

## **1. India's \$5-Trillion GDP Journey: Contribution of Each State Crucial**

### **Context:**

- While data shows India is on track to grow to \$5 trillion in 5-6 years, each state must create a unique plan based on its GVA composition and human capital development.

### **Current state of Economy:**

- We are currently at a nominal GDP of \$2.96 trillion (at \$1=Rs 71) in 2019-20. India's top five states in GSDP are Maharashtra, Tamil Nadu, Karnataka, Gujarat and Uttar Pradesh.
- All five are growing stably, but can be driven faster with the right policies. Uttar Pradesh, in particular, has to mobilise its large youth base to improve economic productivity. It also stands out as most dependent on agriculture with 18.5% of GVA
- Gujarat is at 10.9%, whereas the other three are all under 10%. Gujarat is the only top-5 state with high industrial dependence at 51.8% GVA.
- Karnataka has a substantial services contribution, at 68.5% of GVA, with industry at merely 23.7%.
- Maharashtra and Tamil Nadu's GVA composition is more balanced, but still reliant on services at 50%-plus
- While Gujarat must learn from these three states on developing the services sector with high value-add, the other states must learn from Gujarat how to industrialise sustainably as a vital source of employment and economic growth.

### **Key Challenges Needs to be Addressed:**

- 1. Significant workforce dependence on a low-performing sector like agriculture is problematic.**
  - ✓ 43% of India's workforce is dependent on the agriculture sector growing at 3.4%, whereas 57% of the workforce depends on industry and services growing at 5.5% and 7.6%, respectively.
  - ✓ This unsustainable dynamic has resulted in high income-inequity.
  - ✓ India must set a goal to shift 1.5% of the workforce every year, which amounts to 8% of the workforce shifted by 2025.
- 2. Level of industrialisation and urbanisation is deficient. Need extensive investment in infrastructure and labour-intensive Industries.**
  - India is only at 34% urbanisation, compared to the world average of 55% and China at 59.2%.

- India must plan to urbanise all over the country, and deploy special programmes to develop 5,000 semi-urban centres
  - Quality infrastructure will lend a massive productivity boost to our economy, much like in China. The new move to attract tax-free investments in our infrastructure by foreign sovereign wealth funds is beneficial for capital inflow.
  - The same incentives must extend to domestic investors; tax-free regimes will have Indian investors flock to invest, providing a much-needed boost to infrastructure spending.
  - Similarly, labour-intensive industries must be promoted all over India, particularly in states with large populations like Uttar Pradesh and Bihar.
- 3. Quality, diversity and exportability of our products and services must improve to become Globally Competitive.**
- ✓ By consciously reverting to an export-oriented economy much like China, there is a need to invest in both labour-intensive industries like garments, automobile assembly, and hardware assembly, as well as specialised industries like chip design, 3D printing, automated manufacturing and medical devices.
  - ✓ Services sectors like IT, financial and others must also be accelerated to leverage the higher value-add to the economy.
- 4. Lack of job creation in high-population regions is leading to economic inequity in the Country.**
- ✓ Fertility and population growth rates are much higher in the north-central-east zones of India compared to the south and west, but job creation is inverse.
  - ✓ A directed effort to raise the level of industrialisation and urbanisation in the north, east and central states will provide the large young populations there with ample job opportunities.
- 5. Education infrastructure must improve.**
- ✓ Our recent report on Human Capital Development in India demonstrates India has adequate higher education infrastructure overall and must now focus on rapid brownfield expansion to improve enrolment, quality and affordability.
  - ✓ All Indian states must take stock of their education infrastructure to improve human capital in the age of knowledge economy-led growth.

### **Conclusion:**

- India is on track to grow to \$5 trillion in the next 5-6 years, we cannot afford to continue with a business-as-usual mindset.

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- Each state must create a unique plan based on its GVA composition and human capital development. We must face the challenges head-on and invest accordingly.

**Source: Financial Express**

