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# INDIA'S ECONOMIC DEVELOPMENT CHALLENGES

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## ABSTRACT

*The paper investigates into the big challenges that Indian economy faces in its economic developments to become developed country by 2047, 100th anniversary of independence. These challenges are hunger, poverty, malnutrition, jobless economic growth and unemployment, law per capita income, rationalising subsidies and increasing capital expenditure, moving large proportion of population engaged in low productivity farm sector to high productivity manufacturing sector and low women participation in labour force. In short run country faces rising inflation and challenge of maintaining the momentum of economic growth with policy rates hike by RBI in response to inflation. In the scenario of high inflation rates in developed countries and policy rate hikes by their central banks specially US Fed, there is gloomy picture for international trade. It will widen current account deficit (CAD). Inshort run rising inflation and widening CAD pose a challenge for economic growth. In Global Hunger Index (GHI) 2022 India ranks 107th among 121 countries. India 14.36% population is still multidimensionally poor, 32% children are under weight, 35% children stunted and, 19% children are wasted. Women participation in labour force is only 32 percentage. Unemployment rate is 7.33 percent. country will have to rationalise subsidies and increase capital expenditure. Climate change and increased frequency of extreme weather conditions badly impacted harm productivity. It will risk the food security of country. All the problems are big hurdles in economic developments. The policy measures, suggestions and recommendations emerged from the investigations includes big investment in health and education specially of women and children, limiting family size, increasing capital expenditure, doubling, even tripling spending in R&D in new technologies such as Artificial intelligence, Block Chain, Robotics … etc., skilling youth and increasing harm productivity.*

***KEYWORDS**: Developed, GDP, Inflation, Consumption, CAD, Poverty, Hunger, Export, Growth, Unemployment, Malnutrition, MDPI, Subsidies.*

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## Introduction

Chairing the G-20 presidency and International Monetary Fund's (IMFs) projection that India will be third largest economy by 2027 and India has registered the highest growth rate among G-20 countries sparing China has arisen a optimism that India will be developed country by 2027 at 100th anniversary of independence. Currently India is the fifth largest economy with GDP of 3.7 trillion. But India has many global and domestic challenges in short run and medium run to its growth to become developed country. After the revival of growth from pandemic induced contraction, the big challenges to growth and development are Russia- Ukraine war and policy rate hikes by central banks across world led by Federal Reserve of USA to curb inflation. The rate hike by USA Fed caused the capital flight from Indian capital market inducing inflation in country compiling RBI to policy rate hike. The sluggish growth forecast by IMF in China and advanced economies due to rate hike and inflation also pose a dim prospect for export growth. These will shrink market size and also cause widening CAD. These growth depressing factors have to be countered by domestically articulated policy measures. After pandemic rising domestic

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consumption boost up the growth replacing the export stimuli as the growth driver of economy, but it will have to be sustained in looming bad effect of El- Nino on rural population income. It will cause decline in farmers income and consumption demand. The capital expenditure of central government though rising, a sustained increase in private capital expenditure is also imminent. India is facing many real challenges at the front of unemployment, poverty, hunger, malnutrition, raising low per capita income, rationalising subsidies, skilling youth for employment and moving high population percentage employed in low productivity farm sector to high productivity manufacturing sector. As par NFHS-5 (2019-21) 32 percent children were under weight, 35 percent stunted, and 19 percent wated. Infant mortality is still 35 percent. Poverty rate is still 14. 96 percent as par MDPI prepared by NITI Aayog. India's labour market is experiencing considerable joblessness and lack of employment opportunities with very handsome GDP growth. There is no real increase in entrepreneurship. Women's participation rate in our labour force is at pitiably low rate at about 30 percent. Climate change and increasing frequency of extreme weather events pose a bigchallenge to India's food security and poverty alleviation efforts.

**India faces certain major economic challenges to become a developed economy by 2047**

**Jobless Growth**

Economic growth positively affects job creation. Country’s handsome growth is not generating commensurate job opportunities. There is phenomena of joblessness growth in Indian labour market. The unemployment rate is the best known labour market measure and certainly one of the most widely quoted indicator in many countries. The unemployment rate tells us the proportion of the labour force that does not have job, is available to work and is actively looking for job. India’s labour market is experiencing joblessness can be seen through the following data’s

**Year wise GAV’s Rates and unemployment rate percent**

| Years | Annual growth rates of GAV at Basic Prices | Unemployment Rate |
|---|---|---|
| 2014-15 | 7.2 | 5.40 |
| 2015-16 | 8.0 | 5.44 |
| 2016-17 | 8.0 | 5.42 |
| 2017-18 | 6.2 | 5.36 |
| 2018-19 | 5.8 | 5.33 |
| 2019-20 | 3.8 | 5.27 |
| 2020-21 | 4.8 | 8.00 |
| 2021-22 | 8.1 | 5.98 |
| 2022-23 | 6.7 | 7.33 |

Date Sources – CMIE, NSSO and Economic Survey Report

Data of above table shows that baring the years of pandemic, Indian economy is showing the remarkable GAV growth. But the scenario for employment is gloomy. Most of time baring some years country shown GAV growth above 7 percent, but country’s unemployment is always above 5 percent. It has risen 7.33 percent even GAV’s growth rate of 6.7 percent in 2022-23.

**Skilling youth and moving high population employed in low productivity farm sector to high productivity manufacturing sector**

A large segment of labour force (40.5%) of India is still engaged in agriculture sector comprising agriculture, forestry and mining. we are unable to move out our labour force form agricultural sector to industrial sector comprising mining, quaring, manufacturing, construction and public utilities. Industrial sector employed 24.8% of work force in 2017-18 and still in 2020-21 employs 23.9% of the work force. Even major part of workers employed in industry are employed in construction (12.1% in 2020-21) that is unorganised sector. Manufacturing employs only 10.9 percent of work force in 2020-21.

**Distribution of workers employed in various sectors in percentage**

| Year | Agriculture | Industry | Service |
|---|---|---|---|
| 2017-18 | 44.1 | 24.8 | 31.1 |
| 2018-19 | 42.5 | 25.2 | 32.2 |
| 2019-20 | 45.6 | 23.7 | 30.7 |
| 2020-21 | 46.5 | 23.9 | 29.6 |

Source – Periodic labour force survey (PLFS), MOSPI

**Percentage**

| Broad Industry Division as per NIC-2008 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|
| Mining & Quarrying | 0.3 | 0.3 | 0.3 |
| Manufacturing | 11.2 | 11.9 | 11.6 |
| Electricity water etc. | 0.6 | 0.6 | 0.6 |
| construction | 11.6 | 12.1 | 12.4 |
| **Total** | **23.7** | **23.9** | **24.9** |

Source- PLFS, MoSPI

**Low Women Participation in Labour Force**

Women labour force participation rate (LFPR) in India is very low comparing men's. From the table it is clear even though women participations in LFPR increased from 2017-18 to 32.5 in 2020-21. It is still very low comparing men's (77.00 percent in 2020-21)

| Years | Labours force participation Rate (LFPR) | | Employment of population ratio in India (ER) | |
|---|---|---|---|---|
| | Female | Male | Female | Male |
| 2017-18 | 23.3 | 75.8 | 22.0 | 71.2 |
| 2018-19 | 24.5 | 75.5 | 23.3 | 71.0 |
| 2019-20 | 30.0 | 76.8 | 28.7 | 73.0 |
| 2020-21 | 32.5 | 77.00 | 31.4 | 73.5 |

Source - PLFS, MOSPI

Employment to population ratio is also very low for women's. It was 31.4% in 2020-21 for women. While it is 73.5% for men. To increase the women's participation in LFPR we have to focus on Providing quality education to young women through liberal scholarship along with their skill formation.

**Poverty is Still a Big Challenge**

Even though country made possible to escape poverty 13.5 crore people between 2015-16 to 2019-21 according to multidimensional poverty India (MPI) prepared by NITI Aayog. There still 14.36 percentage of population living in multidimensional poverty who do not have access to proper health, education and standard of living.

**Percentage**

| Years | Head Count Ratio (H) | | |
|---|---|---|---|
| | Rural | Urban | All India |
| 2019-21 | 19.28 | 5.27 | 14.96 |
| 2015-16 | 32.59 | 8.65 | 24.85 |

Source -MDPI Report 2023 NITI Aayog

The sad picture is that 19.28 precent population of India in rural is still multidimension poor. Head count ratio of poverty is still high in many states. From the table below it is clear that ten states have poverty ratio above national level.

**Head count Ratio of Poverty**

| S.No. | States | 2015-16 | 2019-20 |
|---|---|---|---|
| 1 | Bihar | 51.89 | 33.76 |
| 2 | Jharkhand | 42.10 | 28.81 |
| 3 | Meghalaya | 32.54 | 27.79 |
| 4 | Uttar Pradesh | 37.68 | 22.63 |
| 5 | Madhya Pradesh | 36.57 | 20.63 |
| 6 | Assam | 32.65 | 19.35 |
| 7 | Chhattisgarh | 29.90 | 16.37 |
| 8 | Odisha | 29.34 | 15.68 |
| 9 | Nagaland | 25.16 | 15.43 |
| 10 | Rajasthan | 28.86 | 15.31 |

Source -MDPI Report 2023 NITI Aayog

**Challenge of Malnutrition, Hunger and Gender Equality**

Data of NFHS-05 (2019-21) Show that even though sex ratio of total population improved from 991 (NFH-4) to 1020 in NFHS-5 but sex ratio at birth though improved from 919 (NFSH-04) to 929 (NFHS-05) it is still low. 13.6% percentage of children is not joining pre-primary schooling. Data show only 41% women were with 10 years or more schooling and ratio for men is 50.2%. The 23.3% women of age 20-24 responded that they were married below the age of 18 years and 17.7% men of age 25-29 responded that they were married below the age of 21 years. This show that child marriage are still prevalent in country. Data of nutrition are not encoursing. As per NFHS-05 IMR is 35.2 percent, NNMR is 24.9% and U5MR is 41.9%, 35.5% children are stunted, 19.3% are wasted, 7.7% are severely wasted, 32.1% are underweight. Progress in these indicators is not very satisfactory. This is real challenge for government. For this government will have to increase health coverage with proper and effective monitoring.

| S. No. | Indicators | NFHS-05 2019-21 | NFHS-04 2015-16 |
|---|---|---|---|
| 1 | sex ratio of total population | 1020 | 991 |
| 2 | sex ratio at birth for children born in lost five years | 929 | 919 |
| 3 | Children age of 5 years who attended pre-primary schooling during the years (2019-2020) | 13.6% | NA |
| 4 | Women of age 15-49 who are literate | 71.5% | NA |
| 5 | Men of age 15-49 who are literate | 84.4% | NA |
| 6 | Women of age 15-49 with 10 or more years of schooling | 41.0% | 35.7% |
| 7 | Men of age 15-49 who are with 10 or more years of schooling | 52.2% | 47% |
| 8 | Women age 20-24 years married before age of 18 years | 23.3% | 26.8% |
| 9 | Men of 25-29 years married before age of 21 | 17.7% | 20.3% |
| 10 | Neonatal mortality rate 6 per 1000 live births (NNMR) | 24.9% | 29.5% |
| 11 | Infant mortality rate (IMR) per 1000 live births | 35.5% | 40.7% |
| 12 | Under 5 age mortality rate (U5MR) per 1000 live births | 41.9% | 49.7% |
| 13 | Children under 5 years who are stunted | 35.5% | 38.4% |
| 14 | Children under 5 Years who are wasted | 19.3% | 21.0% |
| 15 | Children under 5 Years who are severely wasted | 7.7% | 7.5% |
| 16 | Children under 5 years who are under weight | 32.1% | 35.8% |

**Low Per Capita Income**

People welfare and their quality of life is measured by per capita GDP at constant prices and in PPP terms. it is clear from the data of table below that country has been successful in increasing national income by 29.76 times after independence. But we are able to increase per capita net national income by 7.72 times. It is big failure. India's per capita income among G-20 countries is lowest in both dollar ($2601) and PPP ($9073) terms. This was because we are unable to control our population Our neighbour China benefited from its one child policy raising its per capita income to ($23382)

| Year | Net National Income (In crore) At 2011-12 Constant Prices | Per capita national Income (In rupees) At 2011-12 Constant Prices |
|---|---|---|
| 1950-51 | 448483 | 12493 |
| 1970-71 | 1011757 | 18702 |
| 1990-91 | 2292078 | 27319 |
| 2000-01 | 3924698 | 38515 |
| 2020-21 | 11536004 | 85110 |
| 2022-23 | 13347932 | 96522 |

Source – Economic Survey 2022-23

**Challenge of Rationalisation of Subsidies and Increasing Capital Expenditure**

India spends a major share of its budget on subsidies. In 2023-24 budget country spend 7% of budget expenditure on subsidies for food, petroleum and fertiliser. However India's capital expenditure is rising and reached 2.9% of GDP. It is still very in percentage. Country still spend only 19% on capital expenditure of total central government expenditure.

| Year | Union Government capital expenditure to GDP ratio | Share of capital expenditure in total expenditure of union Government |
|---|---|---|
| FY 21 | 2.2 % | 12.1% |
| FY 22 | 2.5 % | 15.6 % |
| FY 23 | 2.9 % | 19.01 % |

Source – Economic Survey 2022-23

| Budget | Share of Subsidy in Budget Expenditure |
|---|---|
| 2021-22 | 9% |
| 2022-23 | 8% |
| 2022-24 | 7% |

Source – Budgets 2021-22, 2022-23 & 2023-24 Indian Central government

**Challenge of sustaining economic growth with high inflation**

The world-wide inflation and policy rate hikes by central banks of developed countries raised the risk of capital flight, inflation and widening CAD in India. All these factors will depress economic growth of country that is seen in growth projections of various agencies for FY23.

**India's growth projections by various agencies for FY23**

- RBI-6.8%
- IMF-6.8%
- Word Bank – 6.9%

In response to contain inflation RBI has raised repo-rate from 4% to 6.5%. Word wide inflation pose a dim picture for trade. So to sustain the economic growth, country will have do increase domestic consumption, capital expenditure and sustain the path of fiscal consolidation.

**Challenge of Climate Change**

Climate region, in which India is located makes country most vulnerable to extreme climatic events in the form of heat waves, flood, drought and rising sea level. It will unpredictably adversely impact the lives of farmer and fishers due to impact on farm productivity. The India is actively working to mitigate the bad consequences of climate change and adopted ambitious climate action goals with its development goals. Climate change is world wide phenomena. So effort will have to be made by whole world in a synchronised.

**Policy measures and suggestion**

- Investments in labour intensive sectors such as small scales industries.
- Development of local resource base industries.
- Skilling youth and enhance their productivity to reap the demographic dividend.
- Big investment on women health and education.
- Investment in research and emerging technologies such as AI, Block Chain, robotics… etc.
- Sound synergy between fiscal and monetary policies to sustain economic growth.
- Smart climate change mitigation policies and programmes.

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