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Becoming a Five Trillion Dollar Economy by 2024: A Roadmap for India

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Summary

The Indian government has announced its desire to boost the economy to a level of US$5 trillion (S$7.16 trillion) by 2024. While fixing a bold target is commendable, the government must lay out the roadmap designed for each of the major sectors. Such a roadmap should have measurable milestones and should be put out in the public domain.

Introduction

Prime Minister Narendra Modi has declared that the goal of his government is to make India a US$5 trillion (S$7.16 trillion) economy by 2024. He has himself stated that while this may be a challenging task, it is certainly achievable with the concerted efforts of the centre and states. This announcement kicked off a cacophony of voices. Most were in the form of debates on the feasibility of such an attempt. A debate is indeed apposite, as it can trigger opinions and thereby throw up suggestions when conducted in a constructive mode. The issue is not whether it is achievable or otherwise. The reality is that the economy is slowing down, unemployment is rising, demand is getting sluggish, and both manufacturing and services sectors are showing signs of slowdown. Hence, setting out and achieving inspirational and ambitious goals are needed now more than ever. The need of the hour is to lay down a roadmap, fix measurable milestones and, while monitoring with a hawk's eye, show alacrity in taking corrective measures where the milestones show time overruns.

The roadmap will have to target a 12 per cent nominal growth in gross domestic product (GDP) [eight per cent real GDP and four per cent inflation) to ensure that, from a level of US$2.7 trillion (S$3.86 trillion), India will reach a level of about US$5 trillion (S$7.16 trillion) in 2024. The Central Statistical Office's GDP data shows that the economic expansion that began in 2014-15 peaked in 2016-17 at 8.2 per cent. Growth declined to 7.2 per cent in 2017-18, 6.8 per cent in 2018-19 and further to 4.8 per cent in the first half of 2019-20. The Economic Survey has highlighted an economic model wherein savings, investment and exports operate in a virtuous cycle. To enhance savings and investment, at least three economic parameters need to be addressed. The first is increased domestic consumption, which will generate manufacturing, revive productivity of industries and hence encourage investment. It will then attract foreign investment and generate employment. The next is to draw employable age people to areas of gainful employment to bring about a favourable demographic dividend and thereby reduce disguised unemployment on farms and rural areas. Thirdly, the government will have to strengthen fiscal consolidation as it is committed to a glide path of reduction in the fiscal deficit. Besides these targets, certain 'big bang' reforms, which have long been discussed but not implemented, have to be immediately operationalised. These have to be in sectors such as modernising agriculture and increasing productivity, picking up the pace of infrastructure development, implementing much awaited banking, land and labour reforms and increasing tax and non tax revenue, such as disinvestment, among other major issues. This reform package will have to target certain structural issues and contend with the cyclical factors too.

Since achieving the US$5 trillion (S$7.16 trillion) target requires comprehensive, well synchronised and closely monitored action in all sectors of the economy, we proceed to outline those sectors which are of the highest importance and would constitute the core of an 'Action Programme'. Six of these are briefly discussed below.

Agriculture

The entire landscape of reforms – land, irrigation, agriculture credit, addressing various overdue problems of farmers across the country, subsidies, support prices and finding solutions to seasonal issues, such as stubble burning – need to be promptly addressed. Any policy designed to boost the economy will necessarily have to be premised on leveraging the huge agriculture base that India has. Agriculture supports the livelihood of 495.13 million persons and 100.7 million households that are directly dependent on farming.[1] Inclusive growth is not feasible unless agriculture grows at about four per cent while the overall economy grows at about eight per cent annually. In February 2016, the government set a goal of doubling farmer incomes by 2022 in real terms from the baseline income of 2015-16. Meanwhile, the government has announced a 16-point agenda to stimulate growth, which is comprehensive and consistent with the overall focus. However, its greatest stress is on linking farmers to markets and providing supply chains. The concern that arises is that about 86 per cent of farmers are small and marginal and more than 50 per cent do not have access to irrigation facilities. Crop productivity is abysmally low, and hence they are unable to generate marketable surpluses.

Low productivity is the basic shortcoming of Indian agriculture. This aspect is the one in need of most attention by developing a high yielding variety of seeds. States, particularly Maharashtra, have expended large amounts of resources on the creation of irrigation facilities, but the area under assured irrigation continues to languish at low levels. These are the only elements that will create a marketable surplus, which is where the supply chain kicks in. The worrisome factor is that, of two important items in the budget viz food and fertiliser subsidies, food subsidy provisions have been reduced from ₹1,84,220 crore (S$40.1 billion) in 2018-19 to ₹1,15,570 crore (S$24.35 billion) for 2020-21. Similarly, the fertiliser subsidy has been reduced from ₹79,998 crore (S$15.76 billion) to ₹71, 308 crore (S$14.32 billion) in the same period. The rationale for the reduction is not clear.

Meanwhile, the looming water scarcity crisis in the country has to be tackled on a war footing. India has only four per cent of the global fresh water resources, but caters to the water needs of about 17 per cent of the global population. Of the fresh water resources available in the country, about 78 per cent are used for irrigation (2010). Of this, 63 per cent comes from groundwater sources, 24 per cent from canals and about 13 per cent from other sources.[2] Hence, the rapid rate for depletion of ground water and declining water

1 Nabard, *All India Rural financial inclusion survey 2016-17*, Vol.1.
2 Central Water Commission 2014.

tables has to be urgently addressed. The policy of free/concessional power for irrigation has led to a rapid rate of depletion. Traditionally, sugarcane used to be grown in Uttar Pradesh and Bihar. Paddy growing areas were in east and south India, areas of high rainfall. With these crops having shifted to other areas, such as Maharashtra and Punjab, the load on fresh water has increased, as they consume about 60 per cent of available fresh water. Once the concessional rate or facility of free power for agriculture has been granted, no political party is able to withdraw it.

To counter this problem, the Punjab government has launched a programme devised to incentivise farmers to regulate the use of power for their tubewells. *'Paani bachao, paisa kamao'* (save water, earn money) was launched in Kharif 2018 as a pilot project. Under this scheme, farmers, rather than being given free power, were given the option of installing meters and not paying anything up to 200 units of horse power per month for Kharif and only 50 units for Rabi (as wheat consumes less water). The incentive in the scheme was to reward the farmer for consumption below the maximum free quota. Thus, for using 3,226 units less than a particular farmer's tube well consumes, the electricity board made a direct benefit transfer of ₹12,904 (S$245.15) @ ₹4/unit (S$0.08/unit) to his bank account.[3] There are various other measures such as regenerative work for river catchments as well as coordinating aquifers while persuading farmers to shift to less water intensive choices. In sum, water preservation, source regeneration and appropriate crop rotation schemes need to be urgently operationalised.

A limitation of space in this paper restricts issues of animal husbandry, dairy and fisheries from being highlighted. This sector is no longer a vehicle for merely securing livelihoods and alleviating poverty. A Food and Agriculture Organisation study has shown that a ₹1 (S$0.02) investment in the livestock sector can generate a return of ₹4 (S$0.08). Recognising this fact, the government created a full-fledged ministry for fisheries, animal husbandry and dairy in June 2019 (it was earlier part of the Ministry of Agriculture). This focus should encourage entrepreneurs to invest in these activities and create wealth. Farmers need not be treated as poor peasants. They have to be encouraged to be entrepreneurs. There is potential in Rural India and it needs to be tapped so as to provide an impetus to rapid growth in the GDP.

A roadmap with measureable milestones will have to be devised to address issues, firstly of land and crop productivity. This must encompass overcoming issues of smallholdings, ensuring adequate credit for cropping and marketing, bringing larger tracts under assured irrigation and balancing the use of fertilisers and pesticides. The second stage should encompass issues concerned with marketing, which should inter alia include: a warehousing and cold storage chain with negotiable ware housing receipts, liberalisation of farm markets and better rail and road facilities for access to markets/ports. Next would be the provision for storage and transport facilities on ports/ airports to facilitate exports.

It needs to be recognised that to achieve the target of a 12-15 per cent growth rate for a country as diverse as India, a one-size-fits-all strategy will not be useful. There should be state- and region-specific approaches, especially since agriculture is a state subject. The

3 Anju Agnihotri Chaba, "It pays to pay farmers to fix power problem", *Indian Express*, 17 July 2019.

capacity and efficiency of the agriculture, irrigation and cooperative departments in some states to work together in a synchronised manner is suspect. They will have to be brought under a common umbrella where the Union government takes the lead to guide and supervise them.

Infrastructure

According to finance ministry data, projects worth about ₹11 trillion (S$209 billion) remain 'stalled' for one reason or another. These are largely in the power, railways and roads sectors. The Task Force on National Infrastructure Pipeline has outlined a fairly aggressive target for investment in infrastructure over the next five years with the Finance Minister suggesting an amount of ₹102 trillion (S$1.94 trillion) in the next five years. Out of this amount, the Union government will contribute ₹40 trillion (S$759.66 billion) and the private sector about ₹20 trillion (S$381.25 billion). The government needs to have a 'doable' plan of action where it can rope in the private sector and the state governments to provide the funding required under the plan. It needs to be recognised that infrastructure projects tend to have long gestation periods and are lumpy and illiquid. There is therefore the added risk of lack of sufficient consistency of policy across governments (for example, Amravati development projects) and the earlier cancellation of power purchase agreements of power projects when governments change post elections. These factors reduce the private sector's appetite for funding infra projectors. Thus, even if we presume that the government would be able to find ways to raise its share of the US$6 billion (S$8.59 billion), that would constitute only 40 per cent of the solution. The approach to persuading the state governments and the private sector needs to be identified and activated soon.

A model that has been perfected and used very effectively in China, Hong Kong and South Korea is that of leveraging the land banks held by the municipalities. In India, the government, in the Railways, Defence and Cantonments as well as Public Sector Corporations, has vast stretches of unutilised land. Giving land development rights to private parties on long-term leases, or using land parcels as collateral – which could be monetised after development of the area at a substantially enhanced value – could help to raise sufficient debt. Additionally, local self-governments could project the value of land owned by them on their balance sheets and leverage it to raise debt. This has been attempted by municipalities in Karnataka and Kerala, and needs to be replicated. The private sector would be a willing participant in contributing funds to infrastructure development if the government de-risked revenue uncertainties and undertook credit guarantees while also providing an undertaking from political exigencies and statutory clearances within a time line. The effort required in providing confidence to the private sector in this will have to be huge, especially when seen in the context of the number of National Highways Authority of India projects that are languishing in courts/arbitrations. The putting of an option whereby the concessionaire has the right to seek a government takeout, or build in specific justiciable rights or sacrosanct contracts (if the project be delayed due to factors beyond its control) could revive risk taking. These are issues in need of close dialoguing with potential investors to ensure that projects are structured so as to generate sufficient confidence to attract investment.

In this context one remarkable case that seems to emerge is the huge quantum of funds available with municipalities. The Brihanmumbai Municipal Corporation (BMC) seems to have savings amounting to ₹78,919 crore (S$17.18 billion) which have been locked away in fixed deposits in various banks.[4] The issue is when the BMC is constantly under adverse public notice for poor drainage, pot holed roads, inadequate water supply, collapsed-over bridges and such other amenities, should it be putting the money collected from citizens in a fixed deposit? Every year, lives are lost due to these glaring inadequacies. As such, those in authority need to be questioned for such non-utilisation of funds.

Policy planners have to be cognisant that private sector banks have burnt their hands by taking on loss making infrastructure projects in the previous investment cycle, which has led to a loss of confidence in the providers of capital, thereby creating an averseness to infrastructure projects. The public sector banks have had similar experiences with the added spectre of investigative agencies chasing even non executive Board members for what could be an investment decision taken in good faith but which soured due to factors the promoter/lender could not control. There is thus a severe liquidity crunch among nonbank lenders and cautious foreign funding which will have to be surmounted. *The Infrastructure Yearbook 2019*, released by Crisil recently, has identified huge gaps in development infrastructure in sectors such as airports, railways, ports, power and water supply. Each sector requires a well structured and adequately funded roadmap for implementation to reach the target within five years. It will be very useful to the public and hold the bureaucrats/political executive accountable if the timelines and targets are placed in the public domain so that citizens can draw confidence from their prompt implementation. This is imperative for GDP growth of eight per cent to be achieved as all other sectors such as finance, tourism, exports, etc. would piggyback off of infrastructure development.

Role of Banks

If physical infrastructure is the backbone to support development, banks and financial institutions are the nerve centre fueling economic activity. If the former is the brawn, the latter is the brain. Banks have not been in the best of health and the earlier the situation is remedied, the quicker will be the economic revival. As of now government has only been pumping in funds into recapitalising public sector banks (PSBs), owing to the huge non-performing assets (NPAs) that have created craters in their balance sheets. After about 50 years of nationalisation, the share of PSBs in the share of credit of all scheduled commercial banks declined from 75 per cent in 2011 to about 59 per cent in 2019. In this period, the share of private sector banks almost doubled from about 18 per cent. In roughly the same period PSBs accounted for 85 per cent of bank frauds, while their gross NPA (GNPA)) exceeded ₹7.4 trillion (S$143 billion) in 2019.[5] The banks' GNPAs may rise from 9.3 per cent of total loans in September 2019 to 9.9 per cent in September 2020.[6] Estimates show that for every rupee of taxpayer money invested in PSBs in 2019, there was a lost value of 23 paise (cents), whereas for private banks it created value.[7] PSBs have been recapitalised with an amount of ₹3.19 trillion (S$66 billion) in the period 2014-19 and an additional Rs 70,000

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[4] "Axis gets Rs 1 crore out of BMC's Rs6300 cr savings this Jan", *Times of India*, 3 March 2020.
[5] Economic Survey 2020.
[6] RBI Financial Stability Report, December 2019.
[7] "PSBs Need a Tectonic Shift", *Economic Times*. 1 February 2020.

crore (US$950 million) [S$1.36 billion] has been set apart in the current fiscal year. These figures are illustrative of the fact that while PSBs are rapidly losing ground, the government's spending of good money to recapitalise them with concomitant reforms is not helping to regenerate economic activity.

The government has announced a slew of measures towards a reform agenda for these banks, the main being setting up a Banks Board Bureau (BBB), which was intended to morph into a Bank Investment Company – a holding company to which the government's stake holding would be transferred. However, the BBB has merely remained an appointments recommendatory body. The government separately announced the merger of PSBs, the last of which merged 10 banks into four, but the governance structure of these banks has not undergone any change as the government continues to drive their agenda, appointments and priorities. This is borne out by the announcement by government that PSBs would hold 'shamiana meetings' in 400 districts to enable smaller borrowers to access retail loans (reminiscent of 'loans melas' [fairs] in the late 1970s). Fortuitously, this plan was given the go-by when its misguided nature was realised.

The banking reform agenda needs to be addressed in totality and not in disjointed incremental steps if PSBs are to begin credit disbursement to retail and corporate borrowers. First and foremost, government will have to take a strategic look at its stake holding – will it continue to be above 51 per cent or will it be drawn down to 33 per cent? This decision should be premised on the capacity of the government to infuse capital in banks from budgetary sources, as any limitation on its ability to do so will constrict the capacity of the banks to grow. Secondly, the governance structure will have to be made free of governmental/political control. The BBB should be allowed to appoint their own Board members conforming to a 'fit and proper' criteria laid down by the Reserve Bank of India. Thirdly, the professional skillsets of bank staff – especially in risk management, credit appraisal and information technology – and HR professionals will have to be upgraded. Next, the fear of harassment by investigative agencies needs to be mitigated. Cases being referred for criminal investigation need to be vetted by an independent body of experts. Such a filter will provide confidence to banking professionals.

The reform agenda should ensure that the banking sector can put the worst behind it in FY2021 by completing bad asset resolution and aggressively providing for bad loans. Mergers already announced need to be completed expeditiously as the main stumbling block is always the HR culture among the merging banks. Unless the governance of PSBs improves, it would impede fiscal consolidation, affect fiscal stability and constrict credit growth, thereby becoming a drag on GDP growth.

Real Estate and Construction Sector

The size of the global construction industry is expected to be US$12.7 trillion (S$18.18 trillion) by 2022. India's share, within this, will be about US$640 billion (S$916 billion). The sector has received government support through the Pradhan Mantri Awas Yojana and the Credit Liked Subsidy Scheme. The latest move to bail out inefficient and profiteering private builders with ₹25,000 crore (S$5.37 billion) of taxpayers' money will unclog the sluggishness.

The sector has had its share of problems but continues to be a steady contributor to India's GDP. It employs probably the largest share of formal and informal labour. The sluggish growth in the last few years will begin to change in the construction landscape soon, going by the technological and disruptive changes occurring globally. Its potential to boost other sectors such as cement, bricks, iron, steel, transportation, etc., is huge. Construction activity has made technological upgrades with drones equipped with sensors and virtual reality visualisations; robots working with humans, eliminating repetitive and potentially dangerous activities, such as brick-laying; and 3D-printed buildings with the help of AI, anticipating and deflecting risks that human beings would have missed. New technologies and modular construction has the potential to bring in much-needed industrial-scale productivity. It requires the support of venture funds for a new generation construction companies that adopt non-traditional practices to recruit and retain skilled talent, offer higher pay and benefits to full-time employees and employ women into the male-dominated industry.

Labour Laws

Countries in the East and South Asian regions that have become manufacturing and export hubs have ensured high levels of labour market flexibility. This has enabled enterprises to take advantage of this flexibility, enlarge their scale of operations, avail of economies of scale by enhancing their production at economical cost and become suppliers of apparel, leather products, automotive parts, furniture, etc. This was instrumental in providing mass employment and disposal income for the labour class. India has taken a step in that direction with the legislations on the Code on Wages (2019) and Code on Occupational Safety Health and Working Conditions. These are key proposals towards easing compliance in the plan for single registration, single license and single return for establishments hiring at least ten workers anywhere in the country. This will improve India's ranking in the Ease of Doing Business index, as earlier this process involved obtaining licenses under eight labour laws. The Code on Wages Bill permits the state governments to fix their own minimum wages, which had been a major concern with the states, as wages must be free to adjust according to industrial and market forces.

India is poised to have a huge proportion of its youth having secondary level education and basic vocational and technical education. With the country unable to provide jobs at an accelerating rate, India may be facing a socio-economic problem with disheartened youth spilling on to the streets. Thus, the need of the hour is a comprehensive employment policy combined with incentives to boost the growth of medium and large firms. Combined with the support of a flexible labour policy, this will help in transforming disguised unemployed rural labour, boost incomes and ensure manufacturing activity.

Water

Access to fresh water is one of the biggest challenges of the 21st century. According to the World health Organisation, 1.1 billion people lack access to clean drinking water. Around 2.7 billion people experience water scarcity for about one month in the year. By 2025, two thirds of the world population will be living in water stressed regions. India has only four per cent of global fresh water availability but has 16 per cent of the world population. The

National Institution for Transforming India (NITI Aayog) released the result of a study on 18 June 2018 warning that India is facing its 'worst water crisis in history' and that demand for portable water will outstrip supply by 2030 if steps are not taken. Nearly 600 million Indians face high to extreme water stress and about 200,000 people die every year due to inadequate access to safe water. A total of 21 cities, including New Delhi, Bengaluru, Chennai and Hyderabad will run out of groundwater by 2020, affecting 100 million people, the study noted. If matters are to continue, there will be a six per cent loss in the country's GDP by 2050.

A major concern in the country is that India may lack an overall long-term availability of renewable water resources. While India's aquifers are currently associated with replenishing sources, the country is also a major grain producer with a great need for water to support food crops. Additionally, rural communities situated on the fringes of Tier 1 and Tier 2 cities have to drill wells to access groundwater sources, which adds to the overall depletion of water. Urgent steps have to be taken to replenish water sources for food and human sustenance, as India's sustainable water availability is running dry.

Conclusion

An accelerated growth of the economy will create jobs and provide disposal income to the citizens. Growth will also help generate tax revenue for the government, which can then spend enhanced amounts on health and education, which brings opportunity, equity and nutrition. It will help decrease child mortality and similar issues that India continues to struggle with. For the government to achieve the target of a US$5 trillion (S$7.16 trillion) GDP, a bold set of reforms will have to be implemented. More importantly, the citizens must cooperate in these efforts and adopt a collaborative mindset. The target is ambitious. We need to fix aspirational targets. Most importantly, we need to accept that this goal is reachable.

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