India's $4 Tn Economy Target Remains A Pipe Dream As Key Details Missing

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Experts say that the Israel-Hamas conflict will only further disrupt supply chains for food and energy across the world, already hampered because Russia invaded Ukraine in 2022

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04 December, 2023
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"Congratulations, India! Another two years to go before India becomes the third-largest nation in terms of global GDP by overtaking Japan at USD 4.4 trillion and Germany at USD 4.3 trillion. The Tricolour surge continues! Jai Hind," wrote controversial billionaire Gautam Adani on X, a post which is now unavailable on the social media platform.

It all began with an image that indicated that India's gross domestic product (GDP) had crossed the USD 4 trillion mark that went viral on social media. Predictably, several high-profile luminaries from the spheres of politics and industry jumped into the fray to praise the achievement. Among the exultants were Adani, two ministers in the Narendra Modi-led Union Cabinet, Maharashtra Deputy Chief Minister Devendra Fadnavis and several others.

Picture of the post that went viral on social media. (Source: X)

Fadnavis also wrote, "This is what dynamic, visionary leadership looks like! That's what our #NewIndia progressing beautifully looks like! Congratulations to my fellow Indians as our Nation crosses the USD 4 trillion GDP milestone! More power to you, more respect to you Hon PM @narendramodi ji!."

The cloud around this happy tide is that economists and statisticians on the roles of the union government have not come out to confirm this leap in India's GDP. Some economists do say though, that achieving the magic number is not too far away. The Union Budget 2023-24 estimated that India's nominal GDP would reach Rs 301.75 lakh crore, reporting a growth rate of 10.5 per cent from a projected Rs 272.41 lakh crore in 2022-23 fiscal. Let's explore both sides of the picture.

The March Towards USD 4 Trillion

Currently, India is the largest habitat in the world at approximately USD 2250 in GDP per capita. Over the last 20 years, India has delivered around 6.7 per cent compound annual growth rate (CAGR) in its GDP growth.

India's second quarter (July to September) GDP increased to 7.6 per cent, exceeding analysts' expectations, according to data released by the National Statistical Office (NSO). The upbeat outlook for the second quarter was partly fueled by an increase in government capital expenditure, which reached Rs 4.91 lakh crore in the first half of the fiscal year, exceeding the previous year's Rs 3.43 lakh crore.

Experts tell BW Businessworld that the country has also been investing intelligently in its social, physical and digital infrastructure. With multiple growth vectors like a per capita inflexion favourable demographics, competitive factor costs, and proactive policy - one can securely expect this growth to remain at least 100-150 bps above this in the coming decade.

"As per IMF's Economic Outlook Database and our back-of-the-envelope calculation, India may attain the size of USD 4 trillion by October 2024," informed a confident Vijay Kalantri, Chairman, MVIRDC WTC Mumbai.

India's march towards the USD 4 trillion export target will be led by light engineering, infrastructure and services sectors. Particularly, the major drivers of such growth can be electronics, infrastructure, renewable energy, tourism, healthcare, education and other service sectors. These sectors are major growth drivers supported by the government's PLI scheme, increase in government capital expenditure and rise in urban consumption.

"We feel the special economic zones (SEZ) is an under-utilised concept as these zones, which were set up under the 2005 Act, need a fresh policy push by reconsidering tax incentives and giving units in these zones the flexibility to sell their goods in the domestic tariff area (DTA), whenever they are unable to meet their export target due to global slowdown," Kalantri added.

International Headlines, Domestic Problems

India has demonstrated its resilience through the trying times that have unfolded since a pandemic swept over the world in 2020. However, experts noted that the Israel-Hamas conflict will only further disrupt supply chains for food and energy across the world, already hampered because Russia invaded Ukraine in 2022.

"The geopolitical crisis may slowdown India's economic growth. In fact, in the current context of geopolitical turmoil, India is a preferred destination for foreign investors and an emerging hub for global and regional supply chains. The strong growth in India's agriculture exports, pharmaceuticals and electronic exports in recent years bears testimony to the fact that India is emerging as a reliable supplier of goods to the global market," Kalantri added.

Numbers, Numbers And Numbers

Notably, the nominal GDP in FY2023 was Rs 272.40 trillion and during the same period, the annual average exchange rate was Rs 80.36 per USD against Rs 60.50 in FY2014. Hence, during 2014-23, the rupee depreciated at 3.2 per cent on a CGAR basis.

Accordingly, nominal GDP was USD 3390 billion in FY2023 against USD 1857 billion in FY2014 and USD 608 billion in FY2004. Thus, during 2014-23 (nine years), total growth was 183 per cent (6.9 per cent CAGR-basis) against 306 per cent (11.8 per cent CAGR-basis) during 2004-14 (ten years).

Nominal GDP by the end of FY-2024 can be at best estimated as Rs 305.1 Trillion assuming a 12 per cent growth rate. The annual average exchange rate of Rupee in FY-2024 might be Rs 82.93 assuming the same depreciation rate of 3.2 per cent. Based on these assumptions, by the end of FY-2024, nominal GDP might be at best USD 3,679 billion. However, India might achieve a nominal GDP at the USD 4,000 billion mark by the end of FY2025.

"It is obvious that; sooner or later, India's nominal GDP shall be USD 5.0 or USD 10.0 trillion. But the moot question arises; how soon can India achieve? For faster achievement, key recommendations are: to arrest rupee depreciation below one per cent per annum, to generate investment (GFCF) and export-led demand instead of consumption-led demand and to achieve double-digit growth in the manufacturing sector," said RP Gupta, Economist and Author.

For India, arresting rupee depreciation and simultaneously boosting exports is indeed a great challenge. This requires improving the economic efficiency of India which doesn't depend upon the producers alone but upon the host of policies and regulations for bringing down the cost of basic inputs such as capital, energy, logistics and minerals. Eventually, that will also arrest "cost-push inflation", boost exports and stabilise the rupee.

"Investment (GFCF) rate must be above 35 per cent of GDP as per the economic needs of the nation in a planned manner for the next five years. Higher output, improving economic efficiency and human development must get priority. Fancy infrastructure must differ. More than 60 per cent of investment must be shared by private-sector. For which, liberal credits to productive-sector and regulatory-easement are crucial factors," Gupta mentioned.

Sectors such as the manufacturing sector, particularly MSMEs are not performing well and the agro-sector is under stress due to low income. Experts suggested that the scarce bank credit must be majorly used for building productive assets and not for financing consumption spending in an aggressive manner; that will slowdown GFCF growth vis-à-vis GDP growth.

As the outlook for the global supply chain is marked by a degree of uncertainty and complexity, it will be interesting to see how India achieves the USD 4 trillion economy mark and ultimately the humongous USD 5 trillion- a target set by Prime Minister Narendra Modi.