

1. India 2024: Towards a \$5-Trillion Economy?

Context:

- Will India become a \$5-trillion economy in 2024? The optimistic view is that growth will be propelled higher by rise of the middle class, young demographics, and changes in globalisation.
- The pessimistic outlook is that poor physical and human infrastructure will transform India's demographic dividend into a disaster.

The Optimistic Outlook:

- India will emerge with the **Largest Middle Class in the world by 2025** and much larger than in the US today. Growth, education, home ownership, and improved economic security are associated with an expanding middle class.
- The pace at which the middle class will increase will be staggering, and has the potential to increase at a much faster rate compared to China. **The median age in India is 28 years**, compared 37 in China and the US, 49 in Japan, and 45 in Western Europe.
- The middle class will expand through several channels in India: swelling of the labour force as the baby boomers reach working age; divert resources from spending on children to investing in skills technological progress; **Increased women's workforce that Naturally Accompanies a decline in Fertility**; working age also happens to be the prime years for savings, which is key to the accumulation of physical capital;
- The share of **high-skilled migrants relative to low-skilled migrants has grown Dramatically**, owing to the globalisation of demand for talent. And this development has a clear geographic dimension. Nearly 75% of all high-skilled migrants reside in the US, the UK, Canada, and Australia; over 70% of software engineers in Silicon Valley are foreign-born, mostly India.
- India will continue to benefit from a global talent race, **Thanks to declining Transportation and Communication Costs** (high-skilled migrants tend to travel farther to their destination countries than do less-skilled migrants), and the growing recognition that human capital will play a key role in today's Knowledge Economy.
- Unlike China, India is less exposed to rising global trade disputes. India has relied on twin engines of growth—export and domestic consumption. The resilience of India rests on the huge domestic market, as the share of household consumption in GDP in India is much higher than in China.

- India has also trades differently. While China is the global centre for manufacturing, **India has acquired a global reputation as a hub for Services Export.** The pace at which trade in services will grow will outpace trade in goods, given higher global cost differential in the production of services, and the ease with which modern services can be transported through the internet.

The Pessimistic Outlook:

- The 20th century has sent shocking waves of industrial destruction, with the shift of manufacturing base from developed to developing countries. The 21st century of cyber globalisation will not be immune to crack-ups and rising global trade disputes.
- **India is very dependent on the Monsoon**, given its importance to agriculture, and the country still remains largely a rural economy. Monsoons have been adversely impacted by a changing global environment that has already reached a tipping point of no recovery.
- **India is the most Water-Scarce Country** in the world. More than 20 Indian cities would be adversely impacted by zero groundwater levels soon.
- **A Key Challenge is to scale up investment in human and physical infrastructure** to benefit from youth bulge and demographic dividend. India needs more fiscal federalism and less Fiscal Centralisation.
- **States are not able to invest as they have a low base of Economic Activity to tax** and revenue constraints restrict investments needed to establish a level-playing field.

The Challenges Ahead:

- **India's Demographic dividend and the rise of the Middle Class is a Time-Bound Opportunity.** In particular, it provides policymakers an incentive to redouble their efforts to tap into demographic dividend by improving physical infrastructure to promote entrepreneurship and Job Creation.
- Pluralism in development is of great value today. India's growth will be driven by Competitive Federalism and increased competition between the states.
- A move towards **Increased Expenditure Flexibility in favour of the states presents an opportunity to align local development needs and priorities with the Resources Available.** The challenge is to find out what works best, in what context, and in What Setting.