



Pathways to a Viksit Bharat

India must build stronger institutions and a more inclusive growth strategy to avoid falling into the middle-income trap

The Government of India in 2022 set itself the goal of a “Viksit Bharat” (Advanced India). The Prime Minister referred to it again during the recent opening of the new Parliament and in the latest meeting of the new NITI Aayog. I am thrilled with this goal because my co-author and I suggested a similar vision of a “Samrudhha and Sajit Bharat @100” (Prosperous and Inclusive India @100) in our book, *Unshackling India: Clear Choices and Hard Truths for Economic Revival*.

But what does it mean to become a “Viksit Bharat”? While the size of the economy is important for many reasons, it does not alone qualify a country for advanced status. For instance, China is the world’s second largest economy and considered a superpower that will eventually overtake the US, but it is not considered advanced as its average citizen is four times poorer than the average Britisher and six times poorer than the average American. Similarly, India is now the world’s fifth largest economy, having overtaken the UK, but the average Indian is 20 times poorer than the average Britisher. So we have a long way to go on the yardstick to be considered advanced.

In 2022, the International Monetary Fund categorised 41 countries as advanced economies, but its definition is not clear or consistent over time. The

World Bank, using a cut-off for gross national income (GNI) per capita of \$13,205 in 2022 prices, classifies around 80 countries in the “high-income” category. At the United Nations Development Programme (UNDP), the Human Development Index (HDI), which adds a human dimension (life expectancy, education) to GNI per capita, classifies 66 countries into the “very high human development” category — its rough definition of an advanced economy.



IF TRUTH BE TOLD

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It’s hard to predict what will be the attributes of an advanced economy in 2047, but since the World Bank and the UNDP have clear criteria to define an advanced economy, let’s use those. It will take 25 years at a growth rate of 7 per cent per annum in GNI per capita to reach today’s developed country’s GNI per capita of \$13,205. This means GNI must grow at around 8 per cent per annum for the next 25 years, factoring in population growth. Few countries have achieved this persistent growth except for China in recent memory.

India’s HDI score in 2021 was 0.633 and to reach the cut-off of very high human development at 0.8 will require HDI annual growth of around 0.9 per cent per annum. India’s growth in HDI was around 1.25 per cent per annum between 1990 and 2021. But remember as you go higher up the HDI score it

gets more difficult as life expectancy and schooling reach upper limits and income growth must do the heavy lifting to get a better HDI score. India’s HDI grew at only 0.88 per cent per annum from 2010-21. So, to reach the very high human development category cut-off will require we keep this rate for the next 25 years — again not so easy to do.

India’s HDI score fell from 0.647 in 2018 to 0.633 in 2021. The pandemic hurt incomes but also affected schooling and life expectancy as thousands (some estimate millions) died. By way of comparison, HDI scores rose in Bangladesh and Thailand despite the pandemic. India was hit harder also because at its level of development, it has a disproportionately large share of vulnerable employment (no fixed contracts) at 77 per cent. In Bangladesh it’s 55 per cent, roughly where India’s share should be (see chart) making it highly vulnerable to shocks from financial crisis or pandemics. Youth unemployment at 23.2 per cent in 2022 is also very high. Female labour force participation is very low and declining. India must use its demographic dividend much better than it has done so far. Rising inequality has also hurt its score. The UNDP calculates that India’s HDI score declines by 24 per cent due to inequality. Halving inequality would increase India’s HDI score above 0.7 and classify India into the high HDI category. To become “Viksit” (advanced) we not only need a more “Samrudha Bharat” (prosperous) but also need to make a more “Sajit Bharat” (inclusive).

While 80 countries have advanced country status on the World Bank classification, 104 more are aspiring to be one. These are divided further into 51 lower middle-income and 53 upper middle-income countries. Many upper middle-income countries such as Argentina and Brazil have also stumbled and are stuck in the so-called middle-income trap. They did not build the institutional wherewithal required to make a successful attempt to become a developed economy.

India, which is now a lower middle-income country, must first strive to reach the upper middle-income status that requires a GNI per capita of \$4,255 in 2022 prices. If India grows at 7 per cent per annum in GNI per capita, it will reach the upper income status by around 2032. It will then be a \$6-7 trillion economy in 2022 prices — easily the third-largest but still far away from an advanced economy status. Likewise, the UNDP has a “High” human development category with a score between 0.7 and 0.8. Indonesia and Vietnam have an HDI just above 0.7. India with an HDI score of 0.633 can reach that category by about 2032 as well. Had we not seen a drop in our HDI score during the pandemic, we could have reached the high human development category earlier, possibly by 2030.

Consider reaching this intermediate stage as getting to base camp in an Everest climb in good order with stronger institutions, infrastructure, and human capital. If we get to base camp but do not have the wherewithal for the final assault, we too could fall into the middle-income trap. Once there with stronger human capital and institutions, India can plan the final assault to a “Viksit Bharat” @ 100. But we must remember that a goal without a proper set of plans and carefully selected intermediate targets is just a wish.

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