towards a \$5 trillion economic trophy lies in the grip of the resource rich power brokers who will seize the initiative.
4. But ironically, it is the low resource citizens who are funding the investment for the

proposed \$5 trillion economy: approximately 64% of the total Goods and Services Tax (GST) came from the bottom 50% of the population, and the top 10% contributed 3% of GST.

5. At the same time, the contribution of labour, the other driver of growth, is hamstrung due to dubious educational and skill attainments and halting digital literacy. Productivity is just beginning to get a boost through the creation of digital and physical infrastructure.
6. There are also other issues with Mr. Modi's guarantee that India will be the third largest economy in five years. First, with a per capita income of \$2,400, India ranks 149 among 194 countries in 2022. Since per capita income is a keen index of a population's wellbeing, note that the average Japanese at \$34,000 is considered better off than the average Chinese at a \$13,000, even though China has outstripped Japan in world GDP rankings.
7. What is India's per capita income projected to be at \$5 trillion? There are no official estimates available.
8. Second, the nub of the chase to \$5 trillion GDP is in its distribution, or the inequality index, generated by World Economics. A high value indicates a more egalitarian society. The values of both China and Japan are more than 50. These countries appear to be sharing their economic fortunes more evenly than India, which has a value of 21.9.

Conclusion:

Will the divide between the two Indias deepen with the \$5 trillion target? India might be on its way to achieving this goal, but most of the population still remains marooned in the slow lanes of an older India, watching as the new caravans storm past.



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