India Surpassing Britian to become The Fifth Largest Economy in the World: A Qualitative & Quantitative Analysis

by

Rohan Patronobish
Student, Sem V, Dept. of Economics,
The Heritage College, Kolkata

Introduction

The sensational piece of news that has set social media abuzz by the end of the month of August is that India has surpassed Britain and is currently enjoying the status of being the fifth largest economy in the world. Although this was predicted by the economists at IMF for quite some time, the news has brought a wave of pride and hope among the Indians about the bright future of the economy. A sense of victory is also noticeable, considering Britain were former colonisers. A report published by Bloomberg 1 in August, confirmed that India had posted a GDP of $854.7 billion whereas UK had posted a GDP of $816 billion in the January March quarter of 2022. India, although being marginally ahead in GDP value by $40 billion from the UK, has the potential to reach around $3.53 trillion by the end of 2022 with the UK struggling to reach $3.38 trillion. The sudden slowdown of UK's economic growth can be attributed to the alarmingly high rate of inflation that the nation is facing. UK's consumer prices inflation stands at 10.1%, way more than the predicted rate of 9.8% and the highest in around 40 years since the time of Margaret Thatcher (1982). Keeping in mind the current foreign exchange market, both INR and British Pound had fallen dangerously in value compared to the USD, which had caused a shrinking of the GDP of both the countries in dollar terms. Notwithstanding that, India's economy has been growing in both real and nominal values at a surging rate of 5.71% since the last decade, whereas the UK's has been growing at only 1.76%. Assuming India to continue this pace of growth, it will become a $5 trillion economy by 2026 whereas Britain will struggle to become a $4.35 trillion economy. The facts and figures do provide a positive impetus to India's GDP growth, the real picture is actually not that glorious. India may have quantitatively left the economies of France and Britain behind but the nation is still lacking the qualitative growth that is the need of the hour. India is suffering from the problem of uncontrolled population growth and the growing income inequality among its citizens that is a direct consequence of the said problem. It is also way behind UK in certain important spheres like HDI (Human Development Index), Per capita GDP, poverty and unemployment. Economists throughout the world have praised

India for its highly successful start-up boom that has contributed 26% to GDP growth but have also expressed concern about the basic foundations of the economy that need more attention.

Literature Review

Renowned economist Kaushik Basu (2007) in his paper The Pattern and Causes of Economic Growth in India, provides a thorough and in-depth analysis of what gave the Indian economy such a tremendous impetus to grow. Gurcharan Singh and Shikhil Munjal (2019) in their paper An Empirical Study of GDP of Indian Economy on Inflation and Population, deeply study the negative effects of high inflation coupled with unprecedented population growth on the overall growth of the Indian economy. Margaux MacDonald (2022) in his paper Financial Sector and Economic Growth in India, has mentioned about the sensational growth of the financial sector in India even after facing so many setbacks and how the financial sector has predominantly given a concrete shape and direction to India's GDP growth. Carl J. Dahlman's paper India's Knowledge Economy in the Global Context (2019) talks about how India's education sector has been profoundly instrumental in shaping its growth along with the IT and the services sector, making the nation the largest manufacturer of engineers and the second largest in software production. Several articles presented in newspapers like the Economic Times, The Hindu, The Indian Express etc. also provide a detailed analysis about India surpassing UK to become the fifth largest economy in the world.

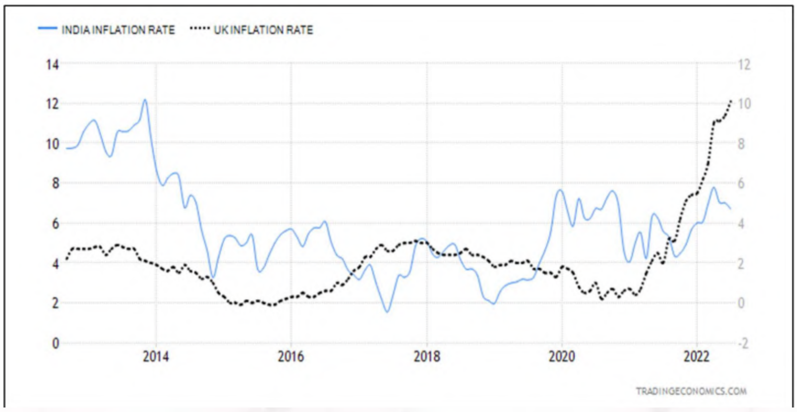
Research Methodology

All primary and secondary data for this research has been taken from the World Bank, The International Monetary Fund (IMF), and The UN economic survey, The Reserve Bank of India (RBI), The National Sample Survey Office (NSSO), Office of National Statistics UK, The World Inequality Report and International Labour Organisation.

Analysis

Inflation

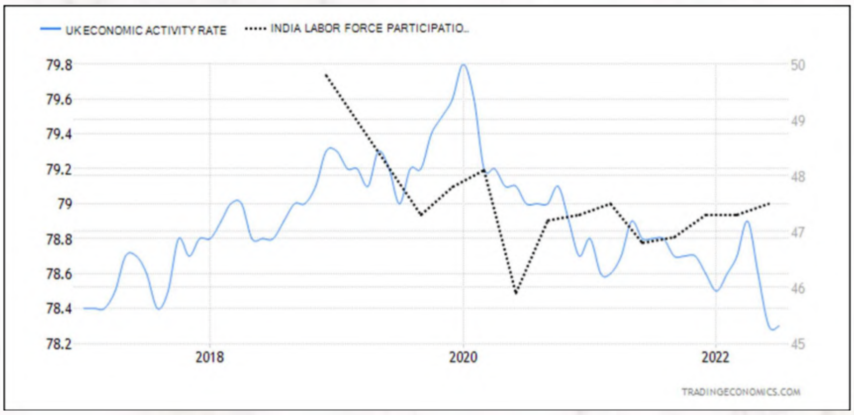
For an economy, extreme levels of inflation is a big problem. As of June 2022, the Consumer Price Index (CPI) inflation of Britain stood at roughly 10.1%, way more than the initially predicted inflation of 9.8% and the highest in over 40 years since the time of Margaret Thatcher (1982). During the Covid-19 pandemic in 2020-21, CPI inflation in India rose up to 8.7% but came down to around 6.5-6.7% by December 2021 and was more or less hovering around 6.5-7%. The CPI inflation showed a sudden peak in April-May 2022 but as of July has again come down to 6-7%. For a developing country, an inflation rate of roughly 7% is considered as a threshold inflation rate and India is doing quite well in that sphere as compared to Britain. However, India's inflation rate is affecting the poor of the country as necessities like rice, cereals, basic clothing etc. are sucking up the crunch of their meagre income.



Graph from TradingEconomics.com based on data by IMF.

GDP, Per-Capita GDP and Population

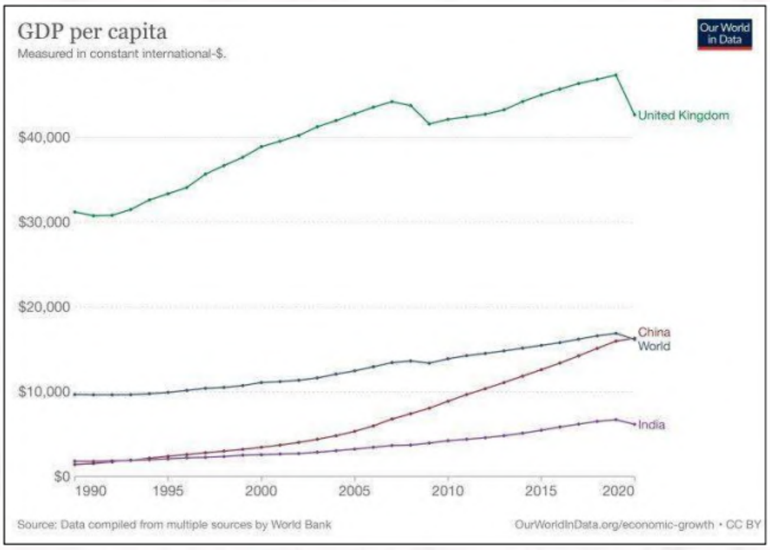
The GDP report published by Bloomberg pertaining to January-March quarter of 2022 posted India's GDP at $854.7 billion and that of UK's at $816 billion. A report by published by the World Bank 2 in 2021 opined that Britain's population in 2021 was roughly around 67.5 million whereas that of India was around 1.45 billion. India's GDP (current prices) in 2021 was $3.18 trillion and that of Britain's was $3.19 trillion. The alarming fact to look at here is that the average productivity of 1.39 billion Indians was roughly equal to the average productivity of 67.5 million Britons. As of August 2022, the Labour Participation Rate in India was roughly 47.5% whereas that of Britain was 78.3%.



Graph from TradingEconomics.com based on World Labour Statistics report by ILO

IMF's report in 2021 3 showed that the per-capita income of a Briton was $47,203 while that of an Indian was $2,283 which is even less than 5% of an average Briton's income. This huge gap in per-capita income in the respective nations gives a deep insight of how the problem of inequality is hampering India and its overall growth. Although being numerically ahead of Britain, India is failing to distribute its pie equally among its people which has further increased the gap between the rich and the poor in the country. A study released by the Ministry of Finance, Government of India 4 in 2021 showed that out of a sample of 10 randomly selected people in the 5 major metropolitan cities in the country, 4 of them were extremely happy with their bank accounts having substantial money, 3 of them were moderately happy with decent money in their bank accounts whereas 3 of them were struggling immensely to make even minimal ends meet. The most alarming fact about this conclusion is that the growing inequality in per capita income distribution is making the already rich people richer and the poor worse off in India. This study further proved the idea that the 'middle class' faction of the

population which previously existed in the Indian society was slowly getting eroded with the people either settling in the 'upper class' (high income) of
The society or the 'lower class' (low income) factions of the society. One report published by Oxfam 5, showed that the richest 1% of India hold about 42.5% of the country's national income whereas the bottom 50% which form the major chunk of the country's population hold only 2.8% of the national income. In UK however, the richest 10% hold around 36% of the national wealth and the 50% of the working class and the daily wage population holds just about 12% of the national wealth.



International Trade, Balance of Payments and 'Brexit'

The two political parties of Britain, that is, the Conservative Party and the Labour Party hold starkly different views about the economics to run the country. Since the departure of David Cameron as Prime Minister, the Conservative Party have continuously failed to steer the economy towards the path of growth. With no public support and clinging desperately to the threads of power, the Party had put Theresa May and Boris Johnson on the Prime Minister's seat but both of them could not hold the reins of the economy much strongly. The most recent blunder was Prime Minister Liz Truss, whose sudden tax-cut policy created havoc and forced her to resign with only 45 days in office of the PM. Rishi Sunak, former Chancellor of the Exchequer and Chief Secretary To The Treasury, who replaced Liz Truss as PM had strongly urged in his opening address that he would narrow the huge trade deficit that Britain is currently standing on and will gradually steer the country on the path of growth.

As of Quarter 2 of 2022 (April-June), the underlying UK current account deficit excluding precious metals reduced to £ 32.5 billion or 5.3% of the GDP in Quarter 2, a change of £ 4.4 Billion from the previous quarter. UK's balance of payments deficit hit an astonishing record, with the figure ballooning to £ 51.7 billion or 8.3% of the GDP posted in the January-March quarter of 2022. The data from The Office for National Statistics showed the impact of this huge deficit on the disposable income of the households which shrank for the longest period in record.

Britain's exit from the European Union, famously termed as the 'Brexit' which was passed in 2016 and was completed by 2020 is another major, if not the major, reason for the economic crisis that the country is facing. The most astonishing piece of news is that almost 51.7% of the country's population voted for the 'Brexit'. Since the 'Brexit', UK's exports have fallen drastically by about 45% in January 2021 and it fell even further by 15% more in August 2021. The goods imports from the EU had also fell by 30%. UK's automotive industry, which adds around £ 15.3 billion to the country's GDP had been the worst affected due to the 'Brexit'.

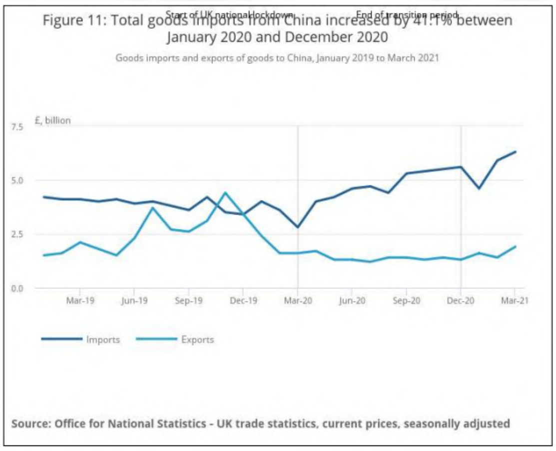
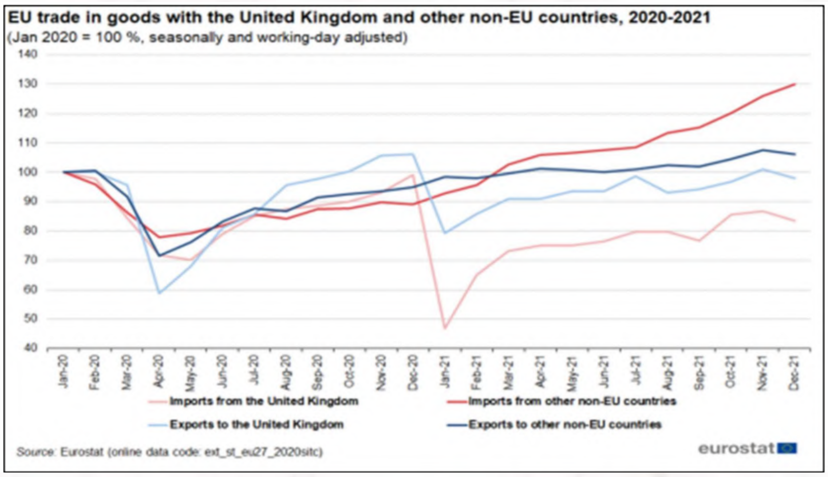


Figure 11: Total goods imports from China increased by 41.1% between January 2020 and December 2020

Source: Office for National Statistics - UK trade statistics, current prices, seasonally adjusted

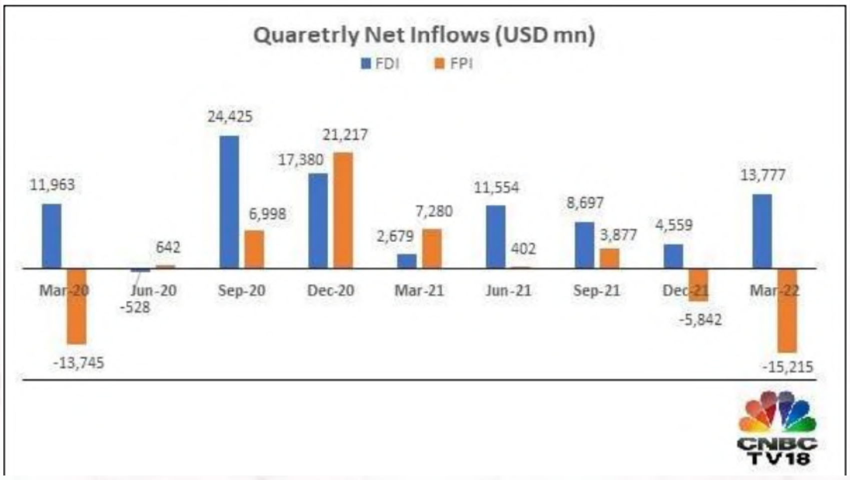


Since the opening up of the economy in 1991, the Indian population has been attracted to the goods and products of the western world and the continuously rising demand for foreign products has always led to a huge trade deficit in the current accounts of the country due to the increased imports and comparatively less exports. However Prime Minister Modi's 'Atmanirbhar Bharat' policy has provided strong impetus to Indian industries for competing in the world market and has helped to narrow down the huge gap of the country's BoP.

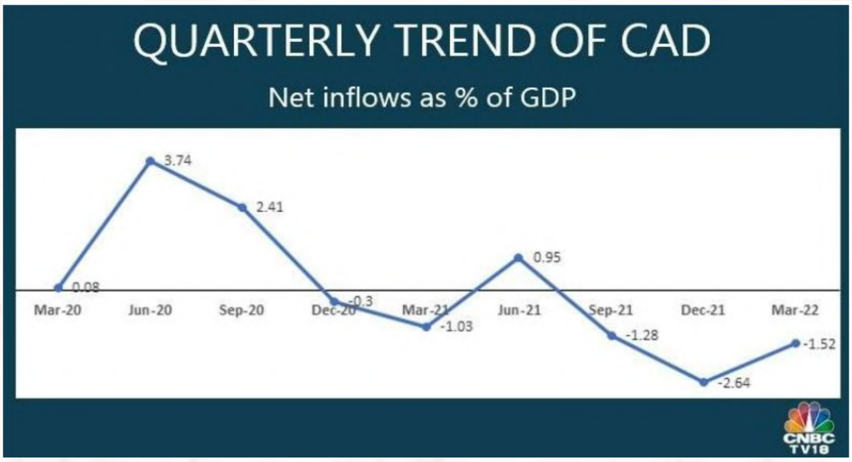
As per the RBI 6, India's Current Account Deficit (CAD) decreased to $ 13.4 billion (1.5 per cent of GDP) in Q4 of 2021-22 from $ 22.2 billion (2.6 per cent of GDP) in Q3 of 2021-22. The sequential decline in CAD in Q4 of 2021-22 was mainly on account of a moderation in

Trade deficit and lower net outgo of primary income. India's balance of payments had slipped into a deficit of $ 16 billion after approximately 13 quarters (since FY 2019) during which period it had posted a surplus of $ 0.47 billion and $ 3.4 billion in FY 2020 and FY 2021 respectively.

Given the nation's more or less constant growth rate of 6-7% YoY and the industrial sector taking huge strides on the path of growth due to the positive impetus from the 'Atmanirbhar Bharat' movement, economists are hopeful that India will be able to bring down the trade deficit as foreign markets push demand for Indian products.



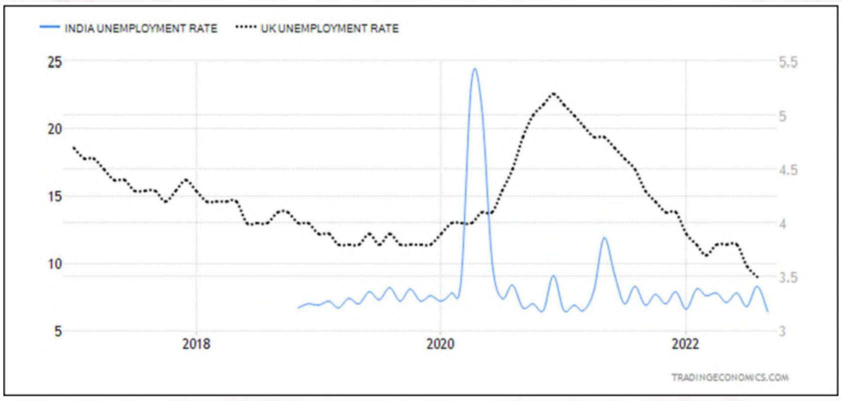
Picture sourced from CNBC TV1



Picture sourced from CNBC TV18

<u>Poverty and Unemployment</u>

As of July 2022, the unemployment rate of UK has fell to around 3.6% which is the lowest in around 50 years. India's unemployment rate rose to 8.3% in August 2022 but has decreased to 6.4% in October 2022. Considering the population of the nation, the unemployment situation is not particularly a happy one. As of UK, the situation is gradually spiralling out of control as CPI inflation has hit a record high and there has been no change in minimum wages, resulting in widespread discontentment among the general public.

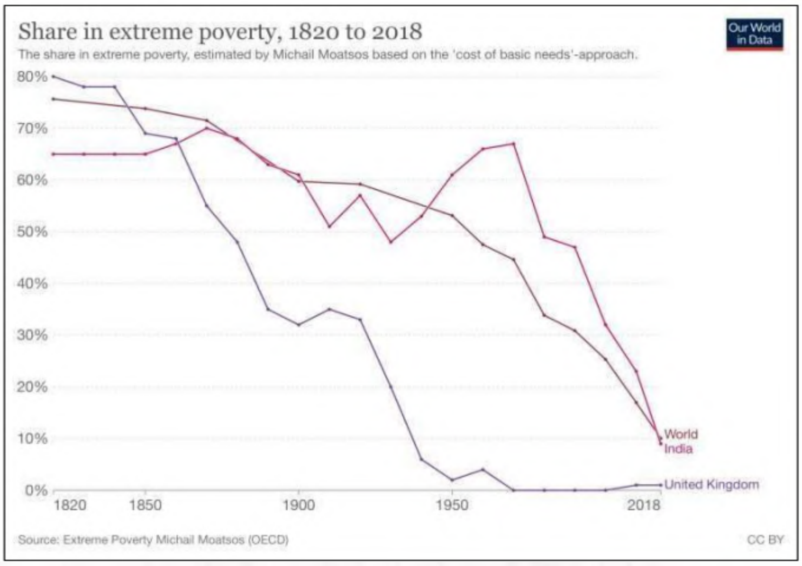


Graph from TradingEconomics.com based on World Labour Statistics report by ILO

India in the past decade has done tremendously well to curb its poverty levels. In 2012, the poverty level in India stood at roughly 20% of the total population, but a more recent report by Bloomberg 7, showed that it has come down to roughly 8-9% of the total population. However India's poverty level is still very high compared to that of Britain's that stands at roughly 0.8% of the total population.

Multi-dimensional Poverty Index (MPI) is an index that captures the percentage of households in a country deprived along three dimensions of well-being – monetary poverty, education, and basic infrastructure services – to provide a more complete picture of poverty. According to a report by Oxford 8 in 2018, India had reduced its poverty rate drastically from 55% to 28% in the last ten years. 271 million people moved out of poverty between 2005/06 and 2015/16. While progress has been remarkable, the country still had the largest number of people living in multidimensional poverty in the world (364 million people).

Considering the 364 million people who were MPI poor in 2015/16, 156 million (34.5%) were children. The good news is that multidimensional poverty among children under 10 had fallen the fastest. In 2005/06 there were 292 million poor children in India, so the latest figures represent a 47 percent decrease or a 136 million fewer children growing up in multidimensional poverty. When considering the durable and lifetime consequences of childhood deprivation, particularly in nutrition and schooling, it's a tremendously good sign for India's future.



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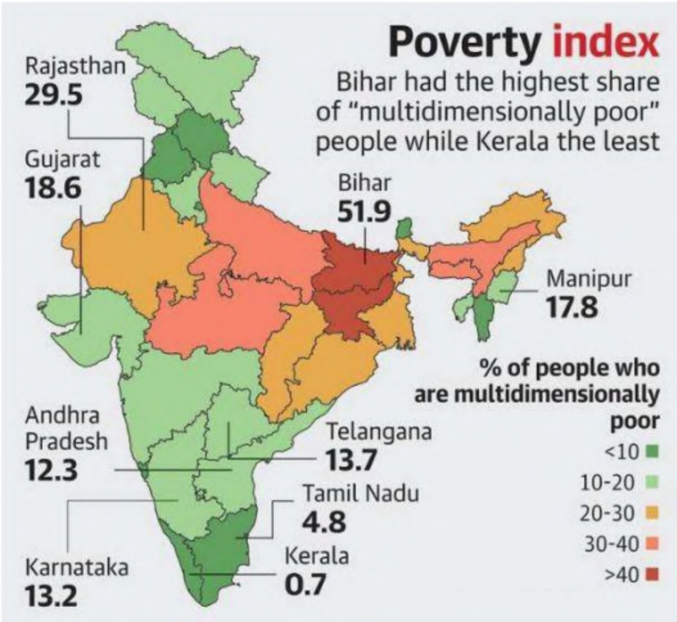
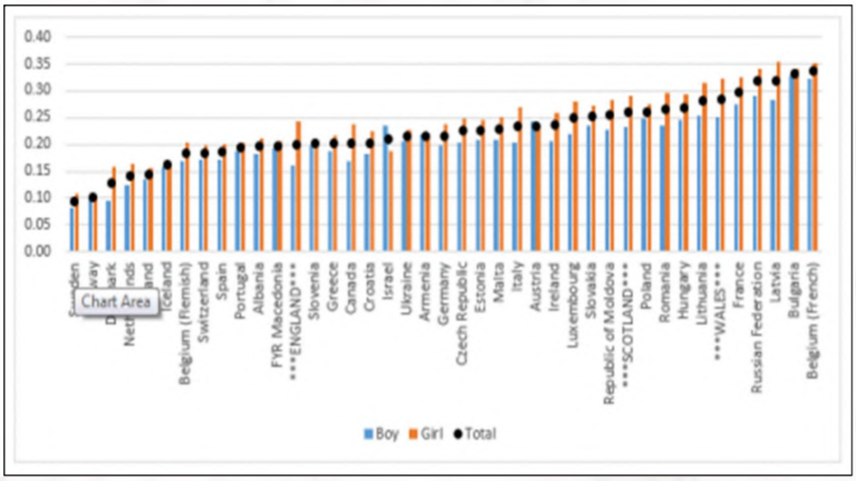


Data sourced from Global MPI Report by Oxford Poverty and Human Development Initiative, 2018



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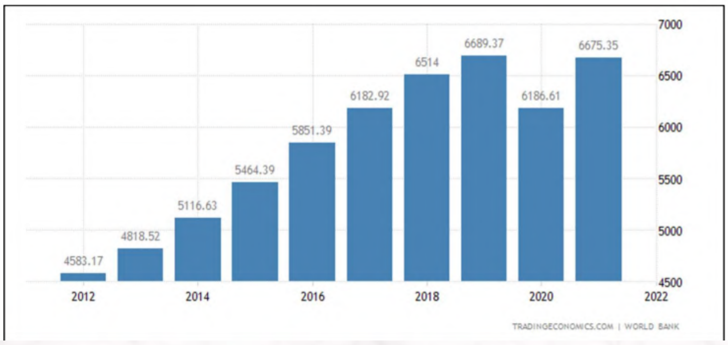
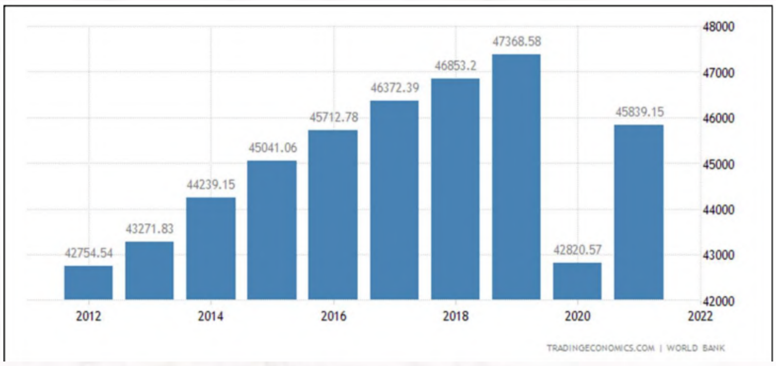
Purchasing Power Parity and Human Development Index

Purchasing Power Parity, or PPP, simply refers to the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country. In 2021, the average income of an Indian stood at $7,341 which is around 15% of an average Briton's income of $50,388. A survey conducted by UN 9 showed that among 193 countries, in terms of PPP, India stood at 127th position and Britain stood at 27th. So, the gap between the two countries seems to close a bit if we consider PPP but in real value terms, it's still quite large.

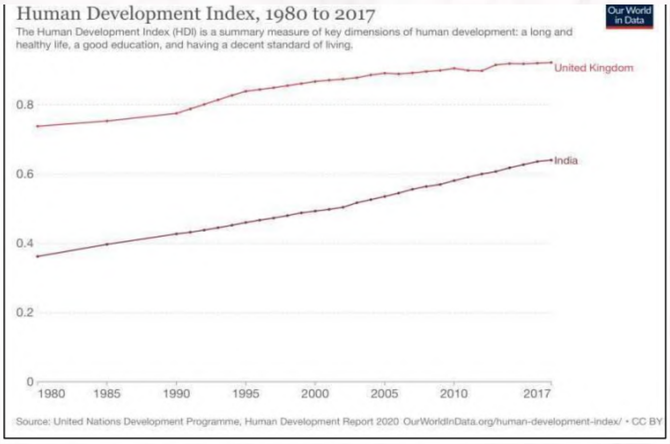


Data sourced from World Bank statistics. All values are in USD Billion.



Data sourced from World Bank statistics. All values are in USD Billion.

The Human Development Index, or HDI, a composite to measure health, education and standard of living parameters shows India standing well below the UK. As of 2021, India has an HDI of 0.645 which is medium development while UK had an HDI of 0.932 which is above the average of 0.720 signifying a better quality of life in UK. IHDI or the Inequality adjusted Human Development Index adjusts the Human Development Index (HDI) for inequality in the distribution of each dimension across the population. As of IHDI reports published by the UNDP in 2021, out of 156 countries, India has a rank of 108 with 0.475 IHDI value whereas UK has a rank of 16 with 0.850 IHDI value. Economists at IMF predict that India would take at least more than a decade to catch up with UK's HDI.



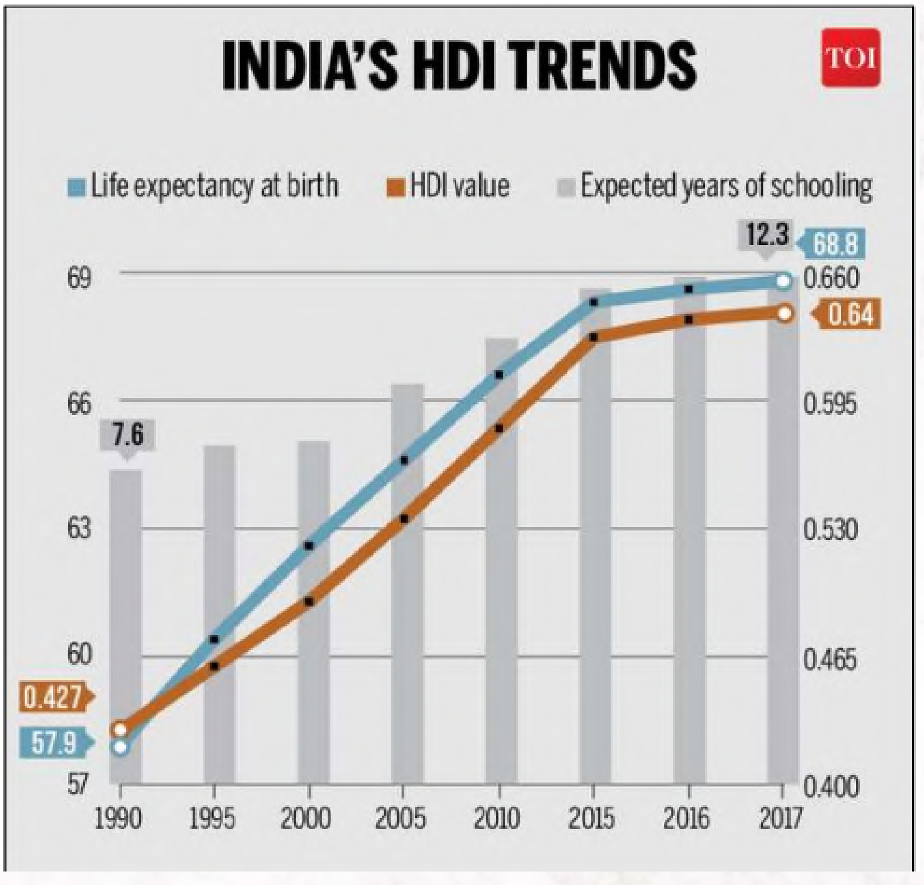
Data sourced from UN Human Development Report 2020.

Table 2. **CHANGES IN HDI**

	Change in HDI rank 2010-15	CHI[1] 2015	IHDI[2] 2015	HDI-IHDI (% loss)
Norway	0	5.4	0.90	5.4
US	-3	12.9	0.80	13.5
UK	-4	7.8	0.84	8.0
Brazil	7	25.0	0.56	25.6
China	11	–	–	–
India	4	26.5	0.45	27.2

1. Coefficient of human inequality; 2. Inequality-adjusted HDI

Data sourced from UN Human Development Report 2015



Data sourced from The Times Of India (TOI), 2017

Conclusion

India surpassing Britain to become the fifth largest economy in the world is no mean feat given that the country was still termed a "third-world country" just a decade ago but the development brings a lot of aspects to the front that need immediate attention. The most important issue is uncontrolled population growth. A study published by World Population Review 10, revealed that there is one birth in every 7 seconds in India and one death in every 12 seconds. The current population in India stands at 1.50 billion and is expected to reach 2.30 billion by 2060. From 1960 to 1990 the Indian population had grown at a steady rate of 2.09% but the growth rate has fallen in the last decade. The current growth rate of population is around 0.89%. The unprecedented population growth is naturally accelerating the GDP of the country but on the flip side, each individual's share of the nation's "Economic Pie" is gradually diminishing. The existing income inequality is further fuelling the fire with the allocation of 42% of the nation's income to the rich and only 10% to the poor. India's unemployment rate currently stands at 6.4%, which at the periphery may seem quite natural but in reality is absolutely the opposite. 6.4% of 1.50 billion Indians unemployed is something too alarming to ignore. Comparing population statistics of Britain and India, the number of people who are unemployed in India is roughly equivalent to 35% of Britain's entire population. Economists around the world have expressed serious concern regarding this and have even said that developing countries like Vietnam, Taiwan etc. who are much behind India may soon leave India behind because of their less population and increased productivity. On the other hand, the political scenario in Britain is in shambles. There is record high inflation, public unrest and the economic machinery of the country is getting jammed. The nation needs strong monetary policy changes immediately to curb the high inflation as well as a strong Prime Minister to hold the reins of the nation's politics. It is predicted that India will become a $5 trillion economy roughly by 2026 but what use will that be if the average Indian doesn't receive even a slight share of that? Numerically India may have left Britain and France behind as an economy but India is still behind them in some of the key factors that determine economic growth. Roughly speaking, the foundations of the nation's economy are not growing at the same rate as compared to the economy itself and its high time for the nation to work on this. The only effective remedy for the nation at present is to curtail population growth and simultaneously work towards strengthening the basic foundations of the economy, ensuring efficient allocation of wealth, improving the living standards of people and maintaining a steady and uniform growth rate. Planned and productive progress, coupled with a well-oiled economic machinery and efficient allocation of the national wealth among its people will surely catapult India to new highs in the near future.

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