

Why becoming a \$2.5-trillion economy will not be enough for India

India's GDP is expected to breach the psychological \$2.5 trillion barrier for the first time in 2017, making it the sixth largest economy in the world. These numbers are another vindication of the forward march of India as an important player in the global economy. This progress has come on the back of economic reforms, which gathered steam more than 25 years ago. That political competition did not derail the consensus on the broad direction of economic policy has been crucial in achieving this feat. While our policy makers deserve credit, it is important to realise that a lot more needs to be done. Two aspects of this challenge are worth underlining.

Thanks to our large population, India is still a laggard when it comes to per capita GDP levels in the world. India also does much worse compared to many smaller countries on the Human Development Index, which takes into account life expectancy at birth and average years of schooling. All this means that average living standards of the people continue to be low.

Large economies do not operate in isolation. They must keep track of changing geopolitics. Hence it is necessary that one looks at India's economic rise in the past three decades in relation to what has been happening in China. In 1980, GDPs of India and China were 6.6% and 10.7% of the US's GDP. Things have changed drastically in the last 37 years. China's 2017 GDP is 62% of the US GDP, while India's GDP is just 13.5% of this figure. By 2023, IMF expects Chinese GDP to reach 88% of the US GDP, while India's would still be less than one-fifth of the US figure. It would be naïve to assume the growing economic mismatch between India and China does not have a role in the latter's increasing interventions in our neighbourhood.

Political competition in a democracy often makes it difficult to prioritise long-term interests over short-term gains. China does not face such constraints. For example, it has forced its farmers into adopting measures for water conservation. In India, political parties compete in offering free electricity and water to farmers, which although beneficial in the short run have played havoc with the environment. Can India reorient its political competition to address long-term challenges to development? Some amount of vanguardism would not be bad on this front.

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