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# The falling Vision of becoming a Super Power- Causes of Sinking of Indian Economy

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Abstract:

The Indian Economy is currently facing the worst phase due to various interdependent factors. The following research study is done to provide an insight into the factors restraining the growth of the Indian Economy. This research article will help to understand the domino effect of one sector on impairing the growth of the other sector and the effect of government interventions in the channelization of the economy. The objective of the following research paper is to proffer suggestions in respect of the factors impairing the growth rate of the nation's economy. The objective of the study is to gain insight into the prospects of the economy. Keywords: Economy, Domino Effect, Interdependent factors.

## Introduction:

As per the vision of former President of India, Dr. A.P.J. Abdul Kalam, India will become the superpower by 2020. On the contrary, Asia's third-largest economy is currently at its worst state with a GDP of 4.5 % in Q3, 2019-20. The GDP (Gross Domestic Product) reflects the health of an economy, it constitutes of C+G+I+NX i.e. Consumption, Government Spending, Investments, and Net Exports. Presently, the economy is noticing a dip in all the components. Initiating with C i.e. private consumption is marking a significant dip. As per the report by Bloomberg, the Consumer Confidence Index referred as Consumer Situation Index in India fell to 85.7 in November from 89.4 in September 2019 where in line with the Reserve Bank of India's consumer confidence survey 100 is the dividing line between pessimism and optimism (Lower signifies pessimism). [1]

Reducing consumption is a repel effect of lowering employment ratio. India has recently marked the highest unemployment rate in the last 45 years with 7.78% noting 8.65% in urban areas and 7.37% in rural areas as reported by CMIE (Centre for Monitoring Indian Economy). The domino effect of these factors is on slow manufacturing which leads to low production by industries directing towards low investment attraction and hence low job creation.

Apart from these factors, India is everyday hearing bad news concerning the falling financial reliability of banking institutions due to sizeable loan defaults by the credit borrowers. The prime effect of these failing financial institutions is on the companies associated with it. The recent default of Yes Bank has affected the businesses collaborated with it such as PhonePe, BharatPe, Udaan, Flipkart, 5 paisa and many more. The banks are mostly bailed out by the other big banks which affect the credibility of those banks also as an unnecessary burden is imposed on the acquiring banks. As seen in the case of State Bank of India acquiring Yes Bank for 49% shares, the stock prices of the State Bank of India plunged from Rs. 288.50 (on 5th March 2020) to Rs. 205.85 (on 18th March 2020) from the date of announcement of Yes Bank takeover.

This horrific picture of mounting NPAs was revealed after the application of Asset Quality Review by RBI in July 2015. The actual picture of stress in banks was exposed

and it helps to understand the strain on the Indian Economy. The failure of the banking sector chokes the economy and slows the desperate pumping of liquidity needed in the recession facing the economy. If a bank is facing a crisis then the regulatory body (Reserve Bank of India) will put the restrictions on the bank under Prompt Corrective Action Plans. Eventually, the bank has to cut back its lending and the non-defaulting companies do not get the funds for production or further investment. This can be practically noticed through the current state of affected business partners. The recent crisis of Yes Bank has affected the growth of Walmart owned Phone Pe, similarly the crisis at Punjab and Maharashtra Bank (PMC Bank) affecting the businesses associated with it.

Funds are required for working capital and long-term fixed capital, they are referred to as the fuel for the company. If the company does not receive the appropriate funds it leads to slow manufacturing and hence lower the production. The low production and failing banks are interrelated issues. Similarly, low production and low investment are also interrelated issues.

In India, the Index of Industrial Production measures the change in the volume of production for a period. Index of Industrial Production (IIP) with base 2011-12 for November 2019 stands at 130.2 in comparison to 135.8 in May 2019. [3] The growth rate is insufficient for a sizeable economy to grow. Various nations such as Bangladesh and Nepal are performing well in comparison to India. The automobile sector had seen a major hit in their profit margin in 2019 due to alteration in the Emission norms and Insurance regulations. The ground reports from various states indicated that the economic slowdown has hit India's medium and small-scale enterprises (MSMEs) referred to as the backbone of the most Indian manufacturing sector.[6] India is not an industrialized country.

The last node in the recession cycle is low job creation and India is noticing severity in the last phase of this vicious cycle also. The country has noticed the highest layoff statistics in 2019 which was nearly 2.30 lakh jobs in the Automobile sector which was the highest in the last 20 years.[4] In August 2019 Pharmaceutical Company, Sun Pharma laid off 85 employees as companies two units shut down. Similarly, HSBC reported 150 employees were handed over pink slips. Various e-commerce companies like Urban Ladder and Treebo also reported that nearly 100 employees were terminated by each company. Many more examples of the company laying off their employees are reported.

Hence, this vicious cycle of recession will continue to churn until effective measures are not taken by the government. The government should initiate with addressing the problem as a structural issue and frame adequate or restructure policies for the long term prospects.

Methods:

The study is an observational study that helps to observe and measure the research findings. The following research study is performed using secondary data by taking from the government records, newspapers and research articles. The scope of the study is to observe the economic situations of the nation’s economy since the last decade i.e. roughly from 2010 to 2020.

Discussions:

According to the World Bank, India's total economy amounted to $ 2.719 trillion in 2018 whereas China's economy amounted to $ 13.608 trillion and the USA's economy amounts to $ 21.734 trillion. When comparing India with its immediate competitors China, India's Gross national income (GNI) amount to $ 2,698,618 and Total External debt stocks $ 521,391 whereas China's Gross national income (GNI) amount to $ 13,556,844 and Total External debt stocks $ 1,962,304. [12] Hence, India's GNI is nearly 6 times lesser than China's whereas the total external debts are nearly 4 times less. Therefore, India has a far way to go.

The primary reason behind India's falling GDP is declining consumption and low investments due to the crisis in Indian banking and non-banking institutions along with inadequate government policies. As per the IMF's Chief Economist Gita Gopinath, India is 80% responsible for the global economic slowdown as the credit growth has reduced and weakened business sentiments. [7] There are various reasons behind the nation's economic slowdown. Hence, the major focus of the government should be to boost the demand side of the economy.

Firstly, the two major shocks which the Indian economy has faced in the current Prime Minister's regime are Demonetization and Goods and Service Tax. The tax to GDP ratio of India is far below developed countries it's even much less than developing countries like Nepal. As per an analysis in the Economic Survey, 2015-16, the number of Indian voters who pay income tax should be 23% but the actual figure is only 4%.
[10]. As the government is focusing on increasing the tax revenue there has been news that the government is putting aggressive pressure on tax officials to meets targets leading to resignation by the tax official according to Income Tax Gazetted Officers Association. On the other hand, there had been news that tax officials are harassing

businessmen with one of the cases exposed to Café Coffee Day's founder suicide who alleged that the income tax officials were harassing him in his suicide note. [8] Hence, all these incidents affect the sentiments of businessmen.

Demonetization and GST poor implementation also play a disastrous role in slowing down of the economy. As the informal sector has more than 50% shares and cash-dependent, demonetization had a major impact on the unorganized sector. This led to reverse migration of the daily wagers and hence affecting the organized sectors also as they were falling short of labor. Even corporate investment has fallen from 7.5% to 2.7% after demonetization. The GST has affected various sectors as the companies prefer to trade with only those companies which could provide GST Receipts and many small companies were not qualified.[9]

As a result, the economists Thomas Piketty and Nancy Qian write, " The proportion of formal wage earners in the labor force is ridiculously low." Piketty and Qian compared India and China and found that while till 1993, India had a larger proportion of taxpayers, China shot ahead after this while India's number has stagnated. This even though income tax is much older in India, having been instituted by the British Raj in 1922 while China's dated from the 1980s.[8]

Secondly, the Government should not lose more opportunities like the US-China Trade War of which countries like Bangladesh, Taiwan, Mexico, and the European Union had taken major benefits. The government should also try to maintain peace in the country as any kind of riots represents tensions in the country and it hurts the tourism industry, vandalism of public infrastructure, and severely affect economic activities.

Thirdly, the Indian Government should stop disinvesting PSUs or demanding profitable PSUs to take over sick companies or bad banks. For instance, the State Bank of India is ordered to take over the crisis-hit Yes Bank, LIC's shares were liquidated to finance the development programs, ONGC forced to do unnecessary acquisition which has dried the company and made it dive into debts. ONGC was also forced to disinvest 60% of its oil and gas producing fields to private companies but an attempt was failed due to strong opposition by the corporation.[9] As reported by Bloomberg, the ONGC cash levels have dropped by 90% in just one year from 2017 to 2018. Hence the Government should stop siphoning of funds from Cash Cows by putting the burden on them to give fuel subsidy forcefully.

Fourthly, On 13th February 2020, Standard & Poor's rated India with BBB- rating for India which is the lowest in the investment grade. [7] On 14th February 2020 the Moody's Investor Service has rated India's economic strength to have long term high growth as "a2" which is moderate. The institution and governance strength were rated "baa3" which is quite low as it balances progress toward credit positive economic and institutional reforms with increasingly challenging implementation and uncertainty about their effectiveness in addressing key credit challenges. " b1" rating for the fiscal strength, underpinned by India's relatively high general government debt burden and low debt affordability.[11]

Fifthly, India had a trade deficit of $ 94.72 billion in 2019-20 as the Exports in 2019-20 amounted to $ 185.95 billion and Imports amounted to $ 280.67 billion.[12] The statistics had improved in comparison to last year but the Government should take more steps to improve the process of exports as it's much complex than the processing of Imports. Therefore, more investments should be done in improving infrastructure for seaports like airports.

Sixthly, Environment sustainability is also an important issue as India ranks 177 out of 180 countries in the Environmental Performance Index, along with this population control is also a very important issue. Therefore population control and environmental sustainability are significant to be maintained as both are inversely proportional also because the higher population will lead to higher dependence upon resources. Therefore proper management is needed to properly function all these factors for making India achieve the target of being a superpower.

Lastly, government spending should increase to brace the economy with attention to the unorganized sector. The stock market is also showing investors lost confidence, before the hit of Pandemic Coronavirus the stock market was facing a deep hit due to the slogging performance of the Indian Economy. In 2019, India had also experienced the worst-performing market after 2013 due to the tampered banking sector, US-China Trade war, Automobile crisis, Lower market demand leading to low corporate earnings. Hence all these factors aggravated the tensed situation of the market.

Suggestions:

One of the basic factors which have affected the Indian Economy is Government's Economic mismanagement. To begin with, the Government should stop treating PSU's like a step-child such as in an oil and gas explorations blocks auction ONGC was given just two blocks and 41 blocks out of 55 were awarded to Anil Agarwal's Vedanta Resources. Furthermore, the Government should let PSUs and Regulatory bodies to work for themselves by actually decentralizing their responsibility and authority. Banks are the lifelines for savers, consumers, and businesses, if the banks fail then it is a red flag for the economy. This leads to loss of economic confidence amongst the investors and makes them risk-averse. The Government should also focus on improving the NPA situation of the banks as early as possible along with pumping more money through their Indradhanush scheme of Recapitalizing the banks.

On top of that, the government should also simplify the GST regime and start pumping more money in the economy which was severely affected by the Demonetization. The Government should stop changing the rules for GST and simplify the process as it affects the confidence in the nation's economy for the FDI, FPI and FII investors.

Besides, India should also utilize its 37 years of demographic dividend wisely to achieve its dream of being a superpower as current superpowers like the USA, Japan and China are growing old. As per a report by United Nations Population Fund (UNPF) Since 2005 India's population between the age bracket of 15 and 64 years has grown significantly and will last till 2055 which is longer than any other country. Hence, the median age in India is 29 by 2020. Therefore, this benefit needs a proper platform that can only be built by proper Infrastructure facility, Governance, Direct transfer benefits, Public distribution system and Easy availability of finance. Sadly, the current state of economy jeopardies the demographic dividend.

Consequently, the government should frame more states specific policies for education, nutrition, sanitization, health, skill development and employment for both urban and rural areas. India ranks 129th out of 189 countries in the Human Development Index, 2019 by the United Nation Development Programme (UNDP) with only 6.5 years as the mean age of schooling. The USA is considered to be the most desired country for higher education with around 24% of the students around the world. Hence, the government should also focus on attracting more foreign students as it contributes a lot to the economy by an increase in foreign exchange revenues.

To make India a Superpower the following stated factors should be taken into consideration. Firstly, India should invest heavily in education and health. Secondly, a country should build a strong economy as still, India's revenue is dependent on Agriculture and Tax. Thirdly, the Military plays a power card for a superpower therefore investing in defense is vital. USA's defense budget in 2019- 2020 was 51.21 lakh crore and India's budget was 27.86 lakh crore. Fourthly, as discussed before also data is the new oil hence investment in technology is very important to dominate the world. Fifthly, strong diplomatic relations with other powerful countries to have strategic influence over the other countries. Additionally, the policies should be framed with a long term perspective. According to the paper published by UNPFA, 2018 " 2020 to 2040 is going to be the Golden decade for India but only with the right policies through proper execution and control.

Conclusions:

According to the World Bank, India's total economy amount to $ 2.719 trillion in 2018 whereas China's economy amounts to $ 13.608 trillion and the USA's economy amounts to $ 21.734 trillion. The per capita income in India is $ 6,829 in comparison to $ 16,127 of China and $ 56,140 of the USA. When comparing India with its immediate competitors China, India's Gross national income (GNI) amount to $ 2,698,618 and Total External debt stocks $ 521,391 whereas China's Gross national income (GNI) amount to $ 13,556,844 and Total External debt stocks $ 1,962,304. [12]. Hence, India's GNI is nearly 6 times lesser than China's whereas the total external debts are nearly 4 times less.

Now the next and significant question is when will India become a superpower? IMF has projected India's 2020 growth rate to be 5.8%. China has shown the double-digit growth rate of Real GDP for a very long time up to 15 % also whereas India has no trial of double-digit except 10.3% once in 2010 wherein the same year China had the Real GDP of 10.6%. Therefore, India has a far way to go.

In 2018, Microsoft Co-founder Bill Gates gave a warning that " The world needs to prepare for pandemics in the same serious ways it prepares for wars." The current pandemic is also going to blow the global economy. The Indian government had announced 1.5 lakh crore for the healthcare sector in response to the coronavirus pandemic but this large chunk of funds is very less for a 1.34 billion populated nation. The government has recently announced an Economic Response Task Force to devise measures to support the economy but the sole aged problem with the government is delayed execution. The government should also provide compensation for the loss of income of migrant workers in the unorganized sectors who are deeply affected due to the lockdown.

Indian Government has framed various satisfactory policies but without adequate execution and control which lead the policies to not provide the results as expected in the targeted period. India is far away to become a superpower but the transition is not impracticable.

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