# 3 Development Issues of Indian Economy

On one hand, India is receiving accolades for a sustained growth rate and on the other, it is still a low-income developing economy. Even today, nearly 25 percent of India’s population lives below the poverty line. Also, there are many human and natural resources which are under-utilized. In this article, we will explore the economic issues in India.

## The Economic Issues in India

Being a poor country and one of the fastest growing economies in the world, there are some unique economic issues in India as explained below:

### **Low per capita income**

Usually, developing economies have a low per-capita income. The per capita income in India in 2014 was $1,560. In the same year, the per-capita Gross National Income (GNI) of USA was 35 times that of India and that of China was 5 times higher than India.

Further, apart from the low per-capita income, India also has a problem of unequal distribution of income. This makes the problem of poverty a critical one and a big obstacle in the economic progress of the country. Therefore, low per-capita income is one of the primary economic issues in India.

### **Huge dependence of population on agriculture**

Another aspect that reflects the backwardness of the Indian economy is the distribution of occupations in the country. The Indian agriculture sector has managed to live up to the demands of the fast-increasing population of the country.

According to the World Bank, in 2014, nearly 47 percent of the working population in India was engaged in agriculture. Unfortunately, it contributed merely 17 percent to the national income implying a low productivity per person in the sector. The expansion of industries failed to attract enough manpower either.

### **Heavy population pressure**

Another factor which contributes to the economic issues in India is population. Today, India is the second most-populated country in the world, the first being China.

We have a high-level of birth rates and a falling level of death rates. In order to maintain a growing population, the administration needs to take care of the basic requirements of food, clothing, shelter, medicine, schooling, etc. Hence, there is an increased economic burden on the country.

### **The existence of chronic unemployment and under-employment**

The huge unemployed working population is another aspect which contributes to the economic issues in India. There is an abundance of labor in our country which makes it difficult to provide gainful employment to the entire population.

Also, the deficiency of capital has led to the inadequate growth of the secondary and tertiary occupations. This has further contributed to chronic unemployment and under-employment in India.

With nearly half of the working population engaged in agriculture, the marginal product of an agricultural laborer has become negligible. The problem of the increasing number of educated-unemployed has added to the woes of the country too.

### **Slow improvement in Rate of Capital Formation**

India always had a deficiency of capital. However, in recent years, India has experienced a slow but steady improvement in capital formation. We experienced a population growth of 1.6 percent during 2000-05 and needed to invest around 6.4 percent to offset the additional burden due to the increased population.

Therefore, India requires a gross capital formation of around 14 percent to offset depreciation and maintain the same level of living. The only way to improve the standard of living is to increase the rate of gross capital formation.

### **Inequality in wealth distribution**

According to Oxfam’s ‘An economy for the 99 percent’ report, 2017, the gap between the rich and the poor in the world is huge. In the world, eight men own the same wealth as the 3.6 billion people who form the poorest half of humanity.

In India, merely 1 percent of the population has 58 percent of the total Indian wealth. Also, 57 billionaires have the same amount of wealth as the bottom 70 percent of India. Inequal distribution of wealth is certainly one of the major economic issues in India.

### **Poor Quality of Human Capital**

In the broader sense of the term, capital formation includes the use of any resource that enhances the capacity of production.

Therefore, the knowledge and training of the population is a form of capital. Hence, the expenditure on education, skill-training, research, and improvement in health are a part of human capital.

To give you a perspective, the United Nations Development Program (UNDP), ranks countries based on the Human Development Index (HDI). This is based on the life expectancy, education, and per-capita income. In this index, India ranked 130 out of 188 countries in 2014.

### **Low level of technology**

New technologies are being developed every day. However, they are expensive and require people with a considerable amount of skill to apply them in production.

Any new technology requires capital and trained and skilled personnel. Therefore, the deficiency of human capital and the absence of skilled labor are major hurdles in spreading technology in the economy.

Another aspect that adds to the economic issues in India is that poor farmers cannot even buy essential things like improved seeds, fertilizers, and machines like tractors, investors, etc. Further, most enterprises in India are micro or small. Hence, they cannot afford modern and more productive technologies.

### **Lack of access to basic amenities**

In 2011, according to the Census of India, nearly 7 percent of India’s population lives in rural and slum areas. Also, only 46.6 percent of households in India have access to drinking water within their premises. Also, only 46.9 percent of households have toilet facilities within the household premises.

This leads to the low efficiency of Indian workers. Also, dedicated and skilled healthcare personnel are required for the efficient and effective delivery of health services. However, ensuring that such professionals are available in a country like India is a huge challenge.

### **Demographic characteristics**

According to the 2011 Census, India had a population density of 382 per square kilometer as against the world population density of 41 per square kilometer.

Further, 29.5 percent was in the age group of 0-14 years, 62.5 percent in the working age group of 15-59 years, and around 8 percent in the age group of 60 years and above. This proves that the dependency burden of our population is very high.

### **Under-utilisation of natural resources**

India is rich in natural resources like land, water, minerals, and power resources. However, due to problems like inaccessible regions, primitive technologies, and a shortage of capital, these resources are largely under-utilized. This contributes to the economic issues in India.

### **Lack of infrastructure**

The lack of infrastructural facilities is a serious problem affecting the Indian economy. These include transportation, communication, electricity generation, and distribution, banking and credit facilities, health and educational institutions, etc. Therefore, the potential of different regions of the country remains under-utilized.

# **Features of Indian Economy – 20 Points**

**Indian economy** bags the seventh position among the other strongest and largest economies among the world. Being one of the top listed countries among the developing countries in terms of industrialization and economic growth, India holds a robust stand with an average growth rate of approx 7%.

The Indian economy has emerged as a robust economic player among the economic giants like-US, UK, China, etc. Even though the rate of growth has been sustainable and comparatively stable, but there are still fair opportunities of growth.

With the growing standards and opportunities in India, it is expected to very soon capture a very dominant position among the others in the world. The characteristic features of India Economy is discussed below in details:

## **Features of Indian Economy**

1. **India has a mixed economy**

Indian economy is a true example of complete mixed economy. This means both private and public sectors co-exist and function here, simultaneously. On one side, some of the fundamental and heavy industrial units are being operated under the public sector. Whereas, due to the liberalization factors of the economy, the private sector has gained further enhancements in terms of scope. This makes it a perfect amalgamation of both public and private sectors being operated and supported under a single economic cloud.

**2. Agriculture plays the key role in supporting the Indian economy**

Agriculture being the maximum pursued occupation in Indian plays an important role in its economy as well. Around 70% of the occupational practice in India is covered by the farmers and other agricultural units. This gives a higher impact on the Indian economy, both directly and indirectly.  In fact, about 30% of our GDP today is earned from the agricultural sector itself. Agricultural sector is thereby also called as the backbone of the Indian economy. It forms as a major component of livelihood for maximum people in India. The agricultural products being exported such as fruits, vegetables, spices, vegetable oils, tobacco, animal hair, etc. also add to the economic uphold with rise in the international trading.

**3. Newly Industrialized Economy – good balance between agriculture and industrial sector**

Indian economy has been a true holder of newly imbibed innovations in the formation of the country’s economy. Earlier agriculture used to be the prime contributor as industrialization was at a lower edge during the time. With the growing time, subsequently industrial took a high tide in the country making it a very important contributor to it. Well the Indian economy keeps both these in good balance. It amalgamates the agricultural outputs towards enhancing the industries and contributing to the growth of the economy, together.

**4. An Emerging Market**

Being a developing country with great level of economic well-being, India has emerged as an emerging market for the other players. Holding a constant GDP rate even in the downfall situations, it has kept its position intact making it a lucrative spot for the other economies to invest. This has in turn also helped the Indian economy exist as a robust economy among the other leaders. India has a high potential with low investments and risk factors, this also makes it an emerging market for the world.

**5. A Major Economy**

Emerging as a top economic giant among the world economy, India bags the **seventh** position in terms of nominal Gross Domestic Product (GDP) and **third**in terms of Purchasing Power Parity (PPP). These figures are a representation of the Indian economy among the G20 countries. This is a clear indication of the robustness Indian economy has gained over decades and emerged as a major economy among the other leading economies on the globe.

**6. Federal in Character**

Bearing a federal character in the economy upholds, in India both the centre and state are economy growth drivers. They equally act as the operators of the economies at their own levels. In fact, the Indian constitution gives the clear permissions and guidelines to operate and regulate the economies and economic standard of living of the people both at the center and the state level, separately.

**7. Fast Growing Economy**

India’s economy is one of the world’s fastest growing economies on the globe. India’s economy has emerged as the world’s fastest growing economy in the last quarter of 2014 and has replaced the People’s Republic of China with a growth rate of approx 7%.

**8. Fast growing Service Sector**

With growth in the service sector, Indian economy has formulated its growth in the service sector as well. There has been a high rise growth in the technical sectors like-e of Information Technology Sector, BPO, etc. The business in these sectors has not only added and enhanced the contribution to the economy, but has also helped in the multi-fold growth of the country a well. These emerging service sectors have helped the country go global and helped in spreading its branches around the world.

**9. Unequal distribution of Income economic disparities**

There exists a huge economic disparity in the Indian economy.  There is a huge difference in the distribution of income among the various categories of people on the basis of income. This has lead to an increase in the poverty level in the society and a maximum percentage of individuals are thus living under the – Below Poverty Line (BPL). This unequal distribution of income has created a huge gap and economic disparity among the various categories of people in the Indian economy.

**10. Instability of price – Cost of products is not stable**

Even though there has been a constant growth rate in the GDP and growth opportunities in the Indian economy, but there have been fluctuations in the price concerns too. Being depended on the other bigger economic giants the price of the products and services keep on fluctuating since decades. At times the inflation grows high raising the prices of the commodities. This clearly indicates the instability of the price concerns in the Indian economy.

**11. Lacks proper infrastructure**

Even though there has been a gradual and high scale improvement in the infrastructural development in the past few decades, but there is still a scarcity of the same. The industrial growth escalating in the country lacks proper infrastructure growth. The rate at which the infrastructure is growing needs proper infrastructure growth to support the growth process. This has been a lacking point in the growth of the Indian economy. With the subsequently supporting infrastructure the economy has grown a lot, but will definitely need further growth support in the form of proper infrastructure.

**12. Inadequate Employment opportunities**

India is a growing country with a growing economy as well! Comparing the growth rate of the economy in the last few decades there has been a gradual high-rise in the same. The population rate has also grown on a large-scale; this has been the biggest challenge for the growth of the economy. With growing population there is a huge need of the employment opportunities too! But, there have been inadequate employment opportunities in the country that has affected the economy on a large-scale. Even though the conditions have improved a lot in the past few decades, but still in comparison to the other giant economies there is a lot of scope of improvement.

**13. Large Domestic consumption**

With the escalating growth rate in the economy the standard of living has grown a lot. This in turn has resulted in increasing the domestic consumption in the country. With the growing advancements and globalization, the domestic consumption rate within the people of the country is already high, this adds a lot to the Indian economy.

**14. Rapid growth of Urban areas**

Urbanization and planned development is a key ingredient towards the growth of any of the economy around the world. There has been a rapid growth of urban areas in India after independence. The growth acceleration in the rate of urbanization after independence was due to the country’s adoption of a mixed economy. This has given rise in complete development and rise of the private sector that has played a key role in constituting the Indian economy. Thus, urbanization is taking place at a quite faster rate in India changing the shape of the Indian economy. The constant urbanization is a key to the growth of the Indian economy.

**15. Stable macro economy**

The Indian economy has been projected and considered one of the most stable macro economy around the world. It’s not just the saying, but the facts too reflect the same. The current year’s survey represents the Indian economy to be a **“heaven of macroeconomic stability, resilience and optimism.**  According to the last economic survey for the year 2014-15, 8%-plus GDP growth rate has been predicted, with actual growth turning out to be a little less (7.6%). This is a clear indication of a stable macro economic growth rate.

**16. Excellent human capital**

The maximum population that constitutes the human capital of India is young. This means that India is a pride owner of the maximum percentage of youth human capital that is a great indicator of the growth. The young population is not only motivated but skilled and trained enough to maximize the growth situations. Creating vital opportunities to expand the business and other economic opportunities this human capital plays a key role in maximizing the growth opportunities in the country. Also, this has invited foreign investments to the country and outsourcing opportunities too.

**17. Large Population**

India holds a top position in terms of population growth after China. The population growth rate of India is very high and this affects the Indian economy as well. The population growth rate in India is as high as 2.0% annually, leading to the major leads towards poverty. This population, however, has the highest percentage of the youth crowd which if monitored and directed in the right direction can turn out to produce wondrous growth results in the economy.

**18. Unequal wealth distribution**

The Indian economy bears a great disparity between the rich and the poor. There is a complete lop-sided distribution of the wealth in the economy. This is why the rich are becoming richer and the poor are growing even poor in the economy levels.  This unequal wealth distribution doesn’t affect the economy on the whole, but definitely affects the per capita income and living standards of the people in India. India tends to be the second most unequal wealth distribution based economy in the world, after Russia. This increases the political instability that affects the economy a lot.

**19. Pursues labor intensive techniques**

Due to a high potential population bank in India, there exist both merits and demerits of the same. In order to offer employment opportunities to the maximum population crowd in the country Indian economy focuses on labor intensive techniques. These techniques help get the job done according to the labor friendly standards contributing to maximizing the employment opportunities in the country.

**20. Technological use is less in comparison to the well-developed economies**

India being a growing economy is in the stage of further growth. Even though the technology and technical usage in the country is good enough, but is really less as compared to the well-developed economies. The other reason behind this is the use of labor intensive techniques and slow rate of acceptance to innovation. Even though the capability standard of the country is high, but due to the lack of speed in the transition process, things need time. In the current scenario the country has grown a lot and coming up as a major technological player among the others in the world.

## **Conclusion**

These are the major characteristic feature of the Indian economy. India is an active member in various economic groups’ like-BRICS and G-20. Not only does India have the potential in the form of human capital and other raw materials, but is also technically advanced to support maximum growth in the country. This is a true indicator of inviting foreign investments and creating the best growth situation for both the foreign and national crowds.