MAINS MASTER NOTES

GS 3

ECONOMY-I

SANTOSH SIR

All 6 CSE PRELIMS QUALIFIED

4 CSE MAINS QUALIFIED

Preface

This document, *UPSC GS3 Mains Master Notes - Economy (Part 1)*, has been curated to provide aspirants with a focused and structured resource for mastering the Economy section GS 3 of the Civil Services Mains Examination. While standard textbooks and reference materials remain essential for building conceptual depth, these notes are designed to supplement that preparation with concise, exam-oriented content that facilitates quick revision and strategic clarity.

The material is primarily static in nature, covering foundational themes such as economic development, inclusive growth, budgeting, infrastructure, investment models, and related policy frameworks. It aims to streamline the vast syllabus into digestible segments that can be easily revisited during the final stages of preparation. Aspirants are advised to verify any data, statistics, or factual references against the latest official sources to ensure accuracy and relevance in their answers.

For those seeking to enhance their preparation by integrating current affairs with static content—an essential skill for high-quality answer writing—students are encouraged to join the **DPS Prime Program** conducted by *Santosh Sir (All 6 CSE Prelims Qualified, 4 CSE Mains Qualified, State Services Qualified)*. This program is specifically designed to help aspirants develop the ability to interlink contemporary developments with core economic concepts, thereby elevating the analytical depth and contextual relevance of their Mains responses.

We hope these notes serve as a reliable companion in your UPSC journey, helping you build clarity, confidence, and precision in tackling the Economy section of GS Paper 3.

Contents

ECONOMIC GROWTH AND DEVELOPMENT

Definition

Economic growth means an **increase in production of goods and services.** Economic growth is defined as the process whereby the **country's real national** and **per capita income increases** over a **long period of time.** It is simply a **quantitative measure**.

Economic development means an **improvement in the quality of life and living standards**, e.g., measures of **literacy, life-expectancy** and **health care**. Economic development is a **wider concept** than **economic growth.** Apart from **growth of national income,** it includes changes – **social, cultural, political** as well **as economic factors which** contribute to **material progress**. It includes **equitable income distribution**, **greater employment** and **poverty alleviation**.

Economic growth is necessary to attain economic development but it is not sufficient.

Economic Growth vs Economic Development:

Parameters	Economic Growth	Economic Development
Meaning	It is rise in value of goods and services produced in the country.	Rise in income and quality of life due to structural changes in economy
Scope	Narrow	Broad
Indicators	Components of GDP: Consumption, investment, exports, imports	Qualitative improvement in living standard like life expectancy, education, etc.
Measurement	GDP or GNP	HDI, PQLI, etc.
Inference	Quantitative Change	Qualitative Change
Relation	Economic growth is possible without economic development	Economic development is not possible without economic growth

Economic growth without development

It is **possible to have economic growth without development.** i.e. an increase in GDP, but most people don't see any actual improvements in living standards. This could occur due to,

- **Inequality:** Economic growth may only **benefit a small section of the population (non-inclusive growth)**.
- **Jobless Growth:** Growth **without proportional employment generation** is called **jobless growth.** Rising **unemployment/underemployment** means that there is **no real improvement** in **people's well-being.**
- **Crony Capitalism & Corruption:** If economic growth is captured by elites through rent-seeking, monopolies, and policy capture it cannot lead to broad based development of economy. A country may see higher GDP, but the benefits of growth may be syphoned by **rich** and **powerful.**
- **Environmental problems:** Economic growth by cutting forest and polluting environment may lead to an increase in real GDP. However, without proper regulation, it can also **lead to environmental and health problems.**
- **Military spending**: A country may increase GDP by spending more on military goods. However, if this is at the expense of health care and education it can lead to lower living standards.
- **Human Development Neglect**: If investments in health, education, social protection are low, **growth fails to enhance human capital.**
- **External Dependence**: Growth based on exports of minerals without building domestic capacity cannot lead to long term development. Such eco growth are vulnerable to global shocks.

Why Economic Growth is Not Enough

- **Mere GDP growth does not ensure better living standards** if it does not lift the poor above the poverty line.
- **Employment generation is crucial**; without it, unemployment and underemployment persist.
- **Growth composition is critical**: **Capital-intensive production** creates fewer jobs compared to labour-intensive methods.
- **Basic needs** such as food security, nutrition, healthcare, and education cannot be guaranteed by growth alone.
- **Inclusivity matters**: Growth must reach the poor and marginalised to be meaningful.
- **Trickle-down theory has failed**: Benefits did not automatically reach the poor, making direct interventions like **NREGS** and **food security schemes** essential.

- **Rising inequality, conspicuous consumption, and inflation** often erode potential gains for the poor.

Bhagwati vs. Sen Debate

Bhagwati's Approach (Growth-First Model)

- Advocates **growth-first strategy** via **liberalisation, privatisation**, and **globalisation.**
- Emphasises **market-oriented reforms**: Deregulation, Foreign investment, and greater Private sector role.
- Believes **growth generates jobs, incomes, and revenues**, enabling welfare spending.
- Example: **Gujarat model** where growth created employment and reduced poverty.
- Redistribution is important, but **secondary to growth**.

Criticism: Reforms and Market orientation also created **inequality**, **fiscal imbalances, conspicuous consumption**, and **inadequate employment**.

Sen's Approach (Capability-Building Model)

- Advocates **capability-building**: Education, Healthcare, Nutrition, and Freedoms for the poor.
- Growth is a **means to development**, not an end.
- Believes **redistribution and social investment** are **preconditions for inclusive growth.**
- Example: **Kerala and Bangladesh** as examples where human development reduced poverty faster than growth alone.
- Stresses **direct state provision** of food, employment, health, and education (e.g., **NREGS, Food Security Bill**).

  Criticism: Underplays the **role of economic growth (ignores infrastructure and physical capital) heavy emphasis on redistribution (social infrastructure)**

Evaluation:

- **Growth is necessary but not sufficient** for **poverty reduction** and **inclusive development.**
- India needs a **balanced strategy**:
  - **Bhagwati's model** for raising output, investment, and revenues.
  - **Sen's model** for building human capital and ensuring inclusivity.
- A **mixed approach** is required which focuses on rapid **growth, targeted social spending, infrastructure development, and employment-oriented strategies.**
- **The Twelfth Five Year Plan (2012-2017) aimed for faster, more inclusive, and sustainable growth**
- **NITI Aayog's Bharatiya Model of Inclusive Development has three pillars: Market economics, Empowerment, and Pragmatism**

Is GDP a good economic indicator?

Usually, **economic growth is measured in terms of GDP**. GDP is the **monetary value of all the finished goods and services produced within a country's borders in a specific time period and includes** anything produced by the country's citizens and foreigners within its borders.

GDP can be expressed in two different ways—**nominal GDP and real GDP**. Nominal GDP takes current market prices into account without factoring in inflation or deflation. On the contrary, real GDP factors in inflation meaning it accounts for the overall rise in price levels.

Economists generally prefer using real GDP as a way to compare a country's economic growth rate. It is calculated using a price deflator—the difference in prices between the current and base year, which is the reference year. **Real GDP is how economists can tell whether there is any real growth between one year and the next.**

GDP can be **measured in three different ways**:

- **The production approach sums the "value-added" at each stage of production**, where value-added is defined as total sales less the value of intermediate inputs into the production process. For example, flour would be an intermediate input and bread the final product; or an architect's services would be an intermediate input and the building the final product.
- **The expenditure approach adds up the value of purchases made by final users**—for example, the consumption of food, televisions, and medical services by households; the investments in machinery by companies; and the purchases of goods and services by the government and foreigners.
- **The income approach sums the incomes generated by production**—for example, the compensation employees receive and the operating surplus of companies (roughly sales less costs).

Limitations of GDP

- **Conceptual Limitations:**
  Originally designed to measure wartime production capacity and tax potential, not wellbeing or societal progress. Focuses **solely on economic output, ignoring social, human, and ecological factors.**

- **Exclusion of Non-Market Activities:**
  Unpaid work such as household chores, childcare, and volunteering is omitted despite its societal value. **Only market transactions are counted**.

- **Ignores Environmental Costs:**

Environmental degradation like **pollution and biodiversity loss** is not **deducted.** Environmentally harmful activities (deforestation, fossil fuel extraction) can temporarily inflate GDP.

- **Encourages Unsustainable Resource Use:**
  Depletion of natural resources such as forests, minerals, and water is ignored. Over-extraction raises GDP but harms future economic and ecological stability.
- **No Distinction Between Good and Bad Spending:**
  Spending on **disasters, crime response, pollution cleanup,** and **wars** adds to GDP. It treats all spending equally regardless of its positive or negative societal impact.
- **Ignores Income Inequality:**
  GDP growth may benefit only the wealthy. Rising GDP can coincide with worsening **poverty** and **income inequality**.
- **Political and Media Misuse:**
  Used simplistically as a proxy for national success or happiness. This oversimplification distorts public understanding and debate**.**Governments may **manipulate GDP figures for political or financial gain**. Focus on GDP growth often sidelines sustainability and holistic development

Conclusion:
GDP is an **incomplete and misleading measure** of economic and social progress. Modern economies and policy frameworks need **better metrics** that incorporate **wellbeing, environmental sustainability, inequality, and quality of life.**

Alternative measurements (HDI)

GDP is not a measure of "wealth" at all. It is a measure of income. It is a **backward-looking "flow" measure** that tells the value of goods and services produced in a given period in the past. It tells nothing about whether a country produces the same amount again next year. Economic development and well-being of the population can be measured using **various yardsticks**.

Human Development Index (HDI):

- The **United Nations Development Programme (UNDP)** introduced the HDI in its first **Human Development Report (HDR)** prepared under the stewardship of **Mahbub-ul-Haq in 1990**.
- HDR, 1990 has defined human development as the process of **widening people's choices as well as raising the level of well-being achieved.**

- HDI measures the average **achievements in a country in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living**.

Why is HDI low in India despite economic growth?

1. **Poor health expenditure**: India spends **1.25% of GDP on health (far lower than NHP's goal of 2.5%).**
2. **Low Education attainments:** India faces both quantitative (enrolment, mean year of schooling) as well as **qualitative issues in education**. It is largely due to poor expenditure of just around **4.6% of GDP on education** (much less than recommended **6% by Kothari Commission**). India also lacks linkages with industry and vocational education is impacting overall attainment.
3. **Gender Inequality**: The labour force participation rate of women in the country is one of the lowest in the world. **India ranks poorly on the Global Gender Gap Index**. It is behind neighbours China, Sri Lanka, Nepal and Bangladesh, due to rising disparity in terms of women's health and participation in the economy.
4. **Inequality**: Post-reform economic growth in India has been accompanied by rising inequality, which has also affected per capita income levels. Additionally, the low contribution of the industrial sector to both GDP and employment is hindering equitable wealth distribution.
5. **Jobless growth:** India has been experiencing jobless growth post the 1991 reforms. The employment elasticity has been falling because of capital intensive growth and stagnation in manufacturing.
6. **Regional Disparities:** Growth is **concentrated in a few urban centres & developed states** (e.g. Maharashtra, Karnataka, Gujarat). Large sections of rural India, BIMARU states lag behind.
7. **Poor Quality of Services:** Even where access exists, **quality of schooling & healthcare is low**. This affects **mean years of schooling** & **healthy life expectancy** indicators.

Shortcomings & Critique of HDI

- **Narrow Dimensions –** Focuses only on health, education, and income; ignores inequality, gender gaps, political freedom, and environmental sustainability.
- **Income Bias –** Relies on GNI per capita which may not reflect income distribution or well-being of the poor.
- **Overestimation of Literacy** – Uses years of schooling at entry age, ignoring dropouts, which inflates literacy rate (esp. in India).
- **Equal Weight Problem** – Each of the three components (life expectancy, literacy, GNI per capita) is given a 1/3 weight, which is arbitrary and lacks rationale.
- **Neglect of Quality** – Only **quantity** (years of schooling, life expectancy) is considered, not **quality** (education level, health status).

- **Inequality Ignored (Earlier)** – HDI didn't reflect income inequality - later addressed through **Inequality-adjusted HDI (2013)**.
- **Exclusion of Social Freedoms** – Does not consider human rights, social/political freedoms (Amartya Sen's concern).
- **Obscures Multidimensionality** – A single index oversimplifies the complex and multidimensional concept of human development.
- **Alternative Indices** – UNDP separately introduced the Human Poverty Index (now Multidimensional Poverty Index) to address gaps.

Inequality-adjusted Human Development Index (IHDI)

- Introduced by **UNDP in 2010** (Human Development Report).
- It adjusts the **Human Development Index (HDI)** for **inequalities** in the distribution of achievements across people.
- The IHDI takes into account not only the average achievements of a country in health, education, and income, but also how those achievements are distributed among its population by "discounting" each dimension's average value according to its level of inequality
- **IHDI** is considered a better measure of **actual human development** than HDI.

How is IHDI calculated?
The approach is based on a **distribution-sensitive class of composite indices proposed by Foster, Lopez-Calva, and Szekely (2005),** which draws on the **Atkinson (1970) family of inequality measures.** It is computed as the **geometric mean of dimension indices adjusted for inequality**. The inequality in each dimension is estimated by the Atkinson inequality measure, which is **based on the assumption that a society has a certain level of aversion to inequality.**

India in UNDP Human Development Report 2025

- India's HDI reduced by **30.7% due to inequality**. It is one of the **highest losses in Asia**.
- Major gaps in **income & gender equality** (low female labour participation & representation).

Green GDP: Green GDP is an economic index that **adjusts traditional GDP by accounting for environmental damage,** including biodiversity loss and climate change costs. It quantifies the monetary impact of a country's economic growth on the environment.

Gross National Happiness: Gross National Happiness (GNH), coined by **Bhutan's Fourth King Jigme Singye Wangchuck** in the 1970s, promotes holistic development by valuing **non-economic aspects of well-being**.

The GNH Index, based on **33 indicators across nine domains,** is guided by four pillars: **good governance, sustainable socio-economic development, cultural preservation, and environmental conservation.**

Key Determinants of Economic Growth

The process of economic growth is highly complex and shaped by a wide range of interrelated factors, including political, social, and cultural influences. These factors include:

Economic Factors:

- **Natural Resources**: While abundant natural resources can facilitate economic growth, their mere presence isn't sufficient. Effective management and utilisation are crucial. For instance, countries like **Japan and Singapore** have achieved significant development despite limited natural resources.
- **Capital Formation (Rate of investment)**: It is the conversion of savings into investments in capital goods (machinery, infrastructure, etc.), which enhances productive capacity. Higher investment raises output and accelerates economic growth.
- **Technological Progress**: Advancements in technology improve production methods, leading to higher efficiency and productivity. This progress enables better utilisation of resources and can transform previously unusable resources into valuable assets.
- **Capital-Output Ratio (COR): A lower COR indicates higher efficiency of capital use.** Technological progress reduces the COR, making investments more productive. Thus, long-term growth depends not only on capital accumulation but also on sustained technological advancement.
- **Entrepreneurship**: Entrepreneurs drive innovation, identify investment opportunities, and take calculated risks to establish and grow businesses, playing a pivotal role in economic development.
- **Human Resource Development**: Investing in education and healthcare enhances the skills and well-being of the population, leading to a more productive workforce.
- **Population Growth**: A balanced population growth can provide a labour force and expand markets. However, excessive growth may strain resources and hinder development.
- **Political Stability and Governance**: A stable political environment with transparent policies fosters investor confidence and facilitates economic activities.

- **Social and Cultural Factors**: Societal attitudes, values, and institutions can either promote or hinder economic progress. For example, cultures that value innovation and hard work tend to experience faster development.

What is the Virtuous cycle of growth?

The concept emphasizes a **virtuous cycle of savings, investment, and exports**, driven by favourable demographic trends, as a key determinant of sustained economic growth.

It draws from the experiences of **East Asian countries, particularly China**, where this cycle played a crucial role in maintaining high growth rates. **As these countries progressed economically - especially during the 1990s - their shares of Gross Capital Formation, savings, and exports significantly increased**. For instance, China's savings and investment levels remained exceptionally high and peaked at **over 50% of GDP**.

Need of a virtuous cycle for India:

1. **Savings**: India's saving rate in **2007-08** was **38.3%** when India was also going through one of the best phases of growth. In 2017-18 it was 30.5% and has remained steady or even declined since then. Thus, savings' correlation with growth is important. However, investment is more important than focus on saving.

2. **Investment**: India's growth rate in recent decades is more reflective of investment. Investment (particularly private investment) creates demand, capacity, increases labour productivity, introduces new technology, and allows creative destruction with new jobs.

3. **Exports**: Economies gain from export efficiency, and apart from earning foreign exchange, it also makes production more competitive and efficient. Currently, the rising cost of labour in China and supply-chain disruptions have created a void that India can utilize.

4. **Demography**: India is undergoing phase of demographic transition where **working age population** is **rising leading to potential demographic dividend up to 2041** by bringing together all other factors of the virtuous cycle.

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India's Growth Potential: A Rising Engine of Global Economic Expansion

- **Demographic dividend**: At a time when many Western economies are aging and China is experiencing rising labour costs, India offers a **young, dynamic, and increasingly skilled workforce**. India is well positioned to experience **demographic dividend.**
- **Market**: With a **population exceeding 1.3 billion** and increasing integration into the global economy, India represents a significant market for both domestic and international businesses. Its **expanding middle class** further enhances consumer demand and market potential.
- **China's Economic Transition**: As China undergoes structural rebalancing and faces challenges such as rising labour costs and geopolitical scrutiny over its dominant role in global supply chains, India has a unique opportunity to position itself as an alternative manufacturing hub.
- **Structural Reforms**: Recent reforms - including the Goods and Services Tax (GST), labour code simplification, and initiatives to improve the Ease of Doing Business have enhanced India's investment climate and business attractiveness.
- **Resource Base and Sustainability**: India's diverse natural resources, coupled with its demographic advantage, place it at the forefront of global Sustainable Development Goals (SDGs).

India's vast growth potential - despite setbacks such as the COVID-19-induced slowdown - positions it as a vital engine of global economic growth. To fully capitalise on this potential, focused efforts are required in areas such as **skill development, research and development (R&D), job creation, formalisation of the economy, and fostering innovation in the digital space.**

Developed and Developing Countries

More than three-fourths of the world is said to live in **developing economies**. These are generally differentiated from **developed countries** by the **low levels of per capita income** and the **low living standard of people.** The World Bank classifies 208 economies by their level of **Gross National Income (GNI) per capita.**

Low Income Countries: GNI per Capita: $1,135 or less.

Characteristics: These countries often face significant challenges related to poverty, infrastructure, healthcare, and education. **Economic growth is typically slow, and they rely heavily on agriculture and basic industries.**

Middle Income Countries: **GNI per Capita**: $1,136 to $4,465.

Characteristics: These countries are usually in a transitional phase, experiencing moderate economic growth. Industrialization is increasing, and **there are improvements in infrastructure and education, but challenges remain in addressing widespread poverty and inequality. India, according to WB** estimate in falls **in Lower middle-income country**.

Upper-Middle-Income Countries (UMCs): GNI per Capita: $4,466 to $13,845.
Characteristics: These countries have more advanced industrial bases and diversified economies. They typically have better infrastructure, healthcare, and education systems, and a significant portion of their populations enjoys a higher standard of living. However, disparities in wealth distribution can still be a concern.

High Income Countries: **GNI per Capita**: $13,846 or more.

Characteristics: These countries have **highly developed economies with strong industrial and service sectors**. They offer high standards of living, advanced infrastructure, comprehensive healthcare, and education systems. Economic growth is often stable, though some high-income countries may face challenges such as aging populations and maintaining economic competitiveness.

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- The **UN's World Economic Situation and Prospects** classify countries into **three broad categories:**
  - **Developed economies**– There are 31 developed countries according to the UN in all.
  - **Economies in transition**–17 economies are in transition
  - **Developing economies-**remaining countries
- It is done to **reflect basic economic conditions**, and it is **independent of regional classifications.**
  - So, not all European countries are "developed", and not all Asian ones are "developing".
- **Criteria**–United Nations uses the World Bank's categorisation based on Gross National Income (GNI) per capita (in current US dollars)

Why is the United Nations classification contested?

- **It lacks accuracy and analytical value:** China's per capita income is closer to Norway's than Somalia's and it is designated as a developing country while Ukraine's, per capita GNI is $4,120 (a third of China's), is designated as "economies in transition".

What are the benefits of the 'developing country' tag?

- Certain **WTO** agreements give developing countries special rights **through 'special and differential treatment' (S&DT) provisions**, which can grant developing countries longer timeframes to implement the agreements and even commitments to raise trading opportunities for such countries.
- WTO pacts are often aimed at reducing government support to certain industries over time and set more lenient targets for developing nations and grant them more time to achieve these targets compared to developed ones.
- The classification also allows other countries to offer preferential treatment.

What are the benefits of LDC classification?

The WTO recognises LDCs relying on a classification by the UN based on criteria that is reviewed every three years.

- LDCs are often exempted from certain provisions of WTO pacts.
- Bangladesh, currently classified as an LDC, receives zero duty, zero quota access for almost all exports to the EU. It is, however, set to graduate from the LDC status in 2026 as its per capita GDP has risen sharply, surpassing that of India in FY21.

Characteristics of a Developing country

Underdeveloped countries also today called developing economies for they are capable of making efforts towards economic progress.

- **Low Per capita Income**: The first and most important feature of developing countries is their low per capita income.
- **Lower level of living and Productivity**: Low incomes or poverty, inadequate housing, poor health and education, high infant mortality and low life expectancy is **reflection of lower level of life**. This low income leads to "**poverty trap"** and in the process low productivity (also due to low technology base) is also the result.
- **Excessive agriculture dependency: A developing country is predominantly agriculture oriented.** Almost 70% population is dependent on agriculture.
- **Very low capital formation and industrialisation:** These countries are characterised by **lack of capital (both physical and human)**. **The rate of capital**

formation is also very low. This is mainly because of **low savings** which in turn is because of **low per capita income.**

- **Poor human capital**: Health, education and skill levels are very low.
- **High rate of population growth and dependency burden**: From 1990 to 2005 population in low-income countries grew at 2% (middle income countries grew at 1.1% and rest at 0.7%). High birth rate makes under-15 years a large age group in developing countries (for many it is around 32%) which also increases dependency population in economy.
- **High levels of unemployment / disguised employment**: Unemployment is rampant in developing countries.
- **Higher levels of inequality and absolute poverty**
- **Highly fragmented society**: These economies are characterised by ethnic, linguistic and other socially fragmented group with more than one group facing discrimination and conflict become a perpetual phenomenon.
- **Larger rural population but rapid rural to urban migration**: One of the hallmarks of economic development is a shift from agriculture to manufacturing and services. In developing countries, a much higher share of the population is Agri dependent lives in **rural areas**. A massive population shift is also under way as hundreds of millions of people are moving from rural to urban areas, fuelling rapid urbanization, with its own attendant problems.
- **Underdeveloped Financial and other markets** with absence of institutional support and dependence of highly exploitative non-official channel of finance.
- **Colonial legacy:** Most developing countries were once colonies of Europe or otherwise dominated by European or other foreign powers, and institutions created during the colonial period often had pernicious effects on development that in many cases have persisted to the present day.
- **External dependence:** Most of these countries are economically dependent either on aid or external finance.

Status of Indian Economy at the eve of Independence

- **Relative importance of various industrial activities:** income distribution and working force share reflects low level of economic development and industrialization in Indian economy. Highly agrarian character was signified by overpopulation and not a capitalist agricultural system. It was overall, **low industrialization, low agriculture output, low national income per capita, sluggish economic progress, high unemployment and underemployment.**

Composition of National Income (1948-49):

Agriculture, Forestry, Fishery	Mines, Manufacturing, small enterprises	Trade, transport, communication	Other services
49.1%	**17.1%**	**18.5%**	**15.7%**

Working Force (1950-51): Agriculture accounted for 72.3%, industry 10.7%, Trade and transport 7.7 % and services 9.3%.

- **Agriculture sector characterised by stagnation**
  Colonial administration not only led to stagnation, but even deterioration. For ex- Per Capita agricultural production declined at a rate of **0.72%** from **1911-41** and **per capita food grain output declined by 29%** in same period. Whatever growth came was due to increase in acreage (no modernisation, investment etc.). Causes of such state of agriculture was:
    - **Regressive agrarian structure** as permanent settlement, ryotwari, Mahalwari system led to emergence of zamindari system with loss of property rights and increase in tenancy share-cropping. Surplus was appropriated by zamindars and intermediaries who didn't invest it in agriculture.
    - **Drain of capital from agriculture:** High land revenue rate combined with exploitative classes appropriating agriculture surplus with none having interest in investing it back as has been norm in growth of all economy.
    - **Poor technology:** Technology base was virtually absent

- **Industrial sector:** Poor industrialization in spite of huge diverse resource base was another aspect of Indian economic backwardness on the eve of independence. This can be explained as:
    - **Deindustrialization:** India, which was an exporter of manufactured products at the beginning of 18th century became an importer. Ex- From 1815 to 1832 only India's cotton exports reduced by 92% and by 1850 it was 1/4th of the Britain's cotton exports.
    - **Decline of traditional industry:** The exploitative commercial policies destroyed traditional industry. Conditions of free trade was such that it led to **imports replacing indigenous handicraft** and artisanal activities and **preventing modernisation of industry.**
    - **Modern industries were consciously ignored:** It was to suit the British commercial interests. Slow growth of Iron and Steel industry post 1907 and sugar, cement, paper industry in 19th century was still not enough as even in 1946, cotton and Jute industries accounted for 30% of factory workers and only 2.3% of total workforce were employed in modern industry in 1951.
    - **Growth of railway industry and foreign trade** was certainly there, but it was rather an **instrument of underdevelopment**. It led to India becoming **exporter of raw materials**, while Railway making markets available for import.
    - **Virtual absence of capital or producer goods industry** with underdeveloped modern banking and insurance compounded the problem of industrial sector.
    - **Negative character of foreign capital**: First of all, it was drain of wealth which was invested in Indian industries and profit going to Britain. Further these investments focussed on production and export of raw materials to support industries of West.

Can India become a developed country by 2047?

What is a developed country?

A **developed country** is a nation with a **high standard of living, strong economy, and advanced technological infrastructure**. It typically has high income levels, low poverty rates, and widespread access to quality healthcare and education. Developed countries also score well on the **Human Development Index** and have **stable political** and **legal institutions.** These economies may not have a high growth rate currently but must have shown **rapid growth in the past**. Examples of developed countries include the **United States**, **Germany**, **Japan**, and **Australia**. These countries have the economic resources to provide a high quality of life to their citizens and play influential roles on the global stage.

How is a country considered "developed"?

Several factors are considered to determine if a country is developed or not. The **economic factors include per capita income, level of industrialisation, the general standard of living and technological infrastructure.**

The **non-economic factors include the human development index**, which measures several parameters like levels of education, health and literacy.

Per capita income: The main benchmark that is used to determine the level of development of an economy is per capita income. It is generally derived by **dividing a country's gross domestic product (GDP) by its total population**. This metric provides a general indication of the **average annual income** of a citizen. On per capita income, **India is behind even Bangladesh.** China’s per capita income is **5 times that of India,** and the **UK’s is almost 33 times**. The World Bank currently categorises India as a **lower-middle income economy.**

Standard of living and other measures: For countries that are difficult to categorise according to per capita income, economists turn to the standard of living for measurement. **Most developed countries have less than ten infant deaths per year per 1,000 live births**. Moreover, they have a life expectancy of over 75 years. One such example is **Qatar**. It has **one of the highest per capita incomes in the world**. However, it is not considered developed due to vast income inequality and a lack of educational opportunities for citizens.

Human Development Index: The United Nations' HDI ranks countries on three parameters: literacy rate, education access and healthcare. The countries are scored between 0 and 1 based on these three parameters. A country with an HDI index over 0.8 is generally considered developed.

Which Asian countries are "developed"?

According to the International Monetary Fund, **Australia, Hong Kong, Japan, Korea, New Zealand, Singapore, and Taiwan** can be categorised as developed countries.

The list of "emerging" or developing economies includes names like China, India, Malaysia, Thailand, Philippines and Vietnam.

What will it take for India to become a developed country?

As per Reserve Bank of India (RBI), India's real gross domestic product (GDP) would **need to grow at 7.6% annually over the next 25 years**, which will entail raising the current per capita GDP from $2,500 currently to $22,000, if the country wants to become an advanced economy.

To become a developed country by 2047, India's per capita GDP needs to rise by 8.8 times from the current level. In other words, the current per capita GDP of USD 2,500 needs to rise to USD 22,000.

Challenges in the path of becoming a developed nation:

Population Challenge

- India is projected to remain the world's most populous country till mid-21st century, straining resources.
- The workforce grows faster than job creation, leading to disguised and structural unemployment.
- Rapid migration causes overcrowding, slums, inadequate housing, traffic congestion, and poor waste management.

Economic challenges

- High youth unemployment and a large informal sector.
- Low manufacturing share in GDP; dependence on services.
- Rising income inequality and regional disparities.

Human Capital

- Poor quality of education and low learning outcomes.
- Weak public health infrastructure and low spending.
- Low female workforce participation and gender inequality.

Infrastructure Deficits

- Inadequate urban planning and rural connectivity.
- High logistics costs and energy inefficiencies.
- Need for clean, resilient infrastructure.

Environmental & Climate Challenges

- Severe air, water, and land pollution.
- Vulnerability to climate change and extreme weather.
- Pressure on natural resources like groundwater and forests.

Governance & Institutional Issues

- Bureaucratic delays, corruption, and slow justice system.
- Implementation gaps in policy and public service delivery.

Geopolitical & Technological Dependence

- External trade shocks, border tensions, and cyber threats.

- Dependence on foreign tech in critical sectors.

What needs to be done?

- India must address the structural imbalance in its economy by **enhancing the industrial sector's contribution to GDP**. Currently accounting for approximately **25.6%** of GDP, the goal is to **increase this share to 35% by fiscal year 2047–48.**
- India's strategy should be multi-dimensional. Growth may be stimulated by raising investment rate, emphasising manufacturing, services and exports, absorbing new technologies and promoting a mix of sectors that is employment friendly. But job creation is going to be the toughest challenge ahead.
- Invest in **transport, energy, and logistics** to reduce costs and improve competitiveness.
- **Reform education and healthcare**, and focus on **large-scale skilling and reskilling** of the workforce.
- Leverage **AI, automation, and digital platforms** to enhance productivity and service delivery.
- Simplify regulations, improve ease of doing business, and reform land, labour, and capital markets.

Per capita Income

Context: India's per capita income is the **lowest in G20 countries** in both dollar and PPP terms despite being the fifth-largest economy.

Per capita income is a measure of the average income earned per person in a given area in a specified year. It is calculated by dividing the area's total income by its total population.

Reasons for low per-capita income:

- **High population pressure**
- **Predominance of Agriculture** – In 1951, 72.1% of the working population was employed in agriculture & allied activities while in 2022, this figure was nearly 45%.
- **High incidence of poverty**
- **High unemployment** and low labour force participation rate (40%) due to the disenchantment with the tight job market.
- **Low productivity of agriculture employing a bulk of the population** – disguised unemployment
- **Income and wealth inequality** – Oxfam India's report said that the top 1% of the population in India owns more than 40.5% of the total wealth, while the bottom 50%, or 700 million people, has around 3% of the total wealth.

- **Informal economy** – Bulk of India's employment (95% of total jobs) is in the informal sector which has low wages and poor working conditions
- **Lack of female participation in the labour market** – female LFPR is as low as 25%
- **High cost of credit for entrepreneurs** – affects job creation
- **Poor Human Capital formation** – due to low social sector expenditure – leading to low levels of human productivity which renders people unsuitable for skilled jobs
- **Lack of skilled workforce** – low demand for skilled jobs leading to unemployment, and self-employment, which has low-productivity

Way Forward:

- **Shift surplus labour** in agriculture to low-skilled manufacturing jobs
- **Human Capital formation** through increased social sector expenditure – increased worker productivity
- **Skilling the workforce** through technological interventions
- **Increase Gross Enrolment Ratio** in higher education
- **Improved access to institutional** credit and financial inclusion
- **Progressive taxation reforms** – to reduce inequality of income and wealth
- **Increased formalisation** of the economy through GST
- **Increased agricultural productivity** through mechanisation and R&D
- **Enhanced female participation in the workforce** – through facilities such as Maternity Leaves, Period leaves and creches

Note: For latest facts on the topic check Mains Master Facts if you are part of Mains Master Card program.

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GROWTH & DEVELOPMENT

ABOUT

- **Economic growth** means an increase in **real national income / national output**. It is simply a quantitative measure.
- **Economic development** means an **improvement in the quality of life** and **living standards**, e.g. measures of literacy, life-expectancy and health care. It includes equitable income distribution, greater employment and poverty alleviation.

Parameters	Economic Growth	Economic Development
Meaning	Increase in the value of goods and services produced in the country.	Rise in income and quality of life due to structural changes in the economy.
Scope	Narrow	Wider
Indicators	National Income	Qualitative improvements like life expectancy, education, and standard of living
Measurement	GDP or GNP	HDI, PQLI, MPI, etc.
Inference	Quantitative change	Qualitative change
Relation	Economic growth can occur without development	Economic development requires economic growth

ECONOMIC GROWTH WITHOUT DEVELOPMENT

- Economic growth may only benefit a small section of the population (Non inclusive growth)
- Inequality , Environmental degradation
- Military spending, Poverty and Jobless growth

DETERMINANT OF GROWTH

Economic Factors
- **Capital formation**
- **Capital-output ratio**
- **Savings and investment**
- **Occupational structure**
- **Human Resource Development**
- **Technological progress**
- **Competitive markets**

Non Economic Factors
- **Political stability**
- **Good Governance**
- **Social and Cultural Factors**

REASONS FOR LOW PER-CAPITA INCOME

- **High population**
- **Predominance of Agriculture**
- **High incidence of poverty**
- **High unemployment**
- **Income and wealth inequality**
- **Informal economy**
- **Poor Human Capital formation**

LIMITATIONS OF GDP

- **Goods and Services Omitted From GDP**
  - Household Production
  - Underground Production/ Black Economy
  - Informal economy
  - Leisure Time ,Unpaid work
- **Ignores Health and Life Expectancy**
- **Political Freedom and Social Justice**
- **No scope for the positive or negative effects created in the process of production**
- **Ignores Depletion of Natural Resources**
- **Ignores Environmental Degradation**
- **Ignores Inequalities in Income Distribution**
- **Ignores Digitization**
- **Gives preference to Quantity over Quality**
- **Amorality:** No difference bet good and bad spend

ALTERNATIVES OF GDP

- Human Development Index (HDI),Genuine Progress Indicator (GPI), Green GDP, Gross National Happiness

DEVELOPED COUNTRY

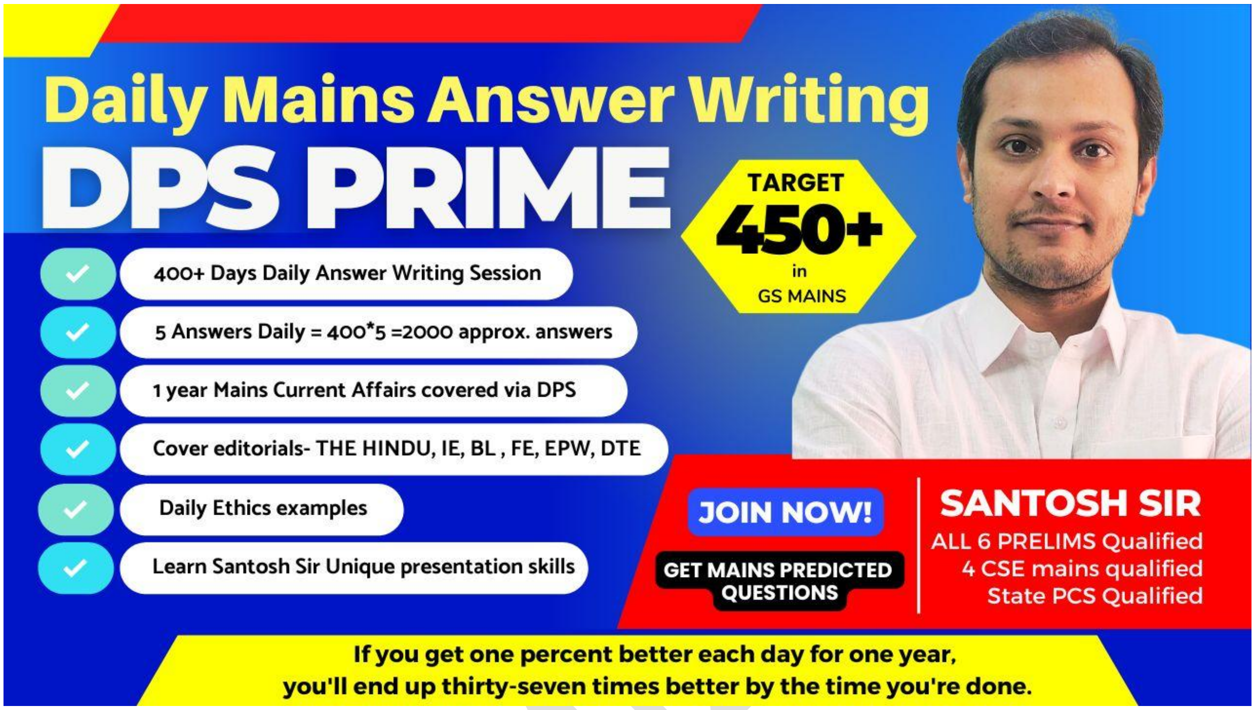
- The World Bank considers any country with a Gross National Income (GNI) per capita of $14,005 or higher to be a high-income economy,

CHALLENEGES FACING DEVEPOMENT

- **High population & High Poverty**
- **Increasing unemployment**
- **Jobless growth**
- **Poor infrastructure**
- **Poor investment in education and health**
- **Growing protectionism**

Note: For Current Affairs update of the above topic attend Daily Practise Sessions

Also, you can access our mains diagrams and flowcharts in our Mains Program



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