BRIDGING THE GAP: POLICY REFORMS TO OVERCOME INDIA'S ECONOMIC BOTTLENECKS

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ABSTRACT

India is considered to be on track to become an economic superpower by 2047, and some say it's already become a prominent player in the global economy. Here are some reasons why; Indian's population is expected to reach 1.67 billion by 2050, which is larger than China's and the US's combined. India has the world's second largest labour force with 476 million workers. India's economy is growing quickly and is more than twice as fast as most emerging market economics. In 2024, Forbes India ranked India fifth in the world for GDP, and it's expected to be the third largest economy by 2027. India's economy is fuelled by many sectors, Including information technology, services, agriculture and manufacturing. India offers lower tariffs and labour costs, as well as government incentives, which attract investors, policyholders and businesses. However, India still faces challenges, such as a global economic slowdown and income inequality.

Keywords: Global Economy, Tariffs, GDP, Economic Slowdown and Income Inequality

INTRODUCTION

1. GDP Analysis

India is now the fifth-largest economy, over taking the United Kingdom. When we talk about the Indian economy, we become extremely optimistic, quoting "India as the next economic superpower." But when we compare the per capita income of the top five emerging economies, India is a long way from becoming an economic superpower. However, India has shown impressive growth, but it lags behind its rival China. The history of Asia can be read by comparing the Indian and Chinese economies. According to World Bank figures in chained dollars, in 1980, India's gross domestic product was 64% of China's. By 2001 when China joined the World Trade Organization, India's economy was only 28% as large as China's. And, despite several years of rapid growth in the 21st century, by 2021, India's economy had fallen even further behind and equalled 17% of the Chinese economy. That's because China's GDP growth has always been higher than India's in the past.(Rath, 2018)

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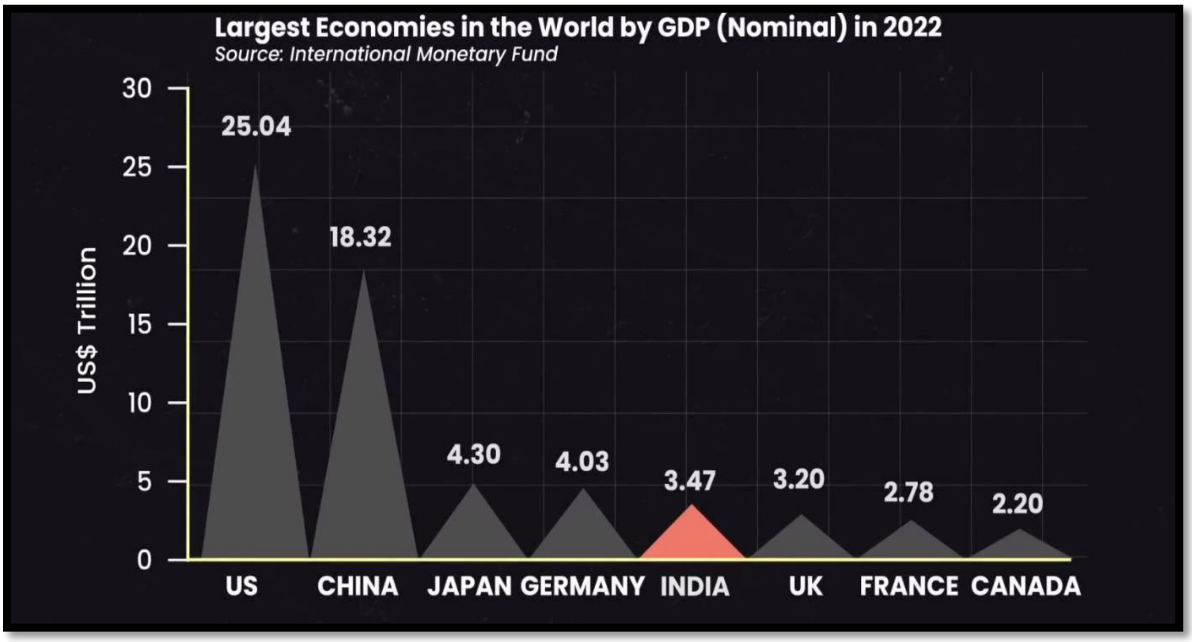
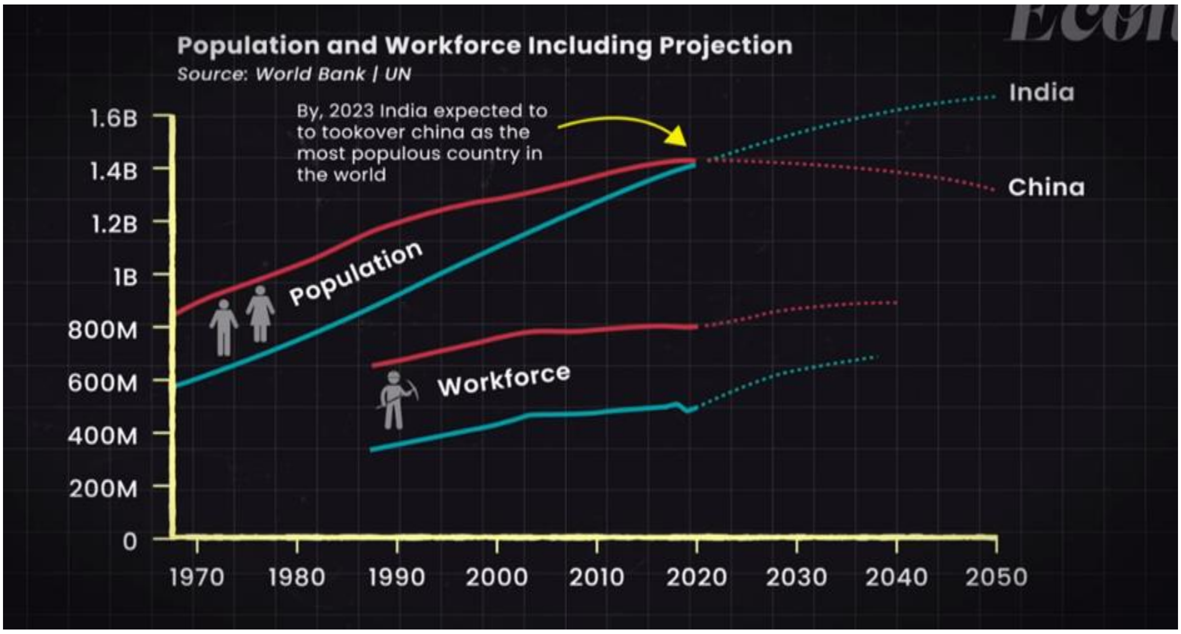


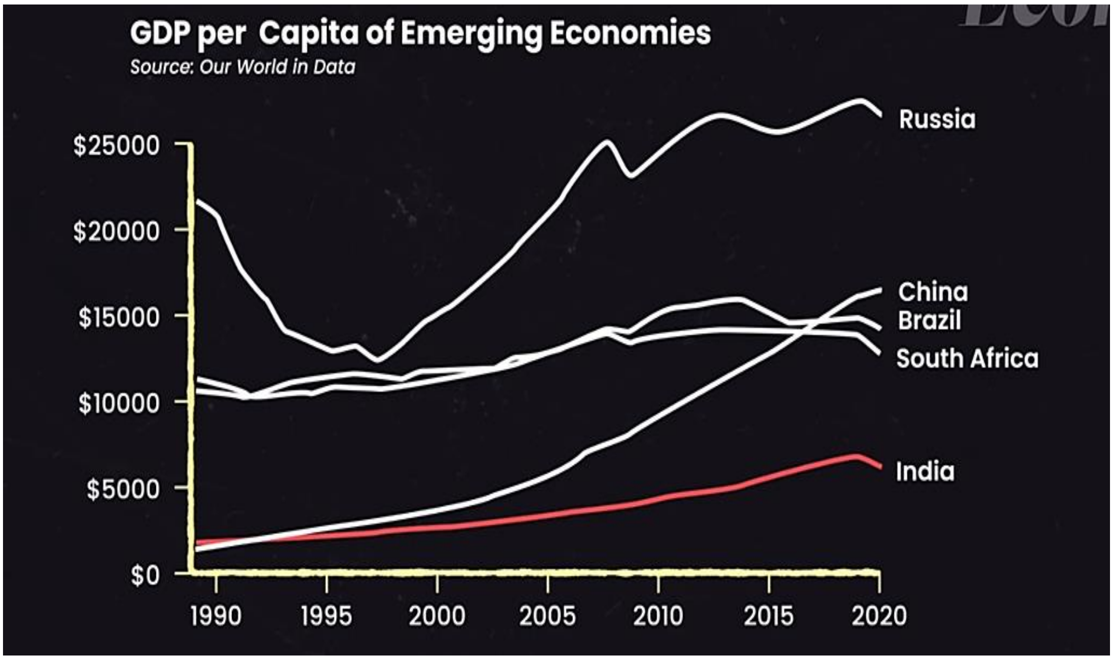
If India's economy had kept pace with China over the past 40 years, India would currently have a GDP of $10 trillion instead of $3.47trillion. But this is not the case

2) Population Problem

However, India would surpass China in one thing: population. But according to some projections, its workforce will not exceed China's until mid-century, even though Indians are much younger India has more than 50% of its population below the age of 25 and more than 65% below the age of 35. It is the country's strength as well as its weakness.

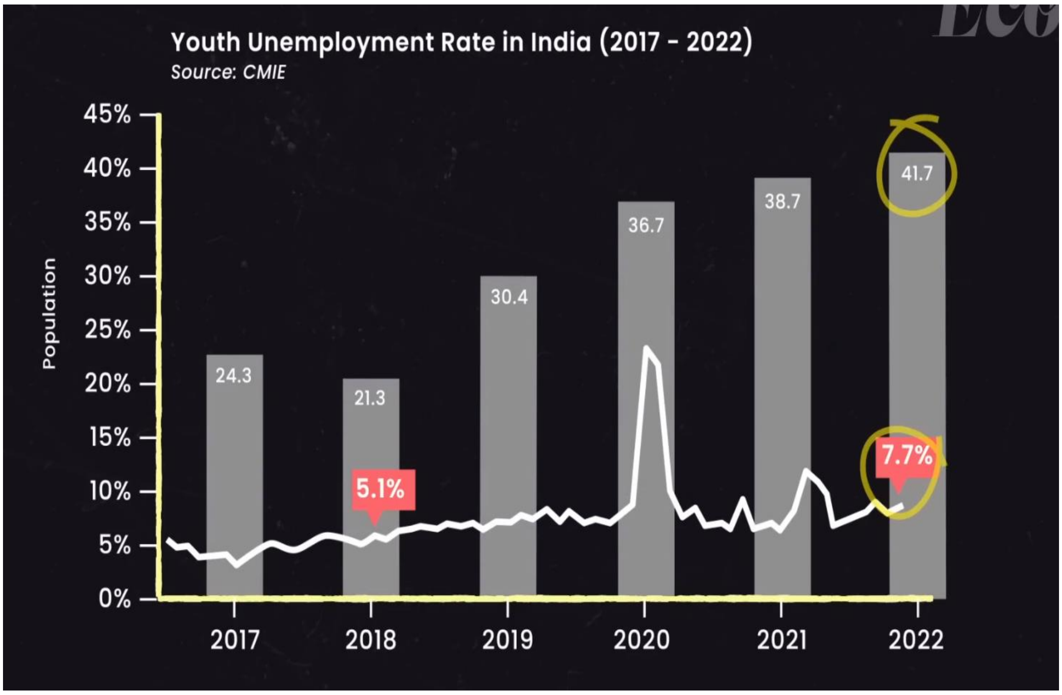


(*Un_2017_world_population_prospects-2017_revision_databooklet.Pdf*, n.d.)



3) Lack of Job Opportunities

According to the Centre for Monitoring Indian Economy, a private research firm that publishes more recent data than official numbers, the jobless rate has been hovering around 7% or 8%, up from around 5% over the last five years. And According to the CMIE, the labour force participation rate — which includes persons who are employed or seeking employment — has fallen below 40% from 46% six years ago. This chart shows India's youth unemployment rate is 40%,



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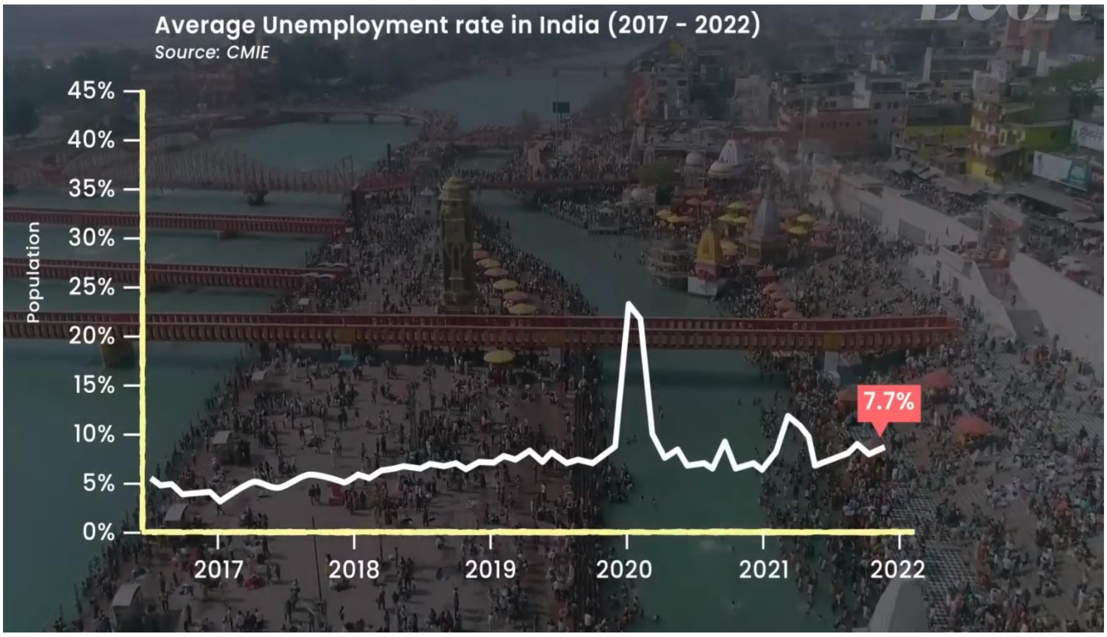


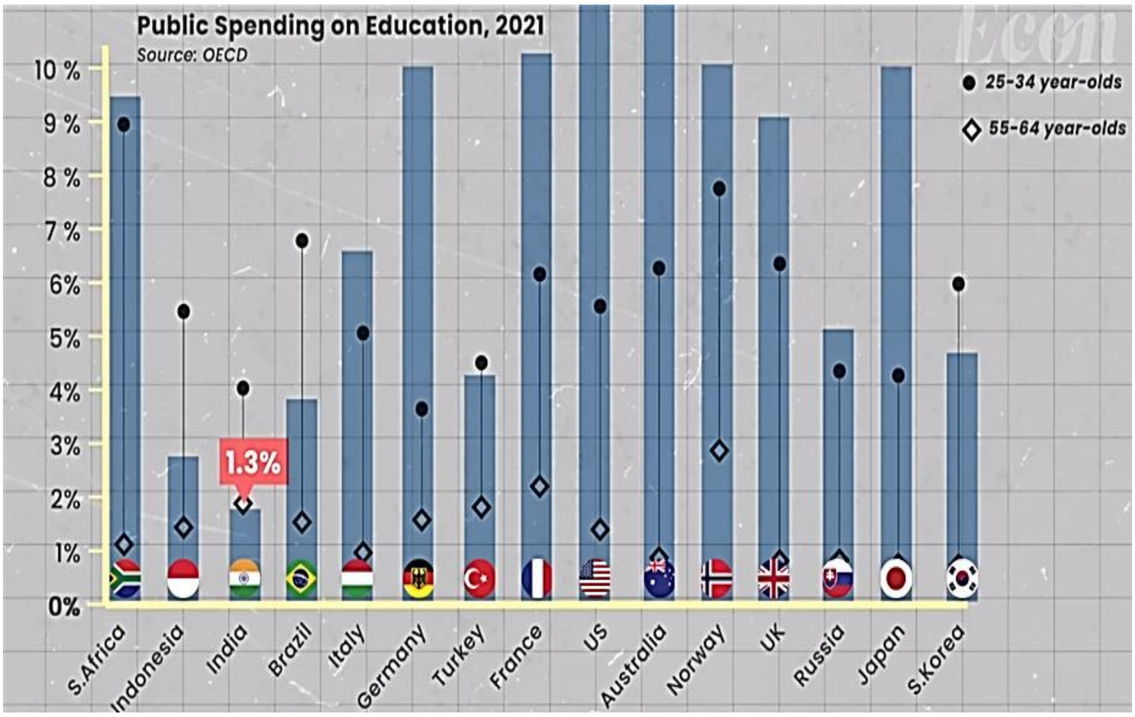
Much higher than the overall rate of 7.7%. If you include household adult women, threat would be significant higher. A rise in female employment rates to the male level would provide.

4) India's poor education system and job training

India with an extra 235 million workers. This is more than the EU has of either gender or more than enough to fill all the factories in the rest of Asia. Think about the repercussions. If India rebalanced its workforce in this manner, the IMF believes that the world's largest democracy would be 27% richer. It is not unusual in developing economies for a family's social standing to be enhanced by having its women remain at home.('India', 2024) But India stands out, as its female labour-force participation rate is well below those of countries at comparable income levels. For example, in neighbouring Bangladesh, whose customs are not so different from India's, a boom in garment manufacturing has increased the number of working women by 50% since 2005. In Vietnam, three-quarters of women work. But the mega-factories that boosted female employment there are largely absent in India. The problem is the lack of employment opportunities. The so-called 'India's World-Beating Growth 'isn't creating Jobs. A big part of the problem is India's poor education system and job training, which means local degrees and certificates are often considered worthless by employers. These data show only 20% of the population in the age group of 25 to 34 is in high-skill professions such as medicine, advanced research, with more vocational programs leading to the labour market. India's youth failed to get skills and education because of its government. The Indian government only spends an average of 2% of its GDP on primary to post-secondary education, which is very low compared to Brazil and South Africa. India is also among the countries with the lowest public expenditure on health care, at only 1.3% of GDP. India is failing to provide two key components of human development: education and health.(*World Development Indicators | DataBank*, n.d.)

5) Declining labour productivity

Labour productivity is declining. Labour productivity is most important factor for improving the living standards of people in the economy. As an economy's labour productivity grows, it produces more goods and services for the same amount of relative work. This increase in output makes it possible to consume more goods and services for an increasingly reasonable price. If we compare the GDP per hour worked of BRICS countries, India has the lowest level of productivity. China's productivity took off in 2000 because when its technocrats decide to dam a river, build a road or move a village, the dam goes up, the road goes down, and the village disappears. The displaced villagers may be compensated, but they are not allowed to stand in the way of progress. China's leaders make rational decisions that balance the needs of all citizens over the long term. This has led to rapid, sustained growth that has lifted hundreds of millions of people out of poverty. But this is not the case with India. Infrastructure, such as roads and power, and public services, such as education and drinking water, are woefully inadequate and limit growth. India's top computer scientists are entertained around the world, yet most children in rural areas lack the basic education needed to find more productive work. A popular argument is that other Asian economies grew by 8–9% for long periods, so why not India? But this East Asian economy invested much more in education and infrastructure than India does today. Regarding infrastructure, the Indian economy has seen unstoppable growth in fixed capital formation, including land improvements, plant, machinery, and equipment purchases, and the construction of roads, railways, and commercial and industrial buildings. Still, since 2007, it has fallen from 36%to 29%. Several factors that have led to the decrease in fixed capital formation include policy uncertainty, financing problems, weakness in private investment, and a slowdown in the banking sector.



6) Decreasing Foreign Direct Investment

The most important factor is the fallen foreign direct investment (FDI) since 2008; FDI has fallen from 3.6% to 1.4%of GDP. The government needs to increase the amount of FDI to as much as 6% of the gross domestic product to help spur the economy. It's important for the government to implement policies and initiatives to attract foreign investors, such as making it easier to do business, providing tax incentives, and streamlining the investment process. Prime Minister Narendra Modi could not double the size of the economy to $5 trillion by 2025 while promoting self-reliance and keeping government revenue under pressure. In the last 10 years, the government's fiscal deficit, which is the difference between the government's total expenditure and total revenue (excluding borrowing), has grown. This

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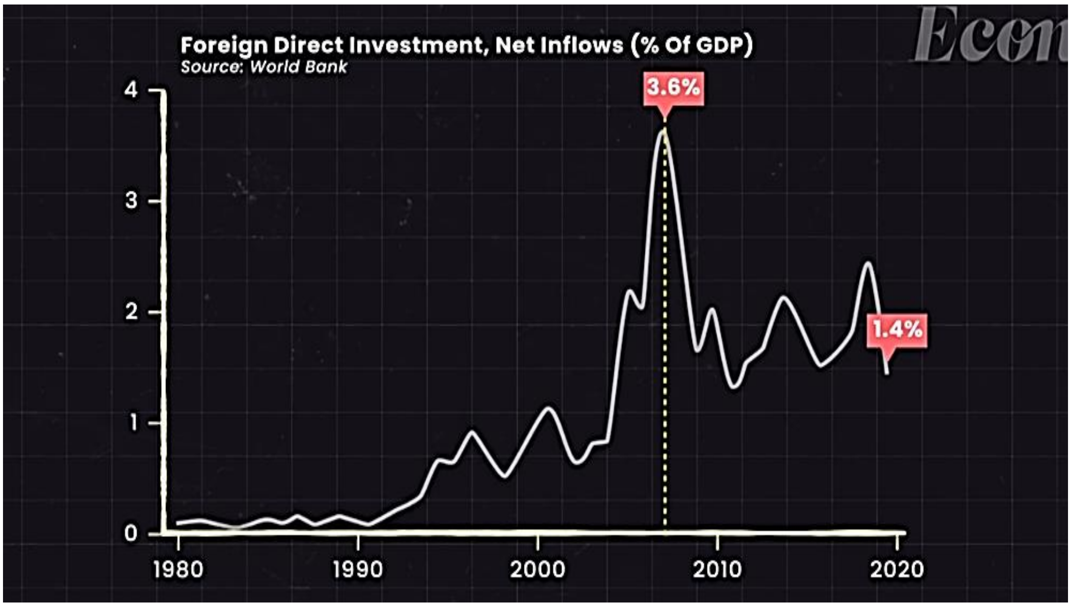
has led to pressure on the government's finances and raised concerns about the sustainability of its spending programs. The increasing fiscal deficit also impacts the country's credit rating and borrowing costs. If the deficit continues to grow, it could lead to higher inflation and interest rates, which could further slow economic growth. Moreover, it could also increase the government's dependence on borrowing, potentially leading to a higher debt-to-GDP ratio. India's debt-to-GDP ratio is around 90%. This indicates that the country has a relatively high level of government debt compared.

Its economic output However, India's debt-to-GDP ratio is notes high as that of some other countries. Credit rating agencies like Moody's, Standard& Poor's, and Fitch Ratings gave India a stable rating, which is considered investment-grade ratings. This indicates that the agencies believe that India has a relatively low credit risk and a stable outlook for its economy. Another crucial area to push forward is exports. According to this report, India's current-account balance widened to the highest in nearly a decade as the nation's trade gap ballooned and foreign investments fell. The current account, the broadest measure of the country's overseas trade and service.



Flows, was in a deficit of $36 billion, or4.4% of GDP. India's current account deficit has been matter of concern in recent years. The country faces a persistent trade deficit and increased payments for imports, leading to a widening gap between inflows and outflows.

7) Fiscal Deficit

According to the Financial Stability Report, the widened trade deficit reflected "the impact of slowing global demand on exports, although global demand has slowed, Indian consumer demand is rising. This consumer confidence index shows the level of optimism or pessimism among households about the overall state of the economy and their personal financial situation.

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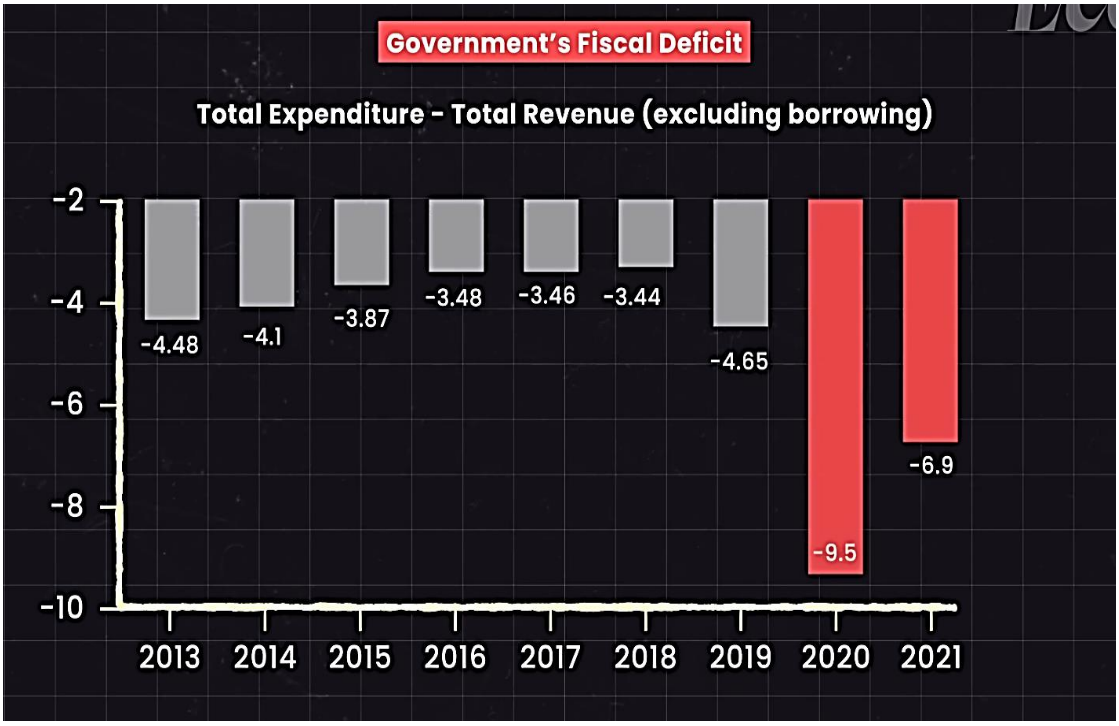

It is typically calculated based on surveys of a representative sample of households, in which they are asked about their views on current and future economic conditions, employment prospects, and their spending and saving patterns. The index is used as an indicator of consumer spending.

8) Government Debt to GDP

Which is an important driver of economic growth, Consumption may raise further as inflation falls and Indians' purchasing power rises but capital spending and manufacturing are what really matter—they boost current growth and the economy's potential. Manufacturing for the world market has not been India's strong suit. Rickety infrastructure, expensive and unreliable electric power, complicated labour and land laws, and a frustrating bureaucracy prevented India from joining previous waves of Asian industrialization. Japan, South Korea, Taiwan, Singapore, Vietnam, and of course, China all outperformed India in the race to industrialize. Today, however, a confluence of international and domestic factors is giving India a chance to catch up. Internationally, manufacturers are looking to reduce their dependency on China. Domestically, the populist government of Prime Minister Narendra Modi wants broader prosperity than the cyber economy on its own can provide. Years of investment in highways, railroads, and ports combined with regulatory reforms have reduced, if not eliminated, the obstacles that long kept foreign investors at bay. Investing in human capital can also help address several other challenges facing India, such as the need for a more skilled and productive workforce and the challenge of creating decent jobs for the growing population.

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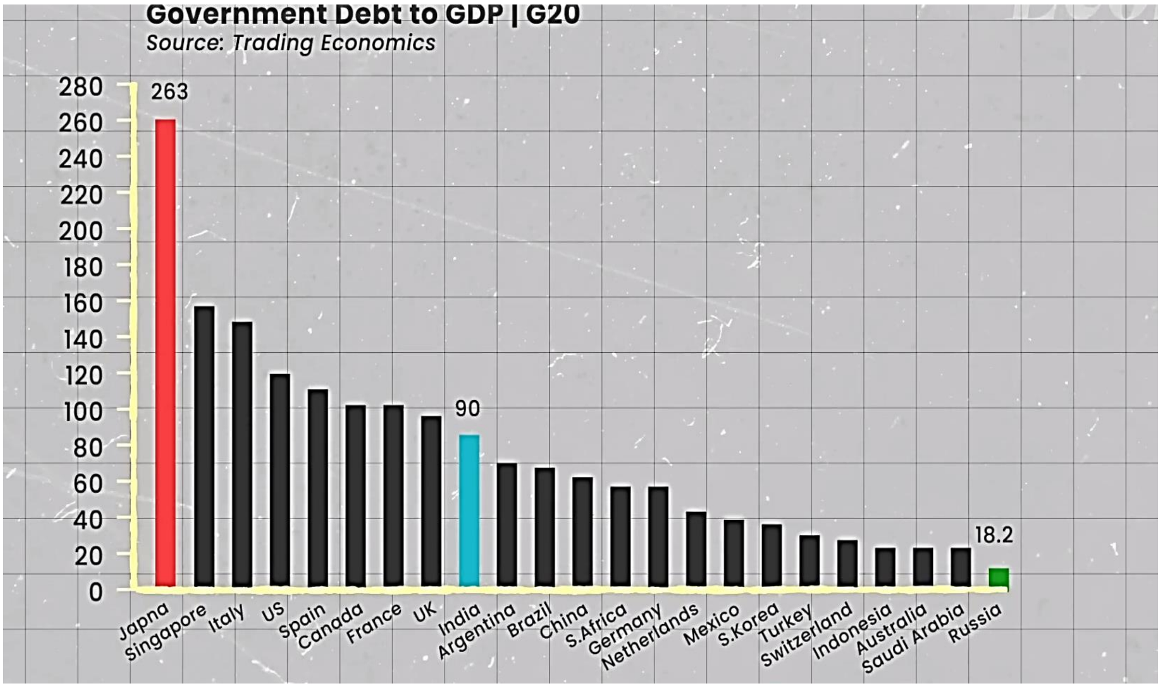

Education and training are critical to the long-term growth and competitiveness of the Indian economy. A well-educated and skilled workforce is essential for attracting investment, promoting innovation, and increasing productivity. To achieve these goals, the government must allocate more educational resources and prioritize them in its budget and policymaking. Overall, reforming the education system and increasing investment in human capital is crucial for India to become a leading global economy and ensure a better future for its citizens.

CONCLUSION

We are Indians it is our right to dream our country should become the economic superpower, but these hurdles of economy do not allow as becoming super power we need to come out from all these difficulties. Then our dream comes true. India's rapidly expanding economy and expanding population give it an opportunity to become a fiscal giant. But a number of obstacles stand in its way. These include low worker productivity, a failing educational system, a mounting fiscal deficit, a high debt-to-GDP ratio, a lack of employment creation, and a lack of foreign direct investment. India must prioritize infrastructure and education spending, boost employee productivity, and improve its business climate to draw in foreign capital in order to overcome these obstacles. For India to reach its full fiscal potential and raise the level of living for its people, these problems must be resolved.

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