Role of Various Sectors and Structural Reforms in the achievement of $5 Trillion Indian Economy

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ABSTRACT

The Indian economy is one of the fastest emerging economies in the world. The Indian economy has come a long way, from meagerly a GDP OF $93.7 B in 1950 to $2.936 T (est.) in 2019. This progress in the past 72 years, has provided for the foundation of a massive and ambitious vision. A vision which has been envisioned by our Prime minister, Shree Narendra Damodar Das Modi.

A goal backed by ambition and will. Since 1991 India has been considered as an emerging economy but now it aims at acquiring a position amongst the developed economies. But this requires innumerable steps to be undertaken at various levels. One of them being to maintain a GDP growth rate of 10+%. Which can be achieved by a major boost in sectoral growth and major structural reforms, etc. On the contrary the factors that challenge this vision include Inflation, dollar-Rupee Exchange rate, corruption, out dated economic reforms, legal regulations & laws

Even though India faces several challenges in attaining the $5 T goal, yet it has various opportunities awaiting to help in the achievement of this goal. Some of these opportunities includeThe trade war between USA – CHINA, dependable Agriculture sector, promising Industrial Sector, developing service sector, promising youth work force. Thus, in the following paper, we shall study how the Indian economy can achieve a $5 trillion economy.

Key Words: GDP growth rate (10+%), Sectoral growth, Agriculture sector, Industrial sector, Services sector, Structural reforms.

1. Introduction

Since 1991 the Indian Economy has a come long a way. In 1991 the GDP of Indian Economy stood at $266 Bn. Presently it amounts to $2.3 T. Which is9 times that of in 1991. A giant leap, which made India the one of the fastest emerging economies in the world.

In 1991, the agriculture sector constituted 25.16 % of the total GDP and in 2019 it was reduced to 15.4%. There has been a constant reduction in the agriculture sectors contribution since 1947 falling from around 50% to 15% recently. Whereas the industrial and services sector witnessed a growth. In 1991, the industrial sector contributed 25.4% which has recently grown to 29.6% in 2019. The service sector on the other hand in 1991 contributed 44.96% which has grown to 54.4 % in 2019.

The table 1 shows sectoral growth in each sector of the Indian economy since 2008-2019.

Table 1: Sectoral Growth in India

YEAR	AGRICULTURE	INDUSTRY	SERVICES
2008	16.79	31.13	45.88
2010	17.03	30.72	45.03
2012	16.85	29.4	46.3
2014	16.79	27.66	47.82
2016	16.25	26.64	47.82
2018	14.6	26.75	49.13
2019	15.4	29.6	54.4

From the above table it is clear that sectoral growth is dynamic. It fluctuates year to year based on various factors such as structural reforms, government policies and various other economic factors like demand, inflation etc.

The Figure 1 is a pictorial representation of the data mentioned in the above table. It helps to assess the

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deviation produced in sectoral growth. The above table shows that sector witnessed a downfall since 2008 but in 2019 all of them witnessed a boost. The share of each sector increased, which is a positive indicator, since India aims at achieving a $5 T economy.

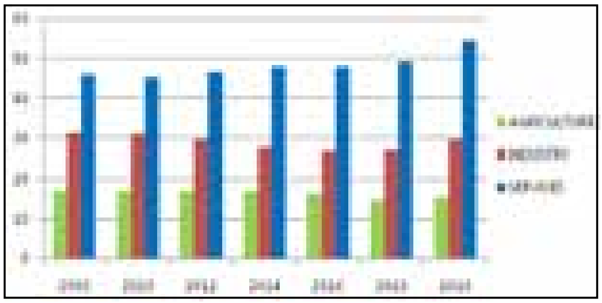

Figure 1: Sector-wise contribution to Indian GDP (2008-2019)

Further ahead, we shall discuss in detail, the need of sectoral growth in Indian economy, backed by structural reforms and the effect of MSMEs in each and every sector, for the achievement of a $5 T Indian economy.

2. Structural Reforms and Their Relationship With Sectoral Growth

India has been climbing the ladder of economic growth rapidly since 1991. Recently its progress slow down, when the GDP growth rate went down to 4.5% in one the quarters. Studies show that in order to achieve a $5 T economy India needs a GDP growth rate of 10+%, annually to achieve this goal by 2025.

According to the Chief Economist of IMF, Gita Gopinath, the reason behind India's economic slow down is not external but internal. India's outdated structural reforms form the basis of this slowdown, as structural reforms affect every sector of the economy.

In order to recover from the slowdown, India needs to introduce some new reforms. The very first being, bank clean ups. The government needs to clean up banks and other financial institutions in order reduce the debt levels and revive the bank credit. It also needs to increase the governance and control over public sector banks and enhance the efficiency rate of credit provision. Apart from the public sector banks, the government also needs to increase supervision and regulation of non banking financial companies(NBFCs),

The government must also work on fiscal consolidation, at both national and sub national levels to lower the deficit and public debt. This should be backed by an efficient system of tax collection(GST) and increased supervision and regulation on tax compliance(GST). Reduced levels of debt and increased revenue from tax will directly affect the capital generated (both public & private) within the economy.

India has been suffering from capital deficiency since 2008 when the public sector banks dished out credit to companies to boost infrastructure growth within the economy. But, most of these companies failed to comply with the payment of the installments, creating a deficit of bank credit and reducing the available bank credit. Thus, these new reforms in the banking sector would help make up the credit loss and boost investment, which in turn would create new job opportunities and reduce unemployment.

By reduced debt and increased capital, investment in infrastructure development shall increase and new opportunities for jobs would develop in every sector. But these investment need to be backed by labor, land and product reforms that would facilitate an increase in competition and demand. India has very strict and outdated land reforms that hinder investment and infrastructure development.

These reforms would have a direct and indirect impact on various economic factors, but the major impact would lie on the three major sectors; Agriculture, Industrial and Services sector. These three sectors contribute on a macro level to a country's economy and a positive impact on them would result in a profitable output for the economy.

According to some studies, India needs to increase its agriculture and industry sector contribution to $1 T USD each and services sector contribution to $3 T USD, in order to achieve the $5 T economy mark. Thus, we shall now discuss the various measures that need to be undertaken in each and every sector, in order to achieve these goals.

3. Sector-Wise Growth & Development Measures Required To Achieve $5 T Economy

3.1. Agriculture Sector

India is the largest; producer in agriculture(25% of global production), consumption(27% of global consumption) and importer of pulses(14% of the global production). In 2018 agriculture sector employed around 50% of the Indian work force and contribution to GDP of 17-18 percent.

India also ranks first in the world with highest net cropped area followed by US and China. The economic contribution of agriculture to India's GDP has steadily declined since 1947, due to its broad and diversified economic growth in each sector.

According to the economic data, the contribution of agriculture sector in 2017 was of $375.61 Bn. But in order to achieve the $5 T economy mark, the contribution of the agriculture must be approximately be around $1 T USD. Which is roughly three times of the current contribution. In order to achieve this goal, India needs to focus more on projects and Investment rather than on policies. Policies do have their own importance, but its high time for action.

Some of these projects in agriculture sector include:

- Model Farms
- CFVs
- Rural Entrepreneurs

Model Farms

The first to increase agriculture contribution is to transform or develop agriculture within the country, by setting up of thousands of world class farms. This will be achieved by associative agriculture or by consolidation of various small farmlands. In India most of the farmers perform substantial farming, i.e. producing enough for their self consumption, with the remainder of produce reaching the market. While they practice this type of farming, they implement outdated farming techniques which in return result in lower yield and thus income.

The solution to this is associative farming. This concept works on the principal of land consolidation, where multiple small farmers unite their land and work on it together. This would facilitate them in implementing modern techniques and technologies easily and thus increase their output and income.

CFVs

A variant of model farms where the association formed by the farmers is managed by a private firm that takes care of farming, marketing and export. This is a much efficient system as it increases the management level of the entire process, the firm will have better knowledge of the market, and greater resources.

In order to implement the government will first have to allocate agriculture development regions (ADRs), each with a minimum area of 200sqkm. The state government will then take these lands on a term lease, lets say 10 years and then it will asses the farmers income for the term and legalize a contract to pay twice the amount of his income for the term, in annual installments. Farmers shall remain the land owners.

Now the next, most major step is that the government will invite corporate farming ventures (CFVs) to work on these ADRs and in return the CFVs will pay the amount promised to the farmers. The farmers may also work on the farms with their labor rights still intact. The CFVs would then implement new technologies and investment to produce high quality market products.

Rural Entrepreneurs

After some time, the practices implemented by the CFVs would spread in the adjoining areas and soon the farmers who themselves worked with/under the CFVs would start to pool lands together and start practicing the same techniques by forming rural associations for collaborative farming. Thus, this project will educate millions of farmers turning them into rural entrepreneurs and increase the technological level of agriculture practices. Meanwhile the ADRs would contribute massively to production growth and exports effecting the economy at both rural and national level.

These concepts or ideas would help in replacing many old government schemes and policies that believed in slow progress and focused majorly on economic growth rather than on economic development. Plus, these projects would require some important structural reforms like relaxation of labor laws and changes in land consolidation laws, along with tax subsidies for certain ventures like CFVs.

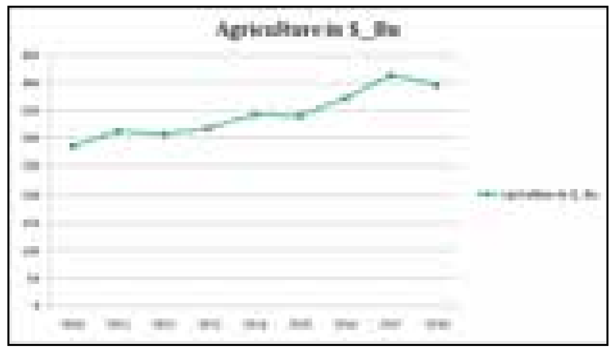

Figure 2: Agriculture sector ($ US) : (2010-2018)

3.2 Industrial Sector

The industrial sector i.e. majorly manufacturing sector of it contributes 70% to the net exports of India. India has a bright future in the manufacturing sector as tension intensifies between USA and China, in the form of trade war. The trade war between China and the USA has resulted in global tension, leading to an eminent danger of global recession in 2020, as per UN reports.

With the trade war intensifying, India has massive scope in the manufacturing sector with multinational organizations looking for other countries to setup manufacturing hubs in India. Even many investors, would like to take advantage of this situation and invest in a market which is much more stable. India has been suffering from capital deficiency since 2008, when state banks dished out credit to boost infrastructure growth, but the companies failed to comply with the annual repayment of the loans. With the opportunity knocking at the door India must try its best to recover this deficit, to get its economy on track and running.

With India's ambiton to achieve the $5 Trillion economy, it is estimated that the industrial sector will have to contribute around $1 Trillion to the GDP. As of 2018, the Industrial sector contributed $727.163 Billion, to the GDP in 2018.

The goal isn't difficult to achieve, but still in order to make up the gap India needs to work on its manufacturing i.e. it needs to start large scale production of various goods.

These goods include:

- Capital goods
- Technical goods; biologics, nanotech, special equipments, innovative devices, etc.
- Electronic goods; TVs, phones, computers etc.
- Fashion wear and other household goods; clothing, footwear, furniture etc.
- Defense and space.

With the mass production of such goods, India will be able to generate employment for its unemployed labour force. The employment of these labours will increase their income and make them a part of the active consumer market. An increase in consumer market will result in an increase in market demand, which in turn increase the aggregate demand. As the companies will increase production to meet the growing demand. This will result in a profitable cycle of economic growth. Which in turn will lead to economic development.

India has every opportunity to become a manufacturing hub as it has all the resources available for this purpose and the international environment has provided India with a golden opportunity like the trade war between China and USA. Its upto us, as to how much we can benefit from it. In order to utilize this situation fully, India needs to attract the MNCs and investors, by proposing methods like reduced corporate tax, land tax etc. Plus, relaxation in labour laws is necessary in order to provide flexibility and ease to companies. Such measures would help India boost its manufacturing sector, which in turn would increase its contribution to the GDP as well as exports, which in turn will help in increasing revenue.

Figure 3 below depicts the growth of the industrial sector in India since 2010 till 2018.

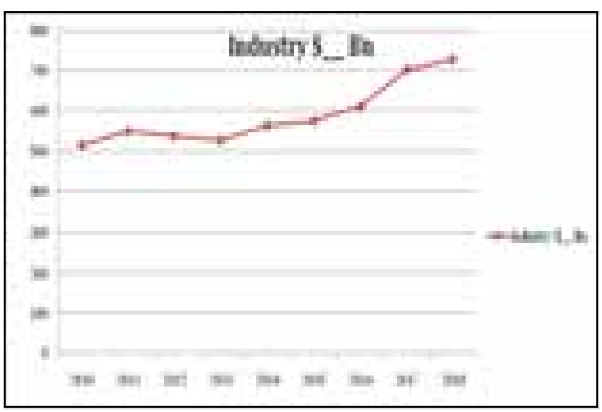

Figure 3: Industrial sector ($US): (2010-2018)

3.3. Services Sector

As of 2017, the service sector contributed 48.451 % to the GDP standing at a value of $ 1.271 Trillion. The services sector is the real hero of the Indian economy, backing it by its massive contribution both in employment and revenue. Even though, it contributes around 50% to the economy, yet it only generates around 30% of the employment in India. Which means that it still hasn't performed at its full potential. According to recent studies, the services sector must contribute around $ 3 Trillion to the Indian economy in order to reach the $ 5 Trillion benchmark.

Within the services sector, the IT sector has been the superstar, by contributing around 80% of its $ 150 billion revenue to exports. But black clouds hover over these figures, as most of the IT sector revenue comes from US and with trump in power the future seems dark due to anti India policies and measures. But this tension can be reduced by improving bilateral relations with economic giants like USA, UK, Germany, China, Japan, Singapore and trying to draw investment from these nations and boosting employment.

With a golden history both economically and culturally, India has lot to offer to the modern world in the travel and tourism sector. With two wonders of the world situated in India, it has thousands of other tourist sites which can draw and boost tourism in the country. The tourism sector as per the current data, contributes around 10 % to the GDP and has created around 40 million jobs. Being the keeper of thousands of historical destination and other geographical experiences, India could grow its travel & tourism sector manifold, by targeted investment in infrastructure and service development such as budget hotels, medical tourism, tourist safety and global advertisement and marketing. The investment can also be directed towards increasing connectivity like railways, airways, roadways and transportation system to the tourist locations in order to increase the reach and create employment and boost regional development,

Moving on to the health care sector, India has a bright chance in the global healthcare sector as a global job provider. The global healthcare sector is a $8 Trillion industry which will require around 100 million health and sanitation workers in the next 15 years. According to the proposal laid down by Dr Devi Shetty , India could covert its 600 district hospitals into medical schools and colleges, and set a target to train around 5-10 million doctors and other medical specializations in order to meet the global demands. These professionals could in turn provide a return on investment to the nation as $100 billion revenue or more per year. In addition to this the government shall also provide easy to access visa facilities to patients and also assist professional NRIs and other experienced medical specialist to perform surgeries and operations at identified hospitals within India.

The construction sector, which is the second largest keeper of Indian labour and employment after the agriculture sector has been the flop star, even though it contributes around 8% to the GDP. Lately its growth has dipped as a result of decline in infrastructure development projects due to lack of investment, topped with frauds. The sector is cursed with frauds, illegal dealing and lacks transparency. In order to get this sector back on track, the government needs to increase its transparency along with regular legal surveys and actions against the frauds. With legal measures in place, the government can attract FDI which would help boost the sector and also increase employment.

The education sector can also be modified by allowing foreign institutes to set up campuses in India and provide ease in visa access to students.

Change in all these sectors can help bring an aggregate change in the service sector and help increase its contribution to the GDP from $ 1.3 Trillion to around $3 Trillion. The services sector will have to play the role of the superstar in the Indian economy, just the way it does in other developed economies.

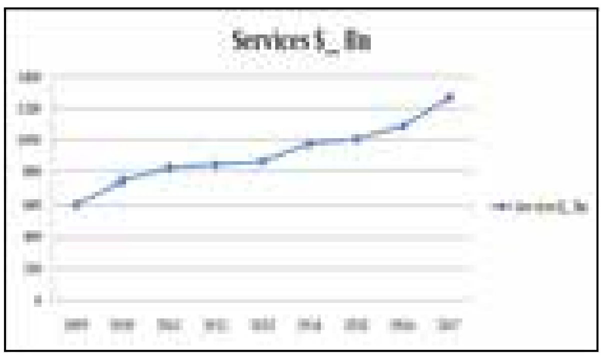

Figure 4: Services sector ($US): (2009-2017)

4. Conclusion

With the world betting against the achievement of the $ 5 Trillion economy by 2024 and views clashing over the ambitious goal, India has an opportunity to prove its metal by project driven development and initiatives in all the three sectors. The major stars being the Industrial and Services sector having great potential, in expanding manifold. The expansion of these two sectors would help India boost its exports, immensely which in turn would increase its revenue. This increment in revenue can once again be re invested into the subsidiary sectors to increase their shares in the three major sectors.

Apart from the increase in revenue, these sectors will also generate more employment, providing the economy much stability and keeping unemployment and inflation in check. The working class in turn could boost the tax revenue of the government, providing it a larger budget for undertaking larger investment projects within the country. Lack of investment being the major challenge, that the Indian economy faces today.

Plus, these economic measures need to be backed by modernization of certain structural reforms like land leasing and consolidation reforms etc, in order to provide ease of expansion and functioning of each sector within the economy. The reforms would help the sectors grow rapidly, indirectly contributing to the goal.

Thus, a planned and well organized sectoral growth mapcould lead the Indian economy into a prosperous cycle of economic growth and development, which it requires to reach the ambitious goal of $ 5 Trillion economy. The major two uneconomical factors that we need in order to achieve this goal are 100% execution and 200% dedication.

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