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PAHLE INDIA FOUNDATION
FACILITATING POLICY CHANGE

India's Course to 2030

Approaching the New Decade

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The Significance of a USD 5 Trillion Economy

Economic Growth – Nominal, Real & Per Capita

At the beginning of FY 2019, India's gross domestic product (GDP) stood at USD 2.7 trillion. In her maiden Budget Speech on 5th July 2019, Finance Minister Nirmala Sitharaman set out the government's 'Vision for the Decade.' She emphasised that it was well within India's economic capacity to attain the USD 5 trillion mark in upcoming years.[1] The Government measures prices and growth using 2011-12 as the base year. The Government also usually quotes nominal GDP figures, however what we truly need to look at and examine are real GDP figures. Only then will it be possible for us to measure real growth.

The difference between real and nominal GDP is that the former is pure growth, while the latter factors in prices and growth. That is, if the price of a good is INR 50 in the base year and increases to INR 60 by the following year, then the 20 per cent increase in price actually increases the total earnings from the good, assuming that the same quantity is sold in both years. However, in terms of productivity given that the same quantity of the good has been produced, the growth has purely been a factor of an increase in the price. Therefore, nominal GDP which factors in price and growth is always higher than real GDP. Real GDP measures output using constant prices as opposed to nominal GDP which uses current prices. Real GDP therefore measures true growth in terms of increases in productivity and value added.

The number of years, required to reach a given value of GDP, can be estimated by projecting GDP (both nominal and real) at current and varied rates of growth. Table 1 provides nominal GDP estimates and Table 2 provides real GDP estimates for the next decade, at the current rate of growth and rates required to attain the USD 5 trillion goal.

In terms of nominal GDP figures, at India's current rate of growth of 7 per cent[2], the USD 5 trillion goal will be attained by 2025, as can be seen from Table 1. Therefore, even if the government does nothing but maintain status quo, the USD 5 trillion goal will be met. The current slowdown in the economy is rightly a source of contention, which brings to the fore the question – *"will this goal be met given an economic slowdown?"* It must be noted, that even at an arrested pace of growth of 5 per cent, the USD 5 trillion goal will be met by 2026. Therefore, even in terms of a slowdown or on sheer auto-pilot at the current growth rate – the 5 trillion goal is neither a great accolade nor an indictment of prior economic growth.

In fact, it is perhaps the path of least resistance for any government. This brings up the more pertinent question – *"what is so sacrosanct about 5 trillion?"* Is it a factor of how quickly the world's other top economies have attained this level of GDP?

[1] Para 6, Budget 2019-2020, Speech of Nirmala Sitharaman, Minister of Finance, 5th July 2019: pg. 2.

[2] 'GDP Growth (annual %) – India', Data, The World Bank. https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=IN

Table 1: Nominal GDP Projections 2019-2030 (in USD trillion)

Growth Estimates/Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
5%	2.7	3.0	3.2	3.5	3.8	4.2	4.6	5.0	5.4	5.9	6.4	7.0
5.75%	2.7	3.0	3.3	3.6	3.9	4.3	4.7	5.2	5.7	6.3	6.9	7.6
6%	2.7	3.0	3.3	3.6	4.0	4.4	4.8	5.3	5.8	6.4	7.0	7.7
6.25%	2.7	3.0	3.3	3.6	4.0	4.4	4.9	5.4	5.9	6.5	7.2	7.9
7%	2.7	3.0	3.3	3.7	4.1	4.6	5.1	5.6	6.3	6.9	7.7	8.6
8%	2.7	3.0	3.4	3.8	4.3	4.8	5.4	6.0	6.7	7.5	8.4	9.4
9%	2.7	3.1	3.5	3.9	4.4	5.0	5.7	6.4	7.2	8.2	9.2	10.4
10%	2.7	3.1	3.5	4.0	4.6	5.2	6.0	6.8	7.7	8.8	10.1	11.5

Source: Calculated based on GDP as of FY 2018 and varied growth rates.

Table 2: Real GDP Projections 2019-2030 (in USD trillion)

Growth Estimates/Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
5%	2	2.1	2.2	2.3	2.4	2.6	2.7	2.8	3	3.1	3.3	3.4
5.75%	2	2.1	2.2	2.4	2.5	2.7	2.8	3	3.1	3.3	3.5	3.7
6%	2	2.1	2.3	2.4	2.5	2.7	2.9	3	3.2	3.4	3.6	3.8
6.25%	2	2.1	2.3	2.4	2.6	2.7	2.9	3.1	3.3	3.5	3.7	3.9
7%	2	2.2	2.3	2.5	2.6	2.8	3	3.2	3.5	3.7	4	4.2
8%	2	2.2	2.3	2.5	2.7	3	3.2	3.4	3.7	4	4.3	4.7
9%	2	2.2	2.4	2.6	2.8	3.1	3.4	3.7	4	4.4	4.8	5.2
10%	2	2.2	2.4	2.7	2.9	3.2	3.6	3.9	4.3	4.7	5.2	5.7

Source: Calculated based on GDP as of FY 2018 and varied growth rates.

Alternatively, does achieving the 5 trillion mark, pave the way for India's entry into the 'top-economy club?' Only two of the world's top economies have annual nominal GDP figures well above the USD 5 trillion mark – the United States of America (USA) and China (Table 3).

USA remains the leading economy with a GDP of USD 20.4 trillion in 2018 and USD 19.4 trillion in 2017. China ranks second, with a GDP of USD 13.4 trillion in 2018 and USD 12.2 trillion in 2017[3]. Even countries with robust economies such as Japan and Germany, remain at USD 4.9 trillion and USD 4 trillion respectively. In fact, India's GDP figures match those of the United Kingdom at USD 2.8 trillion and USD 2.6 trillion in 2018 and 2017 respectively.

Table 3: GDP (Nominal) (in USD trillion)

Sr. No	Country	2018	2017
1	United States of America	20.4	19.4
2	China	13.4	12.2
3	United Kingdom	2.8	2.6
4	Japan	4.9	4.8
5	Germany	4	3.7
6	India	2.8	2.6
7	Brazil	1.8	2
8	Russia	1.6	1.5

Source: World Bank and International Monetary Fund

At current growth, factoring in a slowdown and in comparison, to the world's top economies, India still has a steady, stable economy. However, in terms of real GDP figures, the USD 5 trillion goal can only be achieved by 2029 or 2030 with a 10 and 9 percent growth rate respectively. If the government has been unable to push growth from 7.4 per cent in 2014 to 8 per cent by the end of 2018[4], one can only imagine how difficult it will be to move from a 7 percent to 9 percent growth rate, in order to achieve a USD 5 trillion GDP.

Given the herculean task of ensuring a 2 per cent increase in real GDP, the government has its work cut out for it. Before diving into how 2 per cent can be added to India's current growth rate, it would be worth exploring whether just a growth in GDP, nominal or real or even becoming a USD 5 trillion economy is truly meaningful growth. In India, economic growth has not yet translated to prosperity and well-being for wide swathes of the population. Therefore, it is not GDP that is a measure of whether the average Indian is economically well off, but GDP per capita. In this regard, India's performance has been dismal.

Despite being the world's third largest and seventh largest economy based on GDP by purchasing power parity (PPP) and nominal GDP respectively, India's GDP per capita stands at a meagre USD 2,036.[5] This places it in the 142nd position out of a cohort of 189 countries. While the low GDP per capita is often

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[3] World Bank and International Monetary Fund.

[4] 'GDP Growth (annual %) – India', Data, The World Bank. https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=IN

[5] World Economic Outlook 2019, International Monetary Fund.

attributed to the 1.37 billion plus population, India's largely agriculture and services-based economy must also be taken into account. Over 60 per cent of the population resides in the rural hinterlands, and agriculture continues to employ anywhere between 58 and 64 per cent of the population.[6] If half of India's population is only contributing to 17.1 per cent of GDP[7], then their earnings from this production or value add is low. The agrarian sector continues to be plagued by the lack of infrastructure, technology and policies, needed to provide a fillip. The services sector on the other hand has plateaued, with no significant increase in value addition to GDP over the past few years (Table 4).

Most countries in their economic growth journey, move from being primarily agricultural to industrial, building their manufacturing capabilities. Subsequently the transition to a largely services-driven economy is seen. India's journey is unique in that it has leapfrogged from being primarily agrarian to a services economy. Industry in India remains woefully unencouraged and technologically laggard. Manufacturing has not had requisite policy attention until recently, and even that which it has received has remained on paper. Given this, it becomes quite clear that funding 2 per cent growth is going to be a mammoth task. This, however, is the opportune time to begin focusing on the aforementioned sectors in order to lay the groundwork for such an increase.

Table 4: Growth Rate of GVA at Basic Price at Constant (2011-12) Prices (in %)

Industry	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Agriculture	1.5	5.6	-0.2	0.6	6.3	5	2.9
Industry	3.3	3.8	7	9.6	7.7	5.9	6.9
Services	8.3	7.7	9.8	9.4	8.4	8.1	7.5
GVA at basic price	5.4	6.1	7.2	8	7.9	6.9	6.6

Source: Reserve Bank of India (RBI)

6 'Rural population', World Bank, 2018. https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=IN

7 'Contribution of various sectors to GDP', Release ID 186413, Press Information Bureau, Government of India, 14th December 2018. http://pib.nic.in/newsite/PrintRelease.aspx?relid=186413

Pivotal Sectors

Agriculture – Maintaining Stability

While employment in agriculture has gone down steadily over the past five years from 46.6 per cent in 2013 to 43.8 per cent in 2018[8], it still accounts for a large portion of India's total employment. However, as mentioned before, agriculture contributes only 17 per cent to India's GDP. Moreover, despite the Green Revolution and several government initiatives, agriculture in India remains heavily dependent on the vagaries of the monsoons. The fact that the Economic Survey 2018-19 suggested switching focus from 'land productivity' to 'irrigation water productivity'[9], is a telling sign of the need to review how we approach agriculture and its input factors.

The most important input factor for agriculture is water. The World Resources Institute's Aqueduct Water Risk Atlas ranks India 13th out of 189 countries, placing the nation in the category of 'extremely high' water stress.[10] While Phase I of the Agriculture Census 2015-16 is complete, it measures only the size, area and number of land holdings and operational units.[11] Phases II and III which look into inputs, irrigation and productivity are yet to be published. As a result, there is no official data on irrigation to compare with estimates from international organisations. The Economic Survey 2018-2019 highlights two important facts in terms of water use in agriculture. First, 85 per cent of all landholdings are either marginal or small. Second, given that operational landholdings are small, farmers gravitate towards the cultivation of cash crops such as sugarcane and paddy, which are water intensive crops.[12] This inefficient cropping pattern exacerbates water stress.

In order to meet the goal of 'Doubling Farm Income by 2022', resource efficiency for all small and marginal farmers needs to be critically addressed. This includes facilitating the adoption of sustainable agricultural practices – soil and water conservation measures that are customized to in situ agro-climatic and ecological conditions. An oft-used approach of the government to resolve farmer distress has been the introduction of farm loan waivers, and credit schemes such as the Pradhan Mantri Fasal Bima Yojana (PMFBY). The PM-KISAN scheme introduced earlier this year in the Interim Budget was allocated INR 75,000 crores. This makes up approximately 50 per cent of the total allocation to 'Agriculture

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8 'Employment in agriculture (% of total employment)', World Bank, 2018. https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?end=2018&locations=IN&start=2010

9 Para 7.11, Chapter 7 – Agriculture and Food Management, Economic Survey 2018-19 (Volume II): pg. 177.

10 Aqueduct 3.0 Country Rankings, Aqueduct Water Risk Atlas, World Resources Institute, August 2019. https://www.wri.org/resources/data-sets/aqueduct-30-country-rankings

11 Phase I – Provisional Results, All India Report on Number and Area of Operational Holdings, Agriculture Census 2015-16, October 2018. http://agcensus.nic.in/document/agcen1516/T1_ac_2015_16.pdf

12 Para 7.12, Chapter 7 – Agriculture and Food Management, Economic Survey 2018-19 (Volume II): pg. 177.

and Allied Activities' for 2019-20, which is INR 1,51,518 crores.[13] The actuals for 2017-18 and revised estimates for 2018-19 stood at INR 52,628 crores and INR 86,602 crores respectively.[14] Since the 2019-20 allocation is inclusive of the allocation for PM-KISAN, it must be noted here that this leaves the budget estimate for 2019-20 at INR 76,518 crores. This means the allocation for 'Agriculture and Allied Activities' has effectively come down by over INR 10,000 crores from 2018-19's revised estimates. A reduction in the allocation for other agricultural and allied activities is not an encouraging sign. A possible explanation for this reduction is that certain funds had to be redirected in order to meet the allocation for PM-KISAN.

Agriculture will require policy interventions in the ambit of resource efficiency, credit and capital availability and infrastructure provision. Outcomes of these interventions will only be apparent over a considerable period of time, provided they are implemented and monitored effectively. Given this, agriculture cannot be expected to drive GDP growth. It can hold the fort in terms of maintaining its contribution to GDP at steady levels over the next few years, or increase its contribution marginally.

[13] 'Expenditure of Major Items', Expenditure of Government of India, Budget at a Glance, Union Budget 2019-20. https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag6.pdf

[14] Ibid.

Manufacturing – Giving Infrastructure a Leg-Up

Having graduated from an agrarian to services economy, India missed the bus on developing its manufacturing capabilities. Industry's contribution to GDP stood at approximately 29 per cent, at the end of 2018.[15] The growth of industry's gross value added (GVA) stood at 6.9 per cent at the end of FY 2018. That is a drop of 3 percentage points from the previous high of 9.6 per cent in FY 2015, and indicative of a slump in the sector. The automobile industry has been in the doldrums over the last quarter, with sales at all-time lows.[16] The automobiles sector usually contributes around 49 per cent to India's manufacturing GDP. However, with this sector in a slump for varied reasons it no longer provides the growth boost it is capable of. Similarly, textile consumption has slowed as exports have gone down.[17] With no hope of a growth push from either of these two sectors, the only sector with the potential to drive growth is construction.

In terms of contribution to India's GDP the construction sector is the second largest. It contributes nearly 8 per cent of India's GDP and employs nearly 5 crore people. Construction can be divided into three segments - residential, commercial and infrastructure. The infrastructure segment is further divided into public and industrial construction. Public infrastructure includes roads, railways, airports, irrigation, waterways, hospitals, schools and ports. Industrial construction mainly consists of oil and gas refineries, power sector, telecommunications and other industrial assets.

Apart from generating direct employment for a large spectrum of labourers, the forward and backward linkages in construction contribute greatly towards indirect employment in the country. Currently, the Indian construction industry consumes 55 per cent of all steel, 15 per cent of all paint, and 30 per cent of all glass manufactured in the country. Pahle India Foundation conducted a study on the impact of the Pradhan Mantri Awas Yojana (PMAY). The study found that for successfully completing the objectives of this affordable housing scheme, the government will have to invest nearly INR 3 trillion annually. This could potentially translate to an overall 2 per cent increase in GDP. This level of investment will increase demand, therefore leading to an increased output of steel and cement, to the order of 7 million tonnes and 43 million tonnes respectively.[18]

[15] 'Contribution of various sectors to GDP', Release ID 186413, Press Information Bureau, Government of India, 14th December 2018. http://pib.nic.in/newsite/PrintRelease.aspx?relid=186413

[16] 'With India's economy growing at about 7%, why the auto industry is hurting so badly?' Malini Goyal, Economic Times, 28th April 2019. https://economictimes.indiatimes.com/industry/auto/auto-news/when-indias-economy-is-growing-at-about-7-then-how-could-auto-industry-be-hurting-so-badly/articleshow/69075048.cms?from=mdr

[17] 'Why India's apparel exports are falling' Mark to Market Team, Live Mint, 23rd April 2019. https://www.livemint.com/market/mark-to-market/why-india-s-apparel-exports-are-falling-1555958315769.html

[18] http://pahleindia.org/pdf/Pahle_India_Pradhanmantri.pdf

Better infrastructure in a country eases and increases trade opportunities, as it is integral to conducting business as well as facilitating transport and production. Social infrastructure such as hospitals, schools or community centres are equally important. They are essential in terms of helping maintain the health, education, and overall welfare of the people. The social capital fostered as a result of well-maintained social infrastructure is key to ensuring a peaceful and productive society. Social infrastructure is critical to engendering meaningful growth. Therefore, the current government has made construction a priority sector and has increased public investments in this sector. Increased public investment in infrastructure has led to some improvement in India's overall infrastructure quality, as captured by the World Bank Infrastructure Index (Table 5). Since the government has chosen to focus on this sector, the push provided by schemes such as Swachh Bharat, Smart Cities Mission, Bharat Mala, Sagar Mala, PMAY, Heritage City Development and Augmentation Yojana (HRIDAY), Atal Mission for Rejuvenation and Urban Transformation (AMRUT), and Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) have helped India make considerable progress in terms of ranking in the World Bank Infrastructure Index.

The foreign direct investment (FDI) policy for the construction sector has been eased over the last five years. 100 per cent FDI is allowed through the automatic route for the creation of special economic zones (SEZs), industrial parks, and various other development projects. The government has recently announced that it will invest INR 100 lac cores over the next five years in the infrastructure segment. Though the government is doing all it can to boost India's infrastructure needs the segment is still unable to live up to its full potential. This is because of two causal factors. First, infrastructure requires sizeable, long-term investments for any project to be completed. Second, the reduction in GDP growth over the last few quarters has reduced overall investments in construction, which is in line with the overall slowdown in the economy.

Table 5: Quality of Overall Infrastructure, World Bank

Year	Country Name	World Ranking
2007-2008	India	79
2008-2009	India	90
2009-2010	India	89
2010-2011	India	91
2011-2012	India	86
2012-2013	India	87
2013-2014	India	85
2014-2015	India	90
2015-2016	India	74
2016-2017	India	51
2017-2018	India	46

Source: World Bank

Given that construction has linkages to other core industries, if the reasons for the sector's slowdown are not addressed in time, it could lead to a huge setback for the country's economy.

Akin to other sectors under manufacturing, construction has faced declining demand and a severe credit

Table 6: Credit Deployment to Infrastructure Sector

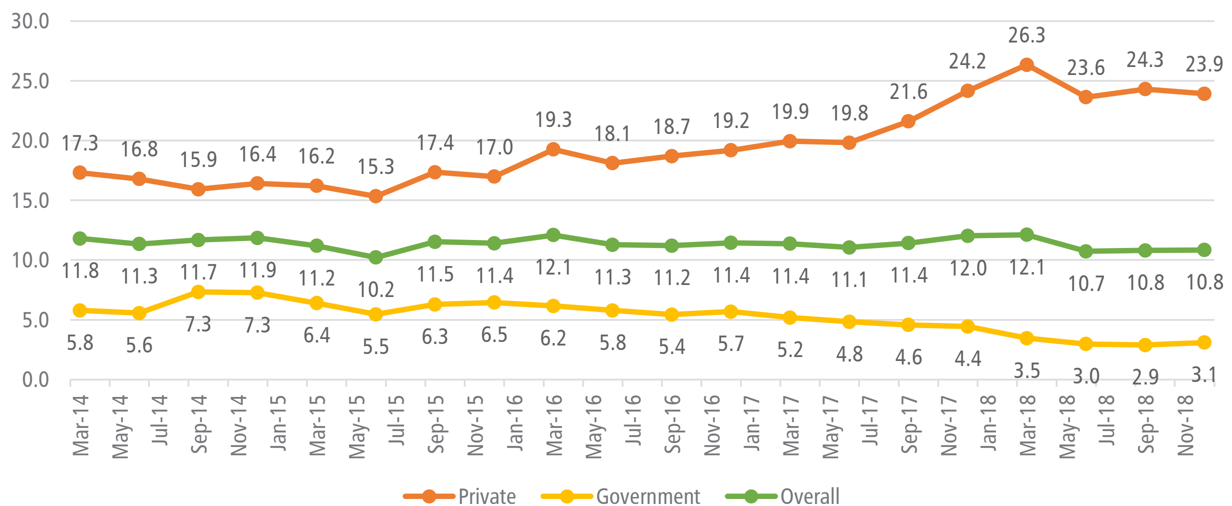
	Outstanding (INR Billion)					Growth (per cent, y-o-y)			
Year	Mar-08	Mar-11	Mar-14	Mar-18	Nov-18	2010-11	2013-14	2017-18	Dec-18
Infrastructure	2,053	5,214	8,364	8,909	9719	20.7	13.6	8.4	12.8

Source: Reserve Bank of India (RBI)

crunch. While the absolute credit deployment for this sector has been growing, the pace of growth has slowed down quite considerably in the last few years (Table 6). The credit crunch has affected the financing of existing projects, which has driven up the number of stalled projects in the country (Figure 1). The value of stalled projects as a percentage of total projects being implemented has risen from 16.8 per cent in May 2014 to 26.3 per cent in March 2018. As a consequence of the increase in the number of stalled projects, real estate dealers and developers have little to no steady income from sale of constructed assets. This has led to an increase in the non-performing assets (NPAs) emanating from this sector (Table 7).

This rising trend of NPA and lower credit availability for this sector could have a negative effect on this critical sector. This can prove to be disastrous not only for the sector, but also for the long-term growth of the economy. The government should therefore take

Figure 1. Value of Stalled Construction Projects to Total Projects



Source: CMIE Capex

Table 7: Sub-sector Wise Credit Share and Stressed Assets Ratio

Sub Sectors	Credit to Industry (% Share)		Stressed Advance Ratio (%)	
	2016	2017	2016	2017
Mining & Quarrying	1.3	1.2	16.3	21.1
Food processing	5.5	5.6	17.7	21.4
Textile	6.9	7.3	21.3	27.5
Paper and their products	1.2	1.2	16	22.8
Chemical and their Products	5.3	6.5	11.8	8.9
Rubber, Plastic and their	1.2	1.4	10.8	8.6
Cement and their products	1.7	1.9	19	34.6
Basic Metal and their Products	13.6	14.7	34.4	45.8
Engineering	5.3	5.5	16.5	19.4
Vehicles Parts and Transport equipment	2.4	3	13.8	25.6
Gems and Jewellery	2.5	2.7	13.2	13
Construction	2.9	3.5	27.1	24.5
Infrastructure	32.8	34	16.7	18.3

Source: Reserve Bank of India (RBI)

measures to rejuvenate stalled projects and restore credit flow for crucial infrastructure projects. This will help in kick-starting economic activity in all other industries linked with construction and help spur not just production but also employment and income.

The resolution of NPA issues in the banking sector is critical for construction and infrastructure to pick up. The stamp duties levied on housing varies across states. This is something that can be rationalised, with a uniform system that can be implemented across states. The existing inventory build-up in the housing sector can be addressed by ensuring availability of credit for home buyers. Personal loans availed for downpayment for purchasing a home should be provided at lower rates. Certain social and public infrastructure such as schools and hospitals, or even for tourism, and for industrial infrastructure such as warehouses and dams – which are of social and strategic importance, should be categorised as priority sectors. Social infrastructure projects should be the focus, as they have shorter gestation periods and can provide quicker returns when operational. Once brought under the ambit of priority sector lending, capital costs required for specific projects will reduce.

Services – Looking Beyond Information Technology Enabled Services

India's growth pattern was not one that followed tradition. We skipped the manufacturing stage and went straight to services. Whether this was a wise move or not is still a topic of debate, but there is little doubt that India's growth was because of information technology (IT) and information technology enabled services (ITES). After nearly two decades the sector seems to have plateaued. While the manufacturing sector certainly requires attention, India must also identify new service industry sectors that can drive growth.

The priority for the incumbent government is employment generation. Two sectors that are a huge source of employment and employment generation are retail and tourism, and both sectors have not been accorded the importance that they deserve until very recently. After the Incredible India campaign, for the first time, there have been specific government schemes focussing on increasing tourist footfall in India. Similarly, the retail sector now has a parent ministry in Department for Promotion of Investment and Internal Trade. Hopefully the recent focus on these sectors will generate the necessary returns in the coming decade.

Tourism, for instance, is often viewed as a driver of growth. Many countries have solely relied on tourism to sustain their economies. For instance, 14.1 per cent of Cambodia's GDP comes from tourism. Their single focus on increasing tourist footfalls, from around 15,000 in the 1990s to close to 5 million currently, has helped their economy grow too. Tourism is also a great way to drive up consumption. Infact, according to United Nations World Tourism Organisation (UNWTO) data, in 2017, 1.3 billion tourists spent approximately USD 1 trillion across the world. The highest amount of money spent was in the USA where 74.7 million international tourists spent USD 210.7 billion. The US is followed by other European destinations like France and Spain. In Asia, Thailand was the leader with tourists spending approximately USD 57.5 billion with 35.4 million tourists visiting the country.

The Indian tourism industry is the seventh largest industry in the world with respect to its contribution to the GDP. According to World Travel and Tourism Council (WTTC) report of 2018, the tourism sector accounts for USD 234 billion (INR 16,380 billion), that is 9.4 per cent of India's GDP (WTTC report, 2018) and is expected to further grow to USD 424 billion (INR 29,680 billion) by 2027. After financial services and real estate, it is the highest contributor to GDP. With respect to employment generation, between 2010 and 2013, the average contribution by tourism was approximately 7.8 per cent, whereas from 2014 to 2016, it has increased to approximately 9.1 per cent (WTTC report, 2018). In a span of two years, there has been a boost of 1.3 per cent.

On the other hand, retail is one of the largest industries in India. It contributes around 10 per cent to India's GDP and 8 per cent in total employment. In 2016, the market size was valued at USD 672

billion and is expected to reach USD 1 trillion by 2020.[19] The retail sales of USD 1 trillion in 2017 made India the leading country followed by China in AT Kearney's Global Retail Development Index 2017.[20] In recent times, India's retail sector has grown due to robust growth in the e-commerce sector. On the back of a growing middle class and technologically savvy population at that, the e-commerce sector is expected to grow to USD 200 billion by 2026. Online retail sales in India are expected to grow by 31 per cent to touch USD 32.70 billion in 2018, led by Flipkart, Amazon India and Paytm Mall. This figure is only expected to increase with the entry of Reliance. E-commerce is also helping the internet economy to grow; it is expected to double from USD 125 billion as of April 2017 to USD 250 billion by 2020. With a large consumer base and steadily increasing smart phone penetration and internet users, e-commerce revenue in India is expected to quadruple from its current numbers by 2022. In 2018, the largest contributor to e-commerce revenues, almost half, was from the sale of electronics, mainly mobile phones, followed by apparel at around 30 per cent. Two emerging segments are food and grocery, and baby products, both of whose online sales doubled in the last two years.

Both tourism and retail have the capacity to generate foreign exchange earnings. With a suitable policy stimulus, FDI in retail sector could be tied to export targets rather than local sourcing requirements. This will afford, domestic manufacturers the opportunity to access foreign retail markets. For most retailers, the easiest products to export would be handicrafts, handlooms, and textiles. Just a small change such as this in the policy will not only help stoke growth in the textile sector, but also help exports grow. In the case of tourism, the relationship is fairly straightforward. Last year alone, India generated a total of USD 25 billion as foreign exchange earnings (FEE) (Table 8).

For both sectors digital inclusion has played a significant role. In the case of retail, e-commerce has been the disruptive change. However, e-commerce is a recent phenomenon. In the beginning, most business in the e-commerce sector was generated through online travel bookings. However, concerted efforts of policymakers and private players towards stepping up financial inclusion, financial literacy, and digital inclusion, have all contributed to the growth of e-commerce in India. From merely booking travel tickets and movie tickets online, consumers are now comfortable ordering even high value products online, something that was not so common even a couple of years ago. Three significant factors have facilitated this shift in consumer confidence. First, the e-commerce companies have streamlined their logistics, delivery systems, and reverse logistics systems to ensure that the consumer is least

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[19] https://www.livemint.com/Industry/5Xu8P8GltZk8XEsz7Xk74O/Indian-retail-market-to-double-in-next-5-years-report.html (last accessed on March 27, 2018).

[20] https://www.atkearney.com/global-retail-development-index/article?/a/the-age-of-focus-2017-full-study (last accessed on March 27, 2018).

Table 8: Foreign Exchange Earnings from Tourism (2010-2018)

Year	FEE (in USD billion)	Change over previous year (Percent)
2010	14.49	
2011	17.70	22.2
2012	17.97	1.5
2013	18.39	2.4
2014	19.70	7.1
2015	21.01	6.7
2016	22.92	9.1
2017	27.31	19.1
2018 (Jan-Nov)	25.83	6.4

Source: Indian Tourism Statistics 2018

inconvenienced, even if they change their mind about their order at the time of delivery. Second, digital inclusion and financial literacy has increased the general level of trust and comfort for undertaking financial transactions online. External disruptions such as demonetisation helped drive this further. Third, the penetration of smart phones and 4G networks brought the convenience of shopping on the go to the fore. It also meant that consumers in remote corners in India suddenly had access to brands and products that were otherwise unavailable to them.

In tourism, India still has a long way to go. As per the Travel and Tourism Competitive Index (2017) India ranks 112 out of 136 countries on digital readiness. Other areas where India ranks very low are in environmental sustainability (134), in tourist infrastructure (110), and in prioritising tourism (104). Infact when it comes to prioritisation of tourism, India has slipped six places from 2013 (Table 9). However, investments in air, ground and port infrastructure seems to have paid off. India's ranking has infact gone up from 39 in 2013 to 32 in 2017.

Both retail and tourism require attention. These two sectors can help contribute to a significant increase in India's GDP and towards employment creation. The next decade must focus on these new sectors and find synergies for growth. While these two sectors may be service sectors, they have strong interlinkages with many other sectors including infrastructure and construction. These two sectors will be a good place to begin.

Table 9: India's Competitive Performance (2013-2017)

Pillar no.	Index Components	Rank 65/139 (2013)	Rank 52 /141 (2015)	Rank 40/136 (2017)
1	Business environment	67	107	89
2	Safety and Security	74	129	114
3	Health and Hygiene	109	106	104
4	Human Resources and Labor Market	96	111	87
5	ICT Readiness	111	114	112
6	Prioritisation of Travel and Tourism	98	96	104
7	International Openness	111	69	55
8	Price Competitiveness	20	8	10
9	Environmental Sustainability	107	139	134
10	Air Transport Infrastructure	39	35	32
11	Ground and Port Infrastructure	42	50	29
12	Tourist Service Infrastructure	95	109	110
13	Natural Resources	9	17	24
14	Cultural Resources and Business Travel	24	10	9

Source: Travel and Tourism Competitiveness Index (TTCI) Reports (2013-17)

Funding Five Trillion

Money from Where?

To fund growth, India will have to reinvigorate the financial sector. The NPA crisis of the banking sector and the liquidity crisis amongst the non-banking financial companies (NBFCs) have left India's financial sector weak and its propensity to fund undermined. The government has often relied on other avenues such as raising bonds, overseas foreign borrowings, or divesting government share in businesses.There have been many debates on the productivity of state owned enterprises. The private sector too has been apprehensive about investing in the economy, since cost of capital is very high and credit is not easily available.

The slump in the auto industry, gold, real estate could all be cyclical in nature, but some part of it does have to do with the slump in consumption. This slump in consumption presents an interesting study. Typically a slowdown in consumption could mean either an increase in savings or a decrease in income. In India the average savings rate has been reducing (Table 10). Despite structural reforms such as demonetisation and GST, tax collections have not gone up. On the contrary, they seem to be coming down as a percentage of GDP (Figure 2). Data suggest that the number of tax payers have gone up significantly. For instance, the total number of individual tax payers has gone up from nearly 53 million people in AY 2013-14 to as many as 74 million in AY 2017-18.[21] However, what is interesting is the definition of a tax payer. As per the income tax authorities, *"A "Taxpayer" is a person who either has filed a return of income for the relevant Assessment Year (AY) or in whose case tax has been deducted at source in the relevant Financial Year but the taxpayer has not filed the return of income."*

One way of interpreting the aforementioned figures is to say that as many as 20 million people have either recently entered the workforce and/or have started to pay taxes. When we compare this to figures of tax return filers and total tax filings, we see that the number of tax payers is actually much higher than the number of tax filings or number of tax return filers (Figure 3). The total number of tax filings for FY 2017-18 was around 69 million, of this, return filers are 54 million for the same period. However, total number of tax payers is 74 million. This means that of the 74 million, around 20 million people for whom tax is deducted at source, are still not tax compliant. However, this figure has been coming down. Tax compliance is on the rise, and yet, tax collections as a

Table 10: Savings Rate (as a % of GDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Gross Domestic saving	34.6	33.9	32.1	32.2	31.1	30.3	30.5

Source: Reserve Bank of India

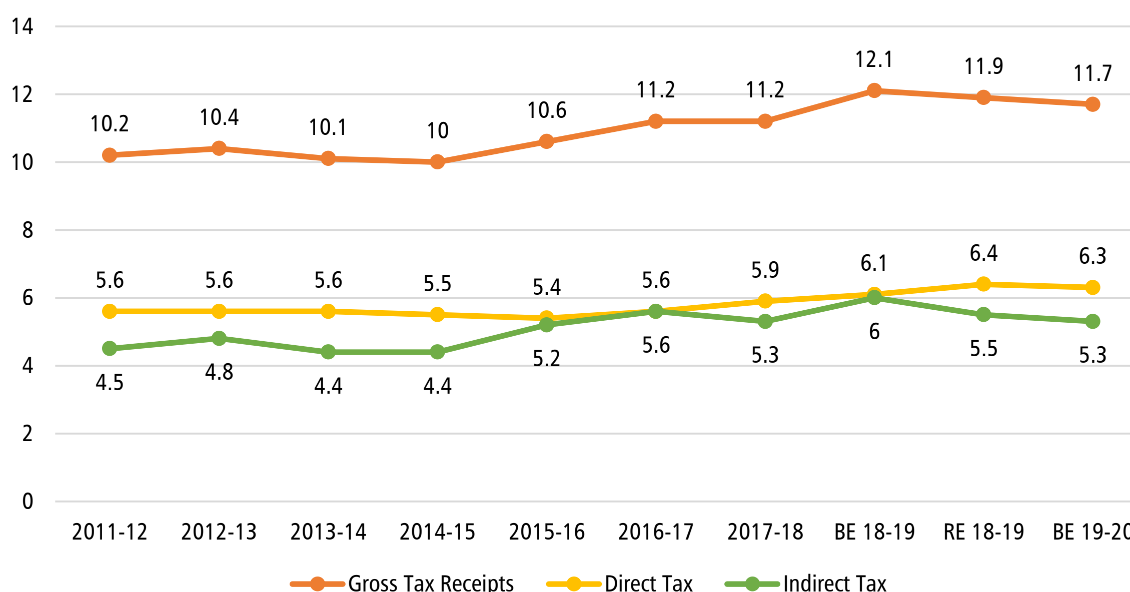
[21] Data taken from www.incometax.gov.in.

percentage of GDP has dropped. This could only mean that incomes are reducing and by extension that the economy has indeed slowed down.

It is usually at such times that the government resorts to injecting the economy with a fiscal stimulus. The recent July 2019 Budget has made provision for such stimulus through the PM-KISAN scheme and through the 2 per cent interest subvention offered to micro, small, and medium enterprises (MSMEs). However, fiscal stimuli always put pressure on the country's balance sheet. Either the government must have a surplus that can be passed on to the people and the economy, or the government will have to relax the fiscal deficit targets. The incumbent government has been particular about their fiscal discipline. Hence, the government will have to look at ways of raising revenues.

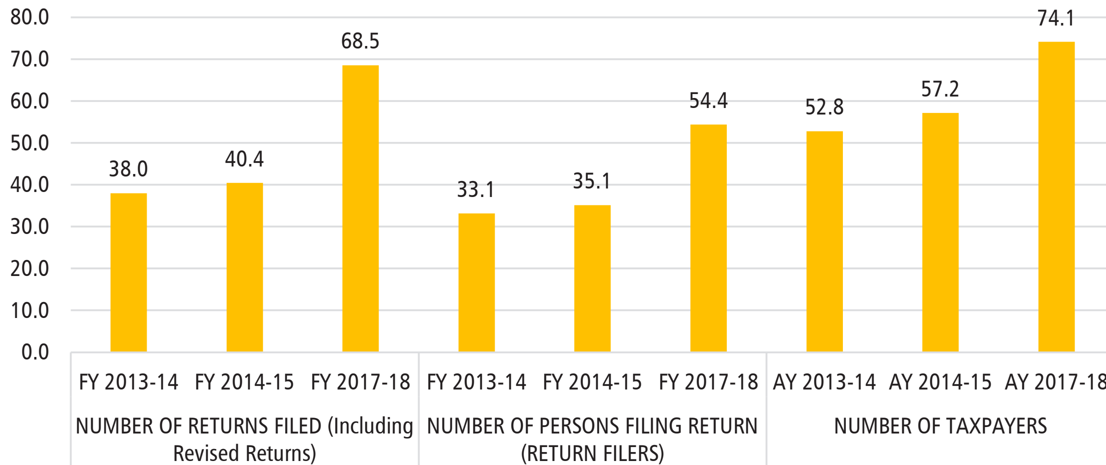
With tax collections as a percentage expected to drop further in the next fiscal year the government has had to turn to three alternative measures to expand government revenues, with the ultimate intention of spurring growth. First, an extra tax of 2 per cent has been levied on the super-rich. Second, the import duty on gold has been increased by another 2.5 per cent. Third, the government has set an incredibly ambitious target of INR 1,05,000 crores for disinvestment. In the past, governments have rarely met their disinvestment targets (Figure 4), and when they have, it has been the result of profitable public sector undetakings (PSUs) stepping in, and for this successive governments have been criticised. It is therefore praiseworthy that the incumbent government has redefined government ownership to also include indirect ownership through PSUs.

Figure 2: Trends in Tax Receipts (as a % of GDP)



Source: Union Budget 2019-20

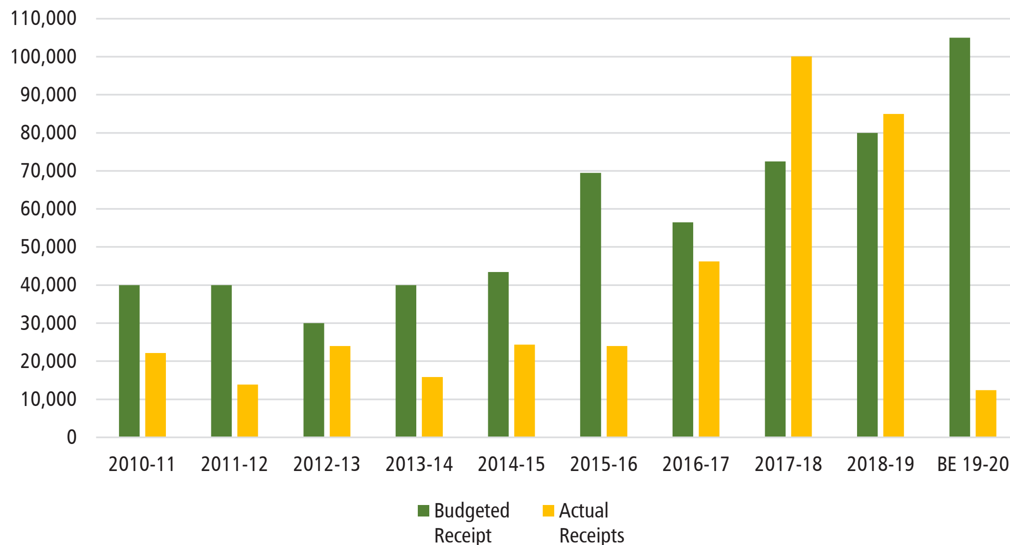
Figure 3: Total Number of Tax Filing, Income Tax Return Filers, and Taxpayers (in millions)



Source: www.incometax.gov.in

Note: Figures in the print version carried errors that have now been corrected in the figure and related content.

Figure 4: Disinvestment – Budgeted Receipts vs. Actual Receipts (in INR crores)



Source: Department of Public Assets and Investment (DIPAM), Ministry of Finance

At its core, the reason why disinvestment strategies in India have often failed, has been because, investors see no value in the asset. If the government is indeed serious about its disinvestment strategy, then certain structural policy changes will have to be made immediately. If the government were not to meet their disinvestment targets, finding money for any sort of fiscal stimulus will be a long shot.

Way Forward

A USD 5 trillion target is a meaningful target if we mean for it to be in real GDP terms. If we do, India has a decade to focus on her growth story. The next decade rings with it new opportunities, especially with the integration of technology into almost all walks of life. Digitisation has and will be one of the greatest disruptors of business and fuelers of growth. Whether it is the use of technology in the financial sector, allowing for better connectivity, or rethinking transportation and mobility, technology can help India make that significant jump from 7 per cent to 9 per cent, and therefore we must not lose sight of this objective.

However, if one were to use per capita income as an indicator of meaningful growth, which means that economic growth has indeed helped increase per capita income and standard of life, India will have to approach the next decade innovatively. As this policy brief points out, while we must continue to pay attention to our core sectors, we must also acknowledge that India's growth may come from non traditional sectors. Our broad recommendations for the next decade for India are the following:

1. While USD 5 trillion by 2025 for nominal GDP is a number target, a more meaningful target will be USD 5 trillion by 2030 in real GDP terms.
2. India must not just look to increase GDP from the current 7 per cent to required 9 per cent for the 2030 target, but also focus on attaining more meaningful growth, which means increase in per capita income.
3. In order to deliver on this meaningful growth, we must focus on new sectors, such as social infrastructure, retail, and tourism. These sectors have huge multipier effects and have the ability to create employment across the value chain for people of various skill sets.
4. While India seems to always have a growth plan, we rarely have a funding plan. Financing five trillion will not be an easy task.
5. India must focus on revamping our tax systems. Strutural changes have certainly led to increase in tax compliance, but not in tax collection. The focus must shift to increasing tax collection
6. India needs a new disinvestment policy that focuses on building asset value for prospective investors.

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