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An attempt to pullout of the trap of dependency of Indian economy

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Abstract
The RBI's monetary policy committee on 5 December 2024, left the policy unchanged (policy rate remain 6.5% since February 2023). The annual growth forecast for 2024-25 has now been brought down to 6.6% instead of 7.2% in the October resolution of MPC (Monetary Policy Committee). Growth forecast for quarters ending December 2024 and March 2025, now stand at 6.8% and 7.2% respectively, instead of the 7.4% for both these quarters in the October resolution of MPC. India is finding newer markets for exports and reducing cost of production, while enhancing quality of products to become competitive in global markets. Foundation 'Viksit Bharat' by 2047, has been laid by taking four segments- the youth, the poor, the women and the farmers. But the challenges and concerns of a growing population cannot be underscored because according to a recent report released by the United Population Fund, India now accounts for nearly 17.8% of the world population that is 1.44 billion (17 million more than China in 2024). Since India has the largest population in the world, the demand for goods and service will go up, not only for the present population, but also for the future population for a respectable living and quality of life. India would be dependent on developed countries for foreign capital (repayment of loans, interest, imports and scarce raw material including petroleum products, fertilizers, chemicals, pesticides, etc.). This makes out a case for perpetual dependence on developed countries, for making India, a self- reliant economy and economy of $7 T by the year 2030.

Keywords: MPC, GDP, Viksit Bharat, growing population, self- reliant economy

Introduction
The whole world is divided between two sets of countries that is developed countries and less developed countries. Western Europe, Britain and the United States are the dominant countries and the countries of Asia, Africa and Latin America are called as the dependent countries (that is a situation in which the economy is conditioned by the development and expansion of another economy). Dominant one can expand and be self-sustaining, while dependent ones can do this only as reflection of that expansion. Todaro has developed a dependence model which attributes the existence and continuance of under development primarily to the historical evolution of a highly unequal international capitalist system of rich and poor countries relationship. It is now a recognized fact that the problems of less developed countries are of such a magnitude that they cannot be left to the free working of economic forces that is why state action is considered an indispensable part for the economic development of such countries. There is need for speedy socio-economic reforms to move these economies off the Centre of stagnation. Professor Hirschman has given a theory of unbalanced growth, where social and economic overheads like power, transport, education, health, basic industries for key inputs are credited in order to motivate direct productive activities. Private enterprise is neither capable, nor willing to undertake these projects which require large investment with high risk and less chance of profitability as the gestation period is too long. A balancing act of the growth of different sectors of the economy is a necessity so that supply is adjusted to the demand. According to a recent report released by United Population Fund, India now accounts for nearly 17.8% of the world population that is 1.44 billion (17 million more than China in 2024) [1], which is a matter of concern. State regulation and control both are effective mechanism to control over population, distribution and consumption of the commodities. Physical controls along with monetary and fiscal measures are devised for the purpose of economic stabilization and growth of the economy.

In fact, it was expected in some quarters that in the monetary policy committee meeting held in December 2024, policy rates would be lowered by the RBI seeing the rapid growth performance of 5.4% in quarter 2 of 2024-25.

The annual growth forecast for 2024-25 has now been brought down to 6.6% instead of 7.2% in the October resolution of MPC (Monetary Policy Committee). Growth forecast for quarters ending December 2024 and March 2025, now stand at 6.8% and 7.2% respectively, instead of the 7.4% for both these quarters in the October resolution [2]. The policy rate has remained unchanged at 6.25%, seeing the situation of inflationary price rise, as it reflected an increase of 6.21% in October 2024, and it was 5.5% in the month of November 2024, and it is likely to be 5.7% in December 2024. (This may the forecast of Inflation rate is 4.8% for financial year 2024-25) [3]. It has also been observed that vegetables were the biggest drivers of food inflation in the year 2024. We may recollect that in 2016, India adopted and inflation targeting framework that entrusted RBI with managing a benchmark of inflation rate (as measured by the Consumer Price Index) that is a target of 4% with a range of two percentage points on either side that is a band of 2% to 6%, A moderate price rise is essential for maintaining a growth momentum in the economy but it is equally important that it may not cross the upper limit of the benchmark for the sake of stability.

Net export is one of the four components of GDP (India naturally wants its exports to rise and the volume of imports may go down so that it could collect foreign exchange to raise its GDP at present being $3.9 trillion in 2024 to $7 trillion by the year 2030) [4]. At present, its status of being the fifth largest economy could become as a third largest economy of the world by overtaking Japan and Germany that is a step to become a developed economy of the world by the year 2047 (when it celebrates its hundred years of Independence). Merely week before this inauguration as US president for a second term, Donald Trump has announced that he would definitely implement his campaign promise of raising tariff after taking over the charge. He has also named India in the list of a number of countries. It means, this is going to disrupt the export of these countries to the US. Trade data shows that the Trump tariffs could significantly affect overall exports. The warning to India was issued on 18 December 2024, and the report has been published in all national daily of India on 19 December 2024 [5]. This trade war is not like other wars, because ultimately, there are no winners in such war.

Some facts and figures

India's GDP in 2024 ⇒ $3.9 Trillion

Table 1: UN report on population charge July 11, 2024, World Population Day

<table>
<tr><th colspan="4">Population Trends</th></tr>
<tr><th>Countries/ year</th><th>2024</th><th>2054</th><th>2100</th></tr>
<tr><td>India</td><td>1451million</td><td>1692 million (peak)</td><td>1505 million</td></tr>
<tr><td>China</td><td>1419 million</td><td>1215 million</td><td>633 million</td></tr>
<tr><td>World</td><td>8.2 billion</td><td>10.2 billion</td><td>10.3 billion</td></tr>
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<table>
<tr><th colspan="3">Median age</th></tr>
<tr><th>Median age of countries/ year</th><th>2024 (in years)</th><th>2100 (in years)</th></tr>
<tr><td>India</td><td>28.4</td><td>47.8</td></tr>
<tr><td>China</td><td>39.6</td><td>60.7</td></tr>
<tr><td>USA</td><td>38.3</td><td>45.3</td></tr>
</table>

- Working age (peak population) of India 1027 million in 2049 which is the biggest work force.
- Total fertility rate (average number of children a women has over her life time)- below 2.1
- By 2050, the proportion of Indians over the age of 60 is projected to double 10% to 20%.

Thus India has also to prepare itself in accordance with the demographic change in its structure for the upcoming demand for goods and services. Average life expectancy at birth has also increased. India has become a large market for the world. Sex ratio at birth has also improved to 929:1000.

Still, India can be a demographic asset rather than a liability, but it requires a big boost to India's labour market. For this better quality jobs are needed. For example, in the present social economic set up the demand for well-trained care taker services is picking up particularly in urban areas.

Literature Review

The 20th century was transformative for the world as we know today in many ways. It saw two world war, the first Communist revolution, complete decolonization and significant economic growth. India also had a complete switch over in its economic policy, when economic reforms in the form of liberalization, privatization and globalization came into being in the year 1991. China's comparative cost advantage in high technology goods has given it a bigger economic footprint even in advanced countries (but this is subject to the condition whether China can avoid a geo-political confrontation with US). The ratio of China and US export in dollars is an eye opener. It was just.13 in 1960, came down to.04 in 1970 and in 2023, it is 1.24 (a remarkable feature). China's GDP as a share of US in percentage was 11% in 1960 and it has gone up to 65% in 2023 and its of per capita GDP which was almost negligible in the range of 0-4% in 1960 has gone up to 15.4% in 2023[6] Looking at the fact that the population of USA is 345 million against 1419 million of China [7]. In fact, this whole is based on the refinement and reformulation of comparative cost theory of international trade propounded by Ricardo. It is very likely that less developed countries are not successful in taking the advantages of the technological advancements. That is why developed countries have raised the organic composition of capital through labour saving techniques. It results into inequality of exchange because of inequality of wages (other things being equal). The system of governance in China is totally different than that of India. Although, now we are also moving towards -Reforms, Perform and Transform.

Literature Gap

The theory of unequal exchange is the result of Wage differences but this does not provide a logic for the difference in wages. Wage differences are created due to a number of factors e.g. labour productivity (since it is assumed that the remuneration for the services of labour is paid on the basis of productivity) when real wages do not rise in higher proportion to productivity in less developed countries, this situation doesn't arise. Moreover, in this theory it has been assumed that the rate of profit in both the countries are equal. This theory is based on unrealistic assumptions because in real life, there are the comparative cost advantage in developed countries because of a number of the factors like technological advancement through research and development along with scientific knowledge. That is why there is tendency of exploitation of less developed countries. The assumptions of the comparative cost advantage theory may not be found in real life in the context of 2×2×2 model (two countries, two factors and two commodities).

Research methodology

Almost all less developed countries have a dualistic economy (one is the market economy, other is subsistence economy that is backward and agricultural oriented) that is existence of an advanced industrialised system and an indigenous backward system- agriculture). But this theory is not without limitation

- Factor prices do not depend upon the factor endowment.
- Neglect institutional factors
- Neglect the use of the labour absorbing techniques.

This paper is based on the secondary data obtained from reliable and standard sources. Planners and policy makers of India are making all concerted efforts to make Indian economy a developed economy (as per the benchmark based on per capita income) by the year 2047. Conclusion and interpretations have been drawn on the basis of the simple statistical tools.

Researchers have tried to explore the present condition of Indian economy, where all efforts are being made to make it a self-reliant economy. Some structural changes have been there for example, India used to import a major proportion of all defense equipments but now no stone is being left unturned in developing a fine network to manufacture and exports them to a number of the countries. But still it is dependent significantly for crude oil, machinery, chemicals, fertilizers, technology of higher order etc. That is why imports are quite inelastic and terms of trade are not favorable. India has built up a comfortable position in foreign exchange, but it cannot afford to lose dollar.

Objective

The objective of this paper is as follows.

- To examine the GDP path of Indian economy.
- To study, how has India done in ensuring social and economic justice.
- To analyses the journey for making Indian economy a developed economy.

Analysis

Objective 1

Our policy makers have made all necessary efforts for breaking the vicious circle of poverty and backwardness both on supply as well as demand side of the economy by launching a series of five year plans under the guidance of the Planning Commission of India (now it has been replaced in the name of NITI Aayog). India has been quite successful in removing the social, economic and political obstacles needed for growth and development of the economy. Different planned models were formulated according to the priorities set by the Planning Commission from time to time. Whatever basic infrastructure is required for development, was created with due constraints of capital. Our premier Institutes in the field of medical, education, engineering and technology, management, economics and statistics, sciences related to different economic activities like agriculture, mining, forest, space, water, manufacturing and services, research and development and all the key inputs required to produce final goods were set up. Internal and external security and safety both are required for carrying out the process of development. As medicines are to be taken religiously by the patient according to the prescription of a doctor, similarly economic policies (well created monetary policy, fiscal policy, foreign trade policy, education policy, foreign policy, etc.) are needed to make the objectives under the plan fulfilled. Now Indian economy has gained the status of a fastest developing economy of the world.

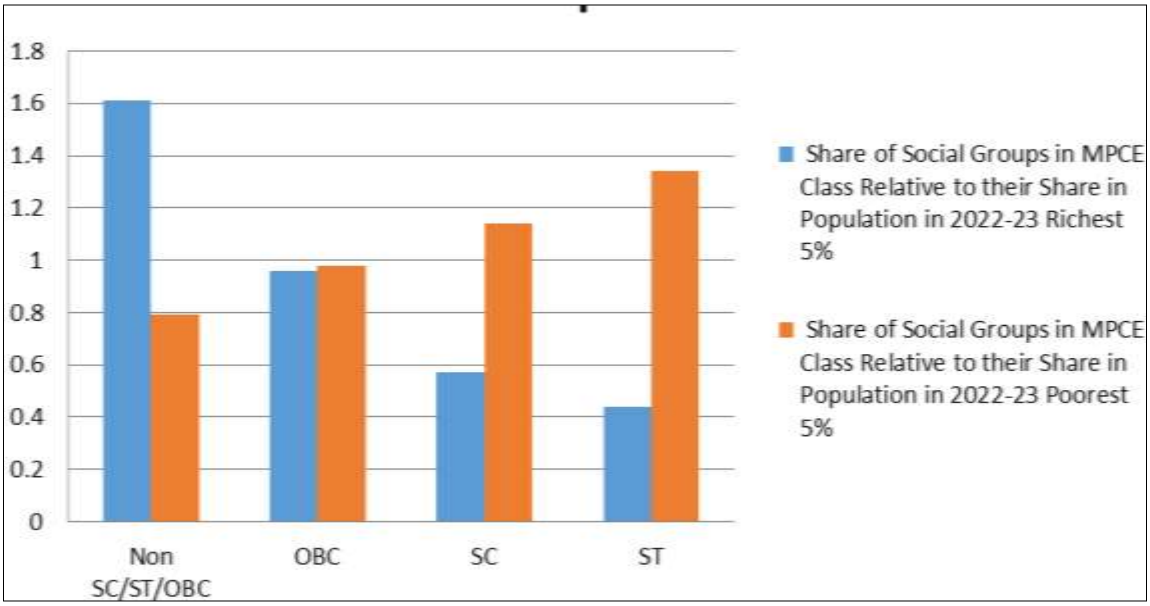
Presently the topics employment generation, skill development, enhancing productivity of agriculture and manufacturing, attracting investment and boosting exports are being discussed at high levels so that India's growth momentum is duly maintained, when there is global uncertainty due to geopolitical conditions. Our goal of Viksit Bharat by 2047 (when India completes hundred years of independence) could only be fulfilled when both the government and the private sector work in collaboration.

All the top officials are worried to see the rate of growth of 5.4% in the second quarter of 2024-25. Partly, it could be due to tight monetary policy adopted by the Central bank to curb inflation because stability is more important than growth. It means we have to work out more measures to boost growth, because the second quarter growth rate of 2024-25 has been the slowest among the growth rate of preceding 7 quarters.

GDP = Total Private Consumption Expenditure + Gross Domestic Fixed Capital Formation + Government Purchase Of Goods and Services + Net Export

GDP $\uparrow$ $\Rightarrow$ Growth of all the four components or increase in some components may not be offset by the decrease in other components. Donald Trump's plans to ramp up the tariffs on all US imports, is a warning for the fourth component.

Therefore, there is a strong case to raise the currently muted levels of Private investment for which the government has a number of incentive tools in her box.



(**Source:** Table1, Table2 and Table3- Roshan Kishore, Abhishek Jha and Nishant Ranjan - How has India done in ensuring social and economic justice, Daily HT, December 23, 2024, page 2.) [8]

Fig 3: Share of Social Groups in MPCE Class Relative to their Share in Population in 2022-23

It is clear from the above table that OBCs seem to be proportionately represented in both groups. No doubt caste is a factor for determining economic inequality but it is not only the factor e.g. average MPCE of an SC person in Tamil Nadu is higher than that of the average upper caste person in Bihar. It has been estimated that the top 1% getting 22% of all income and owning 40% of all the wealth. Famed economist, Thomas Piketty and his three colleagues produced a paper proposing a 2% tax on net wealth above ₹10,00,00,000, along with a 33% inheritance tax on estates of over rupees 10 crores (such a tax will affect only 0.04% of adults i.e. leaving 99.96% unaffected). This model may not work in India, in fact we need equality of opportunity [9].

Objective 3

Public sector gained momentum during the period of planned economic development. In fact, booming economic disaster was a result of fiscal and trade profligacy in the 1980s when our economy, both public and private arms of it, had been spending beyond their means. This was the time, when the question of accountability, transparency and viability started. We saw the severe foreign exchange crisis in 1990, when foreign exchange reserves were barely enough to cover a month of imports and the country had to suffer the ignominy of having to ship the gold reserves to England. The crisis was a result of deeper economic malaise in the economy, where state-led planning model failed because private enterprise had been become shackled in what was infamously referred to as the license- Quota Raj. Dr. Manmohan Singh came on the scene as the Finance Minister of the country and presented the union budget of 1991. It was a shift from a regime of public sector to private sector with a focus on economic reforms in the name of Liberalization, Privatization, and Globalization. More than three decades later, we completely altered the course of Indian economy because it was close to sovereign default. The result is that Indian economy has become the fastest developing economy and has gained the status of the fifth largest economy and now it is on its way to became the third largest economy in the world in a couple of years. Economic reforms have delivered growth in India and now it is an undisputed fact.

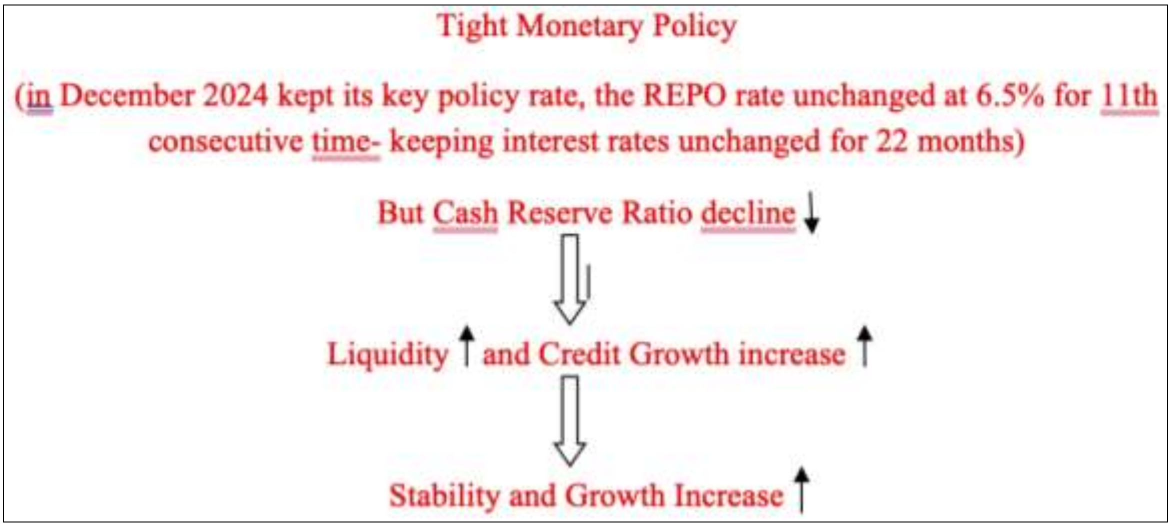
In the year 1960, India's share in world GDP was just 2.7% and in the year 2023, it has become 3.4% reforms also stabilised India's external account by bringing in more foreign reserves. Imports of goods and services as percentage of GDP was 5% in the year 1975 and it went up to 25% of GDP in the year 2023. Indian economy attracted a lot of foreign capital into India. Reformer have also stabilised India's external accounting bringing in more foreign reserves despite Indian imports being significantly larger than they were in the pre-reform period [10].

Reforms did help in bringing down extreme poverty in India following data analysis explain this fact:

Poverty Head Count Ratio at $2.15 A Day (2017 PPP), the percentage of population has continuously gone down from more than 60% to about 12%. Poverty headcount ratio at $3.65 a day (2017 PPP) the percentage has gone down from 90% to about 42% during the same period and on headcount ratio at $6.85 a day (2017 PPP) the percentage of population was quite cent percent in 1977 has gone down to 80% in the year 2021. But the share of manufacturing value added in GDP (in percent) has not changed with reforms [10] As the share of agriculture has gone down, it was expected that the share of manufacturing will go up, but it has not happened.

India's GDP is expected to grow at 6.5% in 2024-25 [11] despite a slowdown in investment growth due to reduced public expenditure, Private sector caution, global uncertainties and concerns over excess capacity and dumping, but there is a good news that the average Indians monthly spending increased 9.2% to ₹4122 in rural areas and 8.3% to ₹6996 in urban regions during 2023-24 [12] The National Statistics Offices' Household Consumption Expenditure Survey showed poorer classes increased spending at a faster rate, while expenditure by the richest declined even in nominal terms. This has resulted to reduce consumption inequality (It means consumption of the group, whose MPC is very high, has gone up and the group whose MPC is low, consumption expenditure has gone down marginally). The growth projection for financial year 2025 is 6.5% to 7% that is why we have taken 6.5% is closer to the lower end. Further, India has cut down income tax for individuals making up to ₹12 lakh a year in the union budget 2025 so that a relief could be provided to the middle class to boost consumption. This is going to increase private consumption expenditure (one of the main component of GDP). But global risks could Influence Indian growth trajectory.

Hence all possible efforts are being made to boost GDP growth.



Conclusion and findings

When we study the topic on Hypothesis Testing, null hypothesis is the base line hypothesis - that is whatever is claimed. Our claim was to make Indian economy a $5 trillion economy by the financial year 2024, but this hypothesis is rejected. Some indicators of development e.g. HDI, World Happiness Report, Global Hunger Index, World Inequality Report, etc. are not very encouraging. Indian economy has become a largest market of the world because of it being a most populous country. Therefore, our policy makers need to be cautious so that economy may not be trapped into dependency. All efforts are to be made to make it a self-reliant developed economy.

Suggestions

Focus areas are

- Education to be linked with employability to gain the demographic dividend
- Child nutrition, quality health services care to all
- Wages of semi-skilled and skilled workers should be enhanced along with their productivity
- Advancement of technology and innovation.

Limitations

All economic theories and laws are subject to certain limitations. Some of them are as follows:

- Global temperature data sets to show higher than 1.5°C. Warming up to November 2024 and December 2024 being abnormally less warm because of rains. As the climate crisis intensified, real impact demands focused and strategic approach to deal with it.
- Trump has promised to impose large scale tariffs, the consequences will mostly be via second order efforts on Indian economy.
- Instability could come from global currency and capital markets, because India is currently with a large trade deficit and ultimately, this could affect its external economic outlook along with foreign exchange reserves.
- India's growth momentum is still showing K- shaped recovery where the rich are driving growth and the poor mostly seeking at a subsistence level.
- Geo-political conditions offer Donald Trump takes over as US president on 20 January 2025 (second time).

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