5 Trillion Economy for India by 2024: Is it a feasible idea?

Mr. Vipin Malik, Mentor, Infomerics Ratings

&

Mr. Sankhanath Bandyopadhyay, Economist, Infomerics India Foundation

- Prime Minister Narendra Modi's target of a USD 5 trillion economy by 2024.
- This means USD 2.8 trillion economy will have to nearly double in five years.
- That means from a current GDP growth trend of 6-7%, the economy will have to grow at an annual average of 10-11% over 2019-24 (in real terms).
- Many have dismissed this as unrealistic or listed a large number of difficult policies necessary for sustained double-digit GDP growth.
- A credible step towards this is to identify key areas each of which will have a well-understood big, defining problem.
- Start, and quickly implement, a few signature projects in each area that squarely address the big, defining problem. The reasonable assumption will be that these projects will act as motivators and drivers for broader change in each area.
- Instead of attempting to solve many complex problems, create a few standout solutions. If outcomes are notable, incentives for replication will be high for State actors.

- ‘Make in India’ did not quite work when the Modi 1.0 administration sought to incentivize a countrywide manufacturing resurrection, that too having given up earlier on land acquisition reform. The Modi 2.0 government should reorient.
- The big problem is lack of land for industry. This will act as a constraint even after the current excess capacity is exhausted.
- Identify the easiest way to make a few very large parcels of land available for manufacturing hubs, for example by using land assets of big public sector companies.
- Then, in those few designed hubs, put all administrative energy to incentivize manufacturing. Target companies, Indian or foreign with product lines that have assured large domestic demand base or cast-iron export demand. These manufacturing centres will only be a few in a continent-sized country. But if they take-off, they should act as exemplars for State and private sector actors.
- Take agriculture, the albatross around the economy’s neck. Even if terms of trade facing farmers improve and all monsoons till 2024 are good, the big problem of inefficient farming on all small plots will always make Indian agriculture a sad, third world story.
- What is doable is to set up very few but very large farm enterprises and demonstrate through them what efficient farming can do for the economy. Land for those few giant farming enterprises could be taken on short-term lease at super attractive rates and farmer/landowners can be offered employment. To do this, nationally in a federal structure (especially given

emotive and political issues around smallholding ownership), is impossible. To do this in a very limited scale is entirely possible.

- In case of banking, issue a few banking licenses for small private banks specifically mandated to lend to small industry. The unmet demand for credit finance from small entrepreneurs is huge. These new private banks will have no shortage of borrowers. Once the positive impact of such lending becomes clear, the appalling conservatism that has held back the expansion of the banking system may finally crack.
- Telangana Governor Tamilisai Soundarajan said that agriculture has a key role to play in helping the country achieve its goal of becoming a USD five trillion economy. The Central and State governments are focusing on formulating a cash crop and export-centric farming system.
- An alternative way of thought is provoked in an article titled as 'Let this be India's goal for this decade-$5000 per capita income by 2030' where it mentioned that though there is still a long way to go to before we reach developed country levels like that of the USA ($60,000 per person) or even China ($10,000 per person), but we can now at least aspire to $5,000 per person by 2030. This goal requires the following:
- Investor confidence: simple, business-friendly policies
- End of bullying by regulators/bureaucrats/taxmen/politicians who love to assert(or abuse) their power
- Feeling of harmony and safety in the country
- Stable rates/levies/taxes that do not change say each time the GST council meets in Goa.

'Modi govt's USD 5-trillion GDP target by 2024 looks unimaginably ambitious'

India would need to grow at 9 per cent to achieve the target of USD 5 trillion economy by 2024, which currently looks "unimaginably ambitious", eminent economist R Nagaraj said on 12 January 2024.[1] India's GDP is currently estimated at around 2.8 trillion.

The Indira Gandhi Institute of Development & Research (IGIDR) Professor R Nagraj stated the following:

"The target appears exceptionally daunting, if not impossible, going by the record of the current decade. Last July 2019, as per my estimate, India needed to grow on average at 9 per cent per year in real terms from the fiscal year 2020 to 2024 to achieve the target of 5 trillion dollar economy. With the growth rate slumping, the goal looks unimaginably ambitious."

Asked whether a fiscal stimulus is the only way out of the slowdown, he said that lowering of interest rates over the last few years has not helped and there is a need for a fiscal stimulus.

Source: Economic Times (13 January 2020).

Need to think big to achieve USD 5 trillion economy, says PM

Prime Minister Narendra Modi said on 6 February 2020 that the aim of a USD 5 trillion economy was ambitious but the country would have to think big and move ahead to realize the goal. Modi said the government is focusing on village and city infrastructure, MSMEs, textiles, technology and tourism to fulfill the dream. The PM said the Centre was working on labour reforms after consulting labour unions and moving forward on this would be beneficial for the economy and creating jobs. He said his government had cleared roadblocks in the way of GST and implemented it. He said that he had flagged many issues related to implementation of GST. He referred to the government's efforts to modernize infrastructure.

Source: Times of India (7 February 2020).

[1] Economic Times (13 January 2024).

An article titled as ‘It’s the Politics, Stupid!’ (11 February 2020) *Economic Times*, states that Global experience shows that religious polarization and strife is bad for economic growth, and that social harmony is a vital input for an economy to soar. The economy is slowing alarmingly and needs a revival of what John Maynard Keynes called ‘animal spirits’ by which he means gung-ho entrepreneurs.

GDP growth is estimated at 5% in FY2019-20 and projected to rise to 6-6.5% in FY2020-21. The International Monetary Fund (IMF) is even more pessimistic, estimating growth at 4.8% and 5.8% for these two years respectively. This is way below the rates needed to touch the USD 5 trillion mark by FY2024-25.

Communal Disharmony and Social Unrest affect Economy?

Many experts have highlighted the fiscal and administrative cost of implementing NRC nationwide over INR 60,000 crore with 21 lakh officials.[2] Furthermore, a large literature in development economics emphasizes the importance of social cohesion and trust, which though are intangible but essential for economic growth. Economists K Peren Arin, Murat Koyuncu and Nicola Spagnolo constructed an ethnic/racial tension index in the US using the number of news articles in major newspapers in that country with racially sensitive and hateful words. They found that ethnic and racial tensions reduced economic growth, especially in a slowdown. Further as written by Economists William Easterly, Jozef Ritzan and Michael Woolcock in their study ‘Social Cohesion, Institutions and Growth’:

“A country’s social cohesion is essential for generating the confidence and patience needed to implement reforms: citizens have to trust the government that the short-term losses inevitably arising from reform will be more than offset by long term gains.”

[2] ‘It’s the Politics, Stupid’(11 February 2020) The Economic Times.

The article concludes by saying the following:

"The inclusiveness of a country's communities and institutions (e.g. laws and norms against discrimination) can greatly help to build cohesion. On the Other hand, countries strongly divided along class and ethnic lines will place severe constraints on the attempts of even the boldest, civic-minded and well-informed politician (or interest group) seeking to bring about policy reform. In the current atmosphere, CAA and NRC are destroying inclusiveness, deepening divisions and creating massive mistrust. Many communities are hurting, the economy will suffer, and the USD 5 trillion target will become a pie in the sky."[3]

[3] 'It's the Politics, Stupid'(11 February 2020) The Economic Times.