Can India get out of the middle income trap?

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In the mid-1980s, international financial institutions moved away from calling their member countries as poor and rich countries, or as developed and less developed countries. The World Bank began classifying its member countries based on per capita gross national income (GNI) at constant prices (taking away the influence of changes in price level) for the purpose of concessional lending The GNI is defined, as total income earned by a nation's people and businesses, including investment income, regardless of where it was earned. It also covers money received from abroad such as foreign investment, inward remittances and economic development aid. There are four categories based on ranges of average per capita GNI as follows:

(i) Low income
(ii) Low middle income
(iii) Upper middle income
(iv) High income

These classifications and income limits are updated every three years. The latest announcements categorizing the World Bank member countries are of July 2023 for FY 2024 in US dollars. **Table 1** shows the ranges of the four categories. **Table 2** shows average per capita GNI for India as well as other Indian subcontinent neighbors and Southeast Asian countries.

Nepal is classified as the only low-income country in the Indian subcontinent. All other five subcontinent countries are low middle income countries. In Southeast Asia, no country is in the low-income category. All other countries are low middle income countries except Malaysia. Malaysia is in the upper middle country, with a current per capita income (GNI) of $11,830. Singapore in South East Asia, is the only country, which is generally known as developed or advanced country at a high average per capita income ($67,353).

TABLE 1 — World Bank Classification by real per capita income (GNI) for FY 2024

Classification	Per capita GNI (US$)
Low Middle Income	<1135
Lower Middle Inome	1136-4465
Upper Middle Income	4466-13845
High Income	>13845

Notes: GNI is defined as GNI= GDP+ overseas net income from dividends and interest +net remittances+ net tourism

TABLE 2 — Four Classifications of Indian subcontient and Southeast Asian countries

Countries	GNI in US$	Classification
Indian sub-continent Countries per capita		
Bangladesh	$2,820	Low Middle Income Country
Bhutan	$3,290	Low Middle Income Country
India	$2,390	Low Middle Income Country
Nepal	$1,090	Low Income Country
Pakistan	$1,692	Low Middle Income Country
Sri Lanka	$3,290	Low Middle Income Country
South East Asia Countries		
Cambodia	$1,690	Low Middle Income Country
Indonesia	$3,953	Low Middle Income Country
Malaysia	$11,830	Upper Middle Income country
Philippines	$3,950	Low Middle Income Country
Vietnam	$3,240	Low Middle Income Country
Singapore	$67,353	High Income Country

Malaysia is expected soon to graduate to become a high-income country from the upper-middle income class, when its average per capita income is expected to hit 13,386 in 2027.

Many people are wondering when India would become a high income country.

India reached low middle income status in 2007. Currently, India's average per capita income is $2390; If India has to reach the upper middle income category, we need to touch the income level of $4466. The first and the foremost important question is when it will happen.

Finance Minister Nirmala Sitharaman has estimated that India will reach a $30 trillion economy by 2047. India's GDP needs to grow continuously at 9.7% per annum in current dollar terms till 2047 to reach the $30 trillion target. However, currently India's GDP growth is below 7 percent

Asian Miracle

Taiwan and Korea have become high-income countries in a short period of time. Korea transitioned to upper-middle income status in ten years much faster than Taiwan (1987). Then, Korea quickly progressed to become a high-income country in 8 years (1988-1995). It is considered as 'Asian Miracle'.

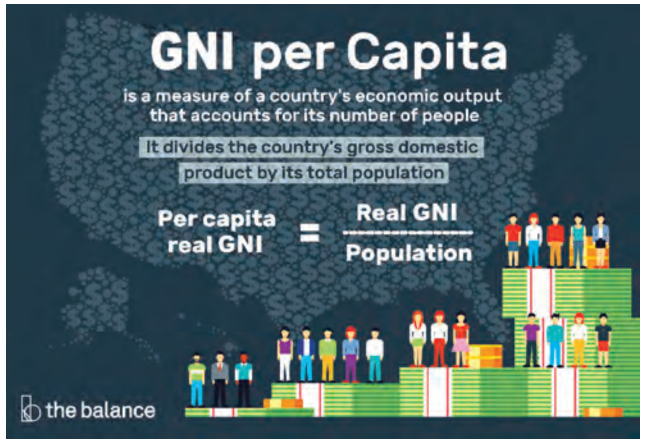
The miracle was brought about the miracle by meeting the global demand for technologically advanced consumer products, including semi-durables and investment goods. They prepared many items quickly with well-trained workers. They were ready to accept changes and adapt to them quickly. Those countries supported an open trade policy for importing critical inputs free of tariffs and technology without restrictions.

The important question is whether India will do these things that have made Taiwan and Korea successful.

What should India do?

The rating agency CRISIL estimates that India will grow by 9.1% over the next seven years. Towards this objective, more steps need to be taken to boost the growth of the manufacturing sector. Apart from total production, productivity per worker should be improved in all sectors. Steps towards raising the standard of education in rural areas for absorbing technological improvements particularly in agriculture and related areas, training facilities in the rural areas need immediate and maximum attention.

Currently, the fastest growing services sector is expected to grow at a rate of 6.9% over the next seven years. Its growth should be further increased. Also, emerging sectors such as electronics, energy and electric vehicles (EVs) are growing faster than other sectors. Also, they play an important role in boosting the economy in the future. Investments in these sectors contributed 16% of capital expenditure in 2023 and 2024. The per capita income of our people is likely to rise significantly with the service sector becoming more prominent.



Need for labour reforms implementation

Many important things need to be done to improve India's economy. First, more reforms should be brought in to facilitate domestic and international business. Many reforms in the fields including labour have been passed by the Parliament. The government is taking steps to implement new labour codes after the 2024 the Elections. Only 23 States and Union Territories (UTs) have issued draft rules under the Pay Rules.

Under the new laws, companies can increase working hours from 8-9 hours a day to 12 hours a day. Under the new pay code, employees' take-home pay will also increase significantly as basic pay will be at least 50% of an employee's total monthly salary. It will also increase the PF contributions made by employees and employers. This will increase the pension corpus and gratuity of the employees.

Twentynine Central Labor Acts covering Wages, Social Security, Industrial Relations, Occupational Safety, Health and Working Conditions have been framed and passed in the Parliament. The subject of labour is in the Concurrence List of the Constitution of India. Some States have not notified the rules under the new codes. There is no doubt that the delay in the implementation of labour reforms will be a major hindrance to India's progress and increase in the per capita income of the Indian people.

The lack of agreement between India's states and the central government on many issues is not a new problem. It is ever a nagging problem. It can even be said that this is our "traditional" weakness.

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