

## WHAT DOES IT MEAN FOR INDIA TO BECOME A \$5-TRILLION ECONOMY

- ✚ It is now clear that the main goal of the second Modi government will be to make India a \$5-trillion economy by the end of this term.
- ✚ But what does it mean for India to become a \$5-trillion economy? How likely is India to achieve the target? Will every Indian gain from it?

### What is the Meaning of becoming a \$5-Trillion Economy?

- ✚ Essentially the reference is to the size of an economy as measured by the annual gross domestic product or GDP. As a thumb rule, the bigger the size of the economy, the more prosperous it can be expected to be.
- ✚ The GDP of an economy is the total monetary value of all goods and services produced in an economy within a year. There are many ways to calculate a country's GDP. You could aggregate the total production, or you could add up all the income earned by the people, or you could add up all the expenditure made by the entities (including government) in the economy. For most international comparisons, GDP is calculated via the production method (that is, adding up the value-added at each step) and the monetary value is arrived at by using current prices in US \$.
- ✚ In other words, GDP is a way among countries (economies) to keep score about who is ahead. As Finance Minister said during her Budget speech. In 2014, India's GDP was \$1.85 trillion. Today it is \$2.7 trillion and India is the sixth-largest economy in the world.
- ✚ The first column of the table alongside provides a snapshot of where India stood as of 2018 according to World Bank. In terms of overall GDP, this data shows that India is very close to overtaking the United Kingdom. It also shows that Indonesia's GDP is almost one-third of India's.

### Are Indians The Sixth-Richest People in The World?

- ✚ No. That India is the sixth-largest economy does not necessarily imply that Indians are the sixth-richest people on the planet.
- ✚ The GDP is the first and most rudimentary way to keep score among economies. If one wants to better understand the wellbeing of the people in an economy, one should look at GDP per capita. In other words, GDP divided by the total population.
- ✚ This gives a better sense of how an average resident of an economy might be fairing.

GDP and GDP per Capita: Where India Stands		
Countries	GDP \$ Trillion (in 2018)	GDP Per Capita in \$ (in 2018)
India	2.72	2,015
United States	20.49	62,641
China	13.60	9,770
Japan	4.97	39,286
Germany	3.99	48,195
United Kingdom	2.82	42,491
Indonesia	1.04	3,893
Bangladesh	0.27	1,698

- ✚ If one looks at the GDP per person data in the second column of the table, it reveals a very different, and indeed a more accurate picture of the level of prosperity in the respective economies.
- ✚ For instance, on average, a UK resident's income was 21 times that of an average Indian in 2018. This wide gap exists even though India's overall GDP is very nearly the same as UK's.
- ✚ Similarly, on average, an Indonesian earns double that of an Indian even though Indonesia's overall economy is just one-third of India's.

### Can India achieve the target by 2024?

- ✚ The answer would depend essentially on the assumption about economic growth.
- ✚ If India grows at 12% nominal growth (that is 8% real GDP growth and 4% inflation), then from the 2018 level of \$2.7 trillion, India would reach the 5.33 trillion mark in 2024.
- ✚ However, there's a glitch. Last year, India grew by just 6.8%.
- ✚ This year, most observers expect it to grow by just 7%. So, India must keep growing at a rapid pace to attain this target.

### How will GDP per capita change when India hits the \$5-trillion mark?

- ✚ If by 2024 India's GDP is \$5.33 trillion and India's population is 1.43 billion (according to UN population projection), India's per capita GDP would be \$3,727.
- ✚ While this would be considerably more than what it is today, it will be lower than Indonesia's GDP per capita in 2018.