



India's Path to a High-Income Economy

For Prelims: [World Bank](#), [Female labor force participation](#), [Gross Domestic Product](#), [Middle-Income Trap](#)

For Mains: India's path to becoming a high-income economy, Middle-income trap and its implications for India

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Why in News?

A [World Bank](#) report titled ***"Becoming a High-Income Economy in a Generation"*** highlights that India must achieve an average annual growth **rate of 7.8% over the next 22 years to reach high-income country (HIC) status by 2047.**

- The report stresses that ambitious reforms and their effective implementation will be necessary to meet this goal.

What are the Key Highlights of the Report on Becoming a High-Income Economy?

- **India's Economic Journey:** India's share in the **global economy has doubled** from **1.6% in 2000 to 3.4% in 2023**, making it the **5th largest economy** in the world.
 - For two decades before the pandemic, India's economy grew at an **average annual rate of 6.7%**, second only to China among major economies.
- **2047 High-Income Economy Goal:** India aspires to become a **HIC by 2047.**
 - To achieve this, its **gross national income (GNI) per capita** would have to increase by nearly **8 times from USD 2,540 in 2023** (currently India is in lower-middle-income category).
 - In 2023, the World Bank classified countries with **GNI per capita above USD 14,005** as **high income** and those between **USD 4,516- USD 14,005** as **upper middle income**.
- **Growth Scenarios:** The report outlines three possible scenarios for India's growth trajectory.

Scenario	Growth Rate (Real GDP)	Outcome
Slow Reforms	Below 6%	India remains upper-middle income, falls short of HIC.
Business as Usual	6.60%	India improves but does not reach high-income status.
Accelerated Reforms	7.80%	India will become a high-income country by 2047.

- However, only few countries (Chile, Romania, Poland, Czech Republic, and Slovakia) have

transitioned to **high-income status within 20 years**, while nations like **Brazil, Mexico, and Turkey** remain stuck in the **upper-middle-income category**, making this an ambitious but achievable target.

What are the Key Challenges in Achieving HIC Status?

- **Declining Investment Rate:** Investment-to-[Gross Domestic Product \(GDP\)](#) peaked at **35.8% in 2008** but fell to **27.5% in 2024**.
- **FDI Challenges:** India's **FDI-to-GDP ratio is just 1.6%**, far lower than **Vietnam (5%)** and **China (3.1%)**.
- **Declining Labor Force Participation:** India's [labor force participation rate \(LFPR\)](#) is **55% in 2023**, lower than most emerging economies (China 65.8% in 2023).
- **Women in Workforce:** [Female labor force participation \(FLFP\)](#) has improved to **41.7% in 2023-24** (global benchmarks is over 50%).
- **Issues in Job Creation:** **45% of India's workforce is still in agriculture** (disguised unemployment), a sector with low productivity.
 - In contrast, the **share of manufacturing in total employment was around 11%** and modern market services accounted for only 7%, much lower than in East Asian economies.
 - In 2023-24, 73% of India's workforce is in [informal jobs](#), compared to just **32.7% in other emerging economies**.
- **Declining Trade Openness:** India's **exports and imports make up 46% of GDP (2023)**, down from **56% in 2012**.
- **Low Global Value Chain (GVC) Participation:** India has made **significant gains in mobile phone exports**, but **high tariffs and non-tariff barriers** are limiting broader trade expansion.
 - India's **services sector (IT & BPO) is strong**, but manufacturing lags.

What are the Key Reforms Needed for Achieving HIC Status?

- **Boosting Investment:** Increase **investment rate from 33.5% to 40% of GDP by 2035**. Strengthen **financial sector regulations** for better credit flow.
- **Boosting Credit Access & Debt Resolution:** Improve [Micro, Small and Medium Enterprises \(MSME\)](#) access to **formal credit**. Strengthen mechanisms for **bankruptcy resolution** and **bad debt recovery**.
- **Creating More and Better Jobs:** Raise **labor force participation** closer to economies like Vietnam (**73%**) and the Philippines (**60%**).
 - Encourage private sector investment in **job-rich sectors** like **agro-processing, hospitality, transportation, and care economy**.
 - Expand **skilled workforce** and improve **access to finance**. Strengthen **modern manufacturing and high-value services**.
- **Boosting Global Trade Competitiveness:** Invest in **export-oriented sectors** and **integrate into GVCs**.
- **Formalizing the Workforce:** Simplify labor laws to **reduce informal employment** and promote **better wage conditions**.
- **Strengthening Human Capital and Innovation:** Enhance **secondary school enrollment** and **vocational training** to match industry needs.
 - Expand R&D investments in key sectors like [Artificial Intelligence](#), [Biotechnology](#), and **clean energy**.

Middle-income Trap

- **About:** The [Middle-Income Trap](#), coined by the **World Bank (2007)**, refers to economies that grow rapidly but **fail to reach high-income status**. It applies to countries with a **GNI per capita between USD 1,000 - USD 12,000 (2011 prices)**.
 - Countries in the **middle-income trap** struggle with **rising labor costs, weak innovation, income inequality, demographic challenges and overreliance on specific industries** further hinder growth
- **India's Risks of Falling into the Trap:** India is among the **most unequal countries in the world**, with the top 10% of the population holding 57% of the total national income. The **share of**

the bottom 50% has gone down to 13%.

- High GST and corporate tax cuts benefit the wealthy, further widening the gap.
- In India, **stagnant or declining wages**, coupled with inflation, high household debt, and low savings, make the country vulnerable to the middle-income trap.

Drishti Mains Question:

What key reforms are required for India to transition to a high-income economy?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. India's ranking in the 'Ease of Doing Business Index' is sometimes seen in the news. Which of the following has declared that ranking? (2016)

- (a) Organization for Economic Cooperation and Development (OECD)
- (b) World Economic Forum
- (c) World Bank
- (d) World Trade Organization (WTO)

Ans: (c)

Q. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if: (2018)

- (a) Industrial output fails to keep pace with agricultural output.
- (b) Agricultural output fails to keep pace with industrial output.
- (c) Poverty and unemployment increase.
- (d) Imports grow faster than exports.

Ans: (c)

Q. In a given year in India, official poverty lines are higher in some States than in others because: (2019)

- (a) Poverty rates vary from State to State
- (b) Price levels vary from State to State
- (c) Gross State Product varies from State to State
- (d) Quality of public distribution varies from State to State

Ans: (b)

Mains

Q.1 "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far the recent changes in Industrial Policy capable of increasing the industrial growth rate? **(2017)**

Q.2 Normally countries shift from agriculture to industry and then later to services, but India shifted

directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? **(2014)**

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