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**Special Issue 21 Vol. I**  
**on**

## **Recent Economics Policies and Its Impact on Indian Economy**

**October 2019**

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## Challenges before Indian economy to become \$ 5 trillion economy

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### Introduction :

After independence India has initiated the process of economic development with the introduction of planning. During the planning period India achieved spectacular success in some areas especially in secondary & tertiary sector. In 1991 India adopted the LPG policy in which Indian economy was opened to outside economic world a new era of development began & soon India become the fastest growing economy in the world currently standing at 7<sup>th</sup> position in the world in terms of size of the economy equal to 2.6 trillion dollars.

Modi government has set target for achieving the mark of 5 trillion dollar economy which is most achievable looking at the size market & young population available in the country. In the path of achieving the mark of 5 trillion some challenges lie ahead. The present paper tries asses those challenges.

### **Objective of the paper:**

- To study the challenges before Indian economy in the path of becoming 5 trillion dollar economy.
- To know the relationship between infrastructure facilities & growth of the economy.
- To know the connation between rate of capital formation & growth of GDP.
- To know the relationship between agrarian nature of Indian economy & growth of GDP.

### **Methodology:**

This paper is analytical in nature & based upon secondary data available.

### **Challenges before Indian Economy to become \$ 5 trillion Economy**

#### **1) Lack of infrastructure:**

Infrastructure is the 'lifeline' of an economy as protein is the lifeline of the human body. Which sector are called the infrastructure? Basically, the goods and services usually requiring higher investment, considered essential for the proper functioning of an economy is called the infrastructure of an economy. Such sector might be as many as required by a particular economy such as power, transportation, communication, water supply, sewerage, housing, urban amenities.

Indian infrastructure sector is clearly overstrained and has suffered from underinvestment in the post-reforms period. Infrastructure bottlenecks are always constraint in achieving a higher growth for the economy. India needs massive investment, both from the public and private sectors, to overcome infrastructure bottlenecks. Investment by the public and private sector are not alternative, but complimentary to each other as the required investment is very high.

#### **2) Low rate of Capital Formation:**

The most pertinent to economic development is the shortage of capital. Poverty is a consequence of a country low rate of capital formation. In India the masses are poverty-ridden, they are mostly illiterate and unskilled, use outmoded capital equipment and methods of production. They practice subsistence farming, lack mobility and have little connection with the market sector of the economy. Their marginal productivity is extremely low. Low productivity leads to low real income, low saving, low investment and to a low rate of capital formation. The consumption level is already so low that it is difficult to



restrict it further to increase the capital stock. That is way millions of famer sin countries use outmoded and obsolete capital equipment. Such small sums as they may be able to save are often hoarded in the form of currency or used in purchasing gold and jewellery, etc. the inclination to hoard money is due to banking facilities in rural areas. No wonder, there is little capital formation in our country.

It is the high income group that does most of the savings in underdeveloped countries But these savings do not flow into productive channels. On the other hand, they are dissipated "into real estate, gold, jewellery, commodity hoards and hoards of foreign or domestic currency, money lending and speculation." 'Thus value-retaining' objects and durable consumer goods dominate their expenditure pattern. In addition, conspicuous consumption plays an important part in their consumption patterns. Consequently, they prefer an imported article for its prestige value to an equally good domestic article.

But what are the main reasons for the lack of incentives to save and invest in underdeveloped countries? These include, imperfect maintenance of law and order, political instability, unsettled monetary conditions, lack of continuity in economic life, the extended family system with its drain on resources, and its stifling of personal initiative and certain systems of land tenure."

### 3) **Indian economy is based on agrarian economy:**

Another obstacle relates to the agricultural sector. Agricultural production constitutes a large share of their GDP and agricultural commodities form a considerable part of the value of their total exports. "Agricultural practices are controlled by custom and tradition. A villager is fearful of science. For many villagers insecticide is taboo..... A new and improved seed is suspect. To try it is a gamble. Fertilisers, for example, are indeed a risk ..... To adopt these untried methods might be to risk failure. And failure could mean starvation." It is, in fact not the behavior of farmers that acts as a constraint on agricultural growth. Instead, the constraints are to be found in the environment in which farmers operate the technology available to them, the incentives for production and investment, the availability and price of inputs, the provision of irrigation, and the climate. Due to heat and torrential rains, their soils are poor as they contain little organic matter. As a result of the environmental factors, agricultural output fails to increase to meet the rising demand of the developing economy Further, when the growth rate of population is also high, Per Capita agricultural and food output may actually decline instead of increasing, as was the case with the low income countries during 1970-80 when their per capita agricultural output declined by 0.4 per cent and per capita food output by 0.3 per cent per year. That is why the percentage share of food in the merchandise imports of has been more than 25 per cent which entails a heavy burden on their foreign exchange resources. Thus the poor performance of the agricultural sector is a major constraint on the sluggish economic growth of economy.

### 4) **Lack of skilled manpower**

Undeveloped human resources are an important obstacle to economic development in country. Such countries lack in people possessing critical skills and knowledge required for all-round development of the economy. The existence of surplus labour in them is to a considerable extent due to shortage of critical skills. Undeveloped human resources are manifest in low labour productivity, factor immobility, limited specialization in occupation, and in customary values and traditional social institutions that minimize the incentives for economic development. Further, "the economic quality of the population remains low when there is little knowledge of available natural resources, possible alternative production techniques, necessary skills, existing market conditions and opportunities, and institutions that might be created to favoureconomising effort and economic rationality." Since country have a dearth of critical skills and knowledge, physical capital, whether indigenous or imported, cannot be productively utilized. As a result, machines breakdown and wearout soon, materials and components are wasted, the quality of production falls, and costs rise.



## Conclusion:

India has the potential to be 5 trillion dollar economy with worlds 2<sup>nd</sup> largest populated country and more than 65% population in working age group. But to achieve this target some hurdles which mentioned above have to be addressed with appropriate policies focused on job creation, poverty reduction and improving quality of life

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