



Making India a \$ 5 Trillion Economy: Opportunities and Challenges

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DOI -10.5281/zenodo.14935977

Abstract:

In the year 2019, the National Democratic Alliance (NDA) was re-elected to the power under the leadership of Prime Minister Mr. Narendra Modi. The Prime Minister had set an ambitious target of making India a US\$ 5 trillion economy by 2024. However, in the first week of January 2025, the size of India's economy is approximately US \$ 3.8 trillion, much short of the target. Many factors could be attributed for the current size of Indian economy; such as outbreak of Covid-19 pandemic, fragile global economy, rising military tensions particularly in the West Asia and Eurasia region, inadequate domestic demand, low savings – GDP ratio. However, with constant efforts to push domestic demand, price stability, promotion of manufacturing sector, export promotion, India may achieve this target by the year 2030.

Keywords: 5 Trillion Economy, COVID-19 pandemic, fragile global economy, price stability, export promotion.

Introduction:

Prime Minister Narendra Modi has consistently emphasized his vision for India to become a \$5 trillion economy. In 2019, he set an ambitious target to achieve this milestone by 2024. However, as of January 2025, the size of Indian economy is US \$3.8 trillion. Despite this, the government remains optimistic. In August 2023, during the BRICS summit, PM Modi expressed confidence that India would soon achieve the \$5 trillion economy mark and become a global growth engine. Furthermore, the Finance Ministry has projected that India will become a \$5 trillion economy by 2027-28, positioning it as the third-largest economy globally.

Objectives:

The present paper aims to examine Government of India's ambitious revised target of making India a US \$5 trillion economy by 2027-28 in the context of recent national and global developments.

Methodology:

The present study is conducted primarily with the help of secondary sources such as Economic Surveys, articles and journals, reports of leading national and global agencies, views reflected by academicians through news papers and in the conferences. It's also an analytical in nature as it tries to use different ratios to prove the argument.

Challenges Before Indian Economy:

India will become a \$5 trillion economy in the future. However, the revised target of making India \$5 trillion economy by 2027-28 seems unrealistic. India has experienced robust GDP growth, with an 8% increase in the last fiscal year. However, this growth has not translated into equitable income distribution. Recent Independent polls indicate that economic inequality is expected to persist over the next five years, with limited improvements. High youth unemployment

and income disparity remain significant challenges, necessitating proactive government intervention to achieve inclusive growth.

The Indian economy is increasingly driven by tertiary (services) sector. Despite this shift, a substantial portion of the workforce remains employed in the primary sector (agriculture), indicating a structural imbalance. Recent analyses suggest that targeted investments in rural infrastructure and skill development are essential to create higher-paying jobs in manufacturing and services, thereby addressing employment distribution disparities. Private consumption has shown resilience, with a growth of 6.7% in the first half of 2024-25, driven primarily by urban spending. However, rural demand has stagnated, reflecting underlying economic disparities. Investment momentum, indicated by Gross Fixed Capital Formation, grew by 6.4%, suggesting steady infrastructure and industrial investments, particularly in urban sectors.

Inflation remains a concern, with general inflation moderating to 6.21% in October 2024. Notably, food inflation surged to 10.87%, highlighting supply-side disruptions in agriculture and logistics. Moreover, the Reserve Bank of India finds it difficult to contain food inflation through its policy framework. Besides, challenges such as income inequality, unemployment, and sectoral imbalances still persist.

Opportunities:

India has been implementing a multifaceted strategy to achieve its goal of becoming a \$5 trillion economy. Recently Government of India has taken several

initiatives in this direction. Following are a few of them

1. Infrastructure Development: The government has maintained a record infrastructure spending target of ₹11.11 trillion (\$132.85 billion) for the financial year ending March 2025, constituting 3.4% of GDP. This investment aims to bolster growth and create jobs, with infrastructure development having a robust multiplier effect on the economy by spurring demand in related sectors such as cement and steel.

2. PM Gati Shakti Plan: Launched in October 2021, the PM Gati Shakti initiative is a \$1.2 trillion megaproject designed to provide multimodal connectivity infrastructure, enhancing manufacturing competitiveness and facilitating seamless movement of goods. The plan aims to revolutionize India's infrastructure over the next five years, with objectives including the development of 400 new Vande Bharat Express trains and the revamping of 200 railway terminals.

3. Policy Reforms and Economic Strategies: The government has been focusing on growth at the macro level, complemented by inclusive welfare at the micro level. This includes promoting the digital economy, fintech, technology-enabled development, energy transition, and climate action, relying on a virtuous cycle of investment and growth.

4. Industry and Business Confidence: Surveys indicate that Indian businesses are optimistic about achieving the \$5 trillion economy target, citing government support in infrastructure investments, additional reforms, and enhanced technology adoption as key enablers. About 50% of business leaders anticipate strong economic growth, projecting above 6.5% growth in the upcoming fiscal year.

5. Budgetary Allocations: The interim budget presented by Finance Minister Nirmala Sitharaman focuses on making India a \$5 trillion economy and a developed nation by 2047. The budget includes significant allocations for rural development, job creation, and infrastructure, aiming to stimulate economic growth and reduce reliance on foreign entities. Moreover, India's capital markets have matured significantly, attracting substantial institutional and retail investments. The National Stock Exchange's market capitalization has more than doubled since 2020, positioning it among the world's largest. This growth is supported by rising consumption, digital infrastructure, and initiatives like the Production Linked Incentive (PLI) Scheme, which aims to integrate India into global supply chains.

Discussion:

The government of India's original target to make India a \$5 trillion economy by 2024 and revised target of achieving it by 2027-28 seems to be impractical. As per latest report by the Reserve Bank of India, substantiated by the Economic Survey 2024, India's Savings to GDP ratio of just around 30%. The capital-output ratio is approximately 4:1. Therefore, the GDP growth rate cannot be expected to rise more than 7.5% in the next two financial years. The growth rate of GDP in the last quarter is less than expectation. The global economy is also very fragile and the possibility of another recession can not be ruled out. The International Monetary Fund, The World Bank, Reserve Bank of India and Government of India have recently confirmed that the growth rate of Indian economy will remain in low trajectory in the fiscal year. The other

Macroeconomics indicators of the economy like private consumption, private investment and Investor's confidence are also not very optimistic too.

The way forward:

India's economic model exhibits resilience, driven by a strong services sector and democratic stability. The development of digital infrastructure and potential for renewable energy generation further bolster this resilience. Effective governance, continued reforms, and investment in education and infrastructure are crucial to sustaining growth and enhancing economic inclusivity. Balancing fiscal consolidation with targeted public spending is recommended to sustain this momentum. India must also focus upon strengthening agricultural supply chains and investing in cold storage infrastructure to curb food price volatility. To achieve the \$5 trillion economy target, India must adopt a comprehensive, multi-pronged approach focusing on key economic drivers and addressing structural challenges. Here are the way forward strategies:

1. **Strengthening Infrastructure Development** Government of India has tried to give a big boost to the infrastructure development through programs like the PM Gati Shakti plan. Now, she needs to provide conducive environment to attract Public -Private Partnerships. Government can leverage private sector expertise and funding for major projects in energy, transport and urban development. To accelerate the pace of economic growth with minimum loss to the environment, massive investment in renewable energy, electric vehicles, and sustainable urbanization needs to be given priority.

2. Boosting Manufacturing and Exports:

To promote ease of doing business, we have to simplify regulating mechanism by rationalizing tax system and easing out compliance to make manufacturing competitive.

The Production-Linked Incentive (PLI) scheme be further expanded to cover more sectors, such as electronics, automotive, and pharmaceuticals. Coordinated efforts are to be made to diversify exports and increase trade agreements and partnerships, reducing dependency on specific regions like China or the West.

3. Enhancing Agricultural Productivity:

Enhancing agricultural productivity and efficiency is the pre condition to promote agricultural output. This is quite significant as India has to feed a population of 140 crores and size is rising continuously. Besides, India has to seize the opportunity of becoming a hub for agricultural produce for the world economy. Government through private public participation has to promote mechanization, precision farming, and irrigation technology to boost agricultural output, strengthening agricultural supply chains, creating export- focused agro-hubs, and expand e-markets for farmers. Government has to create an ecosystem to support startups in agro-tech and climate-resilient farming practices.

4. Digitization and Technology Adoption:

India has made remarkable progress in the field of digital payments since November 2016. However, there remains a digital divide across the various sections and region of the society. Hence, focus must be shifted on expansion of the use of digital payments, e-commerce, and AI-driven services and mitigating the

menace of cyber threats. We must give priority to foster an environment for startups, especially in technology-driven sectors to reap demographic dividend as the present growth model has also led to the term 'Job-less Growth.'

5. Addressing Employment and Skill Development:

To create an ecosystem that promotes creation of jobs, we need to prioritize sectors like manufacturing, tourism, and services. Moreover, we have to come with a policy framework that align education and skill programs with industry demands, emphasizing AI, robotics, and green energy sectors. Micro, Small and Medium Enterprises (MSMEs) are the backbone of Indian economy as these enterprises absorb huge semi-skilled labour force. Thus, it is significant to provide financial aid and training to Micro, Small, and Medium Enterprises (MSMEs).

6. Improving Financial Inclusion and Credit Access:

Government of India has undertaken coordinated efforts to expand financial services to the unbanked citizens through schemes like Jan-Dhan Yojana. More concrete efforts are required to build confidence among the masses about digital. Similarly, the loan processes need to be simplified particularly for farmers, MSME sector and Startups.

7. Fostering Economic Reforms:

One of the unresolved demand by the corporates is to simplify land acquisition laws and introduce flexible labor regulations. Though, in a democratic country like India, it is very complex problem, efforts needs to be made in consultation with State governments and other stakeholders. Streamlining the Goods and Services Tax is another step that may boost private investment. Urgent

and systematic policy response for bad loans is need of the hour along with recapitalization of banks to improve credit flow.

8. Strengthening Global Partnerships:

In the recent times, India has impressively asserted herself as major negotiators in the global affairs. This needs to translate into signing of more free trade agreements (FTAs) with key global economies keeping India's interest at the top. Besides we must increase our participation in global value chains and encourage foreign direct investment (FDI).

9. Promoting Sustainable Growth:

Climate change is emerging as a greatest threat to the world economic order particularly to the developing and under developed countries. Therefore, comprehensive efforts in coordination with major stakeholders are to be given priority to make green technology accessible and affordable for the masses.

10. Governance and Policy Stability:

Transparency and accountability are the key elements to mitigate the menace of corruption and to improve efficiency in service delivery mechanism. Therefore, to reduce the so called "Transaction Cost" transparency must be maintained in the execution of policy and schemes. By focusing on these areas, India can address its challenges and accelerate its journey toward becoming a \$5 trillion

economy while ensuring sustainable and inclusive growth.

Conclusion:

To conclude, while the initial target has been delayed, and the revised target is about to miss the deadline of 2027-28, the Indian government continues to pursue policies aimed at reaching the \$5 trillion economy milestone in the coming years. India must strive to expand the size of national income along with making concrete efforts to promote equitable distribution of resources among the masses.

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