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India's transition to a high-income country is riddled with unknowns

India's Middle-Income Challenge and the Road to High-Income Status

India's Current Economic Status

- Joined the lower middle-income category in 2007 and remains there after 18 years.
- Per capita income has increased from \$1,022 to \$2,700.
- To reach upper-middle-income status (\$4,516), India needs another decade (IMF projects \$4,195 by 2029).

Income Variations Across States

- Western and Southern states have higher per capita incomes and are closer to upper-middle-income status.
- Telangana (\$4,306) could be the first to achieve upper-middle-income status, followed by Karnataka (\$4,021), Haryana (\$3,934), and Tamil Nadu (\$3,807).
- Delhi (\$5,579) is already in the upper-middle-income category.

Challenges in Achieving High-Income Status

- India aims to become a high-income economy in the next two decades (per capita income of \$10,000+).
- Western and Southern states must reach high-income levels first, avoiding the middle-income trap.
- Even China, despite rapid growth, is yet to reach high-income status.
- These states need advanced technological capabilities and strong export growth to sustain progress.

Factors Supporting Growth in Western and Southern States

- Diverse economic activities: Manufacturing (cars, mobile assembly, semiconductors) and services (IT, chip design).
- Market forces and government policies (PLIs) support the industrial ecosystem.



- Primary sector focuses on high-value agriculture like dairy and poultry.
- More job opportunities attract labor and capital, preventing wage inflation.
- Fewer constraints on skilled labor and capital accumulation.

Challenges for Poorer States

- Bihar (\$729), Chhattisgarh (\$1,780), West Bengal (\$1,861), Odisha (\$1,970) lag significantly.
- Lack of strong manufacturing and modern services base.
- Dependence on mineral resources without broader economic growth strategies.
- Government has not made a major push for their economic development despite strong political support from these regions.

India's Dual Development Challenge

- Prevent Western and Southern states from falling into the middle-income trap.
- Ensure rapid economic growth in poorer states.
- Requires policies that support both low and high-value-added activities across industries.

Key Policy Questions for the Future

- Will India pursue freer trade or continue protectionism?
- Will the focus remain on national champions, limiting broader economic participation?
- Will institutions be strengthened to drive long-term growth?
- Will political dynamics hinder economic potential?

Growth Trends and Policy Considerations

- India has grown at an average of 6% over the past three decades, despite economic challenges.
- Sustaining this growth for the next two decades requires well-planned policies.
- Achieving high-income status will need an 8%+ growth trajectory, not just 6%.
- Many countries have failed to transition from middle-income to high-income due to poor governance.

Conclusion



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- India must carefully design policies to avoid the middle-income trap.
- Western and Southern states need to sustain innovation and competitiveness.
- Poorer states require focused economic strategies beyond resource dependency.
- Governance, policy consistency, and institutional strength are key to long-term prosperity.

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