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Dr. P Siva Ramakrishna
Academic Consultant,
Department of Commerce,
Vikrama Simhapuri University
Nellore, Andhra Pradesh,
India.

Correspondence
Dr. P. Siva Ramakrishna
Academic Consultant,
Department of Commerce,
Vikrama Simhapuri University
Nellore, Andhra Pradesh,
India.

Challenges for economic development in India

Dr. P Siva Ramakrishna

Abstract
India, a land of rich culture, is the second most populous country of the world. And area wise, it is the seventh largest nation. At present India's position is one of the poor country with large population, low per capita income, high corruption, low quality of life, low productivity but within of potential that has just entered the path of high growth rate. India ranks poorly in terms of Economic Freedom Index, Competitiveness, Corruption, and Human Development Index. India is the 11th largest economy in terms of nominal GDP with the US, Japan, Germany, U.K. France and China ranked 1st to 6th. In terms of GDP based on Purchasing Power Parity (PPP), India is the 4th largest after US, China and Japan. US nominal GDP is 20 times that of India [1].

Keywords: Economic development, Challenges

1. Introduction
The current scenario of Indian economy has significant structural change. In the world, there is great expectation that India is the second fastest- growing large economy in the world and is widely expected to be among the top three economies in the next two decades. The following are the common challenges for economic development of India.

1.1 Inflation
Fuelled by rising wages, property prices and food prices inflation in India is an increasing problem. Inflation is currently between 8-10 per cent. This inflation has been a problem despite periods of economic slowdown. For example in late 2013, Indian inflation reached 11 per cent, despite growth falling to 4.8 per cent [2]. This suggests that inflation is not just due to excess demand, but is also related to cost push inflationary factors. For example, supply constraints in agriculture have caused rising food prices. This causes inflation and is also a major factor reducing living standards of the poor who are sensitive to food prices. The Central Bank of India have made reducing inflation a top priority and have been willing to raise interest rates, but cost push inflation is more difficult to solve and it may cause a fall in growth as they try to reduce inflation.

2. Poor educational standards
Although India has benefited from a high percentage of English speakers. (Important for call centre industry) there is still high levels of illiteracy amongst the population. It is worse in rural areas and amongst women. Over 50 per cent of Indian [3]. Women are illiterate. This limits economic development and a more skilled workforce.

3. Poor infrastructure
Many Indians lack basic amenities lack access to running water. Indian public services are creaking under the strain of bureaucracy and inefficiency. Over 40 per cent [4] of Indian fruit rots before it reaches the market; this is one example of the supply constraints and inefficiency's facing the Indian economy.

4. Balance of Payments deterioration.
Although India has built up large amounts of foreign currency reserves the high rates of economic growth have been at the cost of a persistent current account deficit. In late 2012,

the current account reached a peak of 6 per cent of GDP. Since then there has been an improvement in the current account. But, the Indian economy has seen imports growth faster than exports. This means India needs to attract capital flows to finance the deficit. Also, the large deficit caused the depreciation in the Rupee between 2012 and 2014 [5]. Whilst the deficit remains, there is always the fear of a further devaluation in the Rupee. There is a need to rebalance the economy and improve competitiveness of exports.

5. High levels of private debt

Buoyed by a property boom the amount of lending in India has grown by 30 per cent in the past year. However there are concerns about the risk of such loans. If they are dependent on rising property prices it could be problematic. Furthermore if inflation increases further it may force the RBI to increase interest rates. If interest rates rise substantially it will leave those indebted facing rising interest payments and potentially reducing consumer spending in the future

6. Inequality has risen rather than decreased.

It is hoped that economic growth would help drag the Indian poor above the poverty line. However so far economic growth has been highly uneven benefiting the skilled and wealthy disproportionately. Many of India's rural poor are yet to receive any tangible benefit from the India's economic growth. More than 78 million homes do not have electricity. 33 per cent (268million) of the population live on less than $1 per day [6]. Furthermore with the spread of television in Indian villages the poor are increasingly aware of the disparity between rich and poor.

7. Large budget deficit

India has one of the largest budget deficits in the developing world. Excluding subsidies it amounts to nearly 8 per cent of GDP. Although it is fallen a little in the past year. It still allows little scope for increasing investment in public services like health and education.

8. Rigid labour laws

As an example Firms employing more than 100 people cannot fire workers without government permission. The effect of this is to discourage firms from expanding to over 100 people. It also discourages foreign investment. Trades Unions have an important political power base and governments often shy away from tackling potentially politically sensitive labour laws.

9. Inefficient agriculture

Agriculture produces 17.4 per cent of economic output but, over 51 per cent of the work force are employed in agriculture [7]. This is the most inefficient sector of the economy and reform has proved slow.

10. Slowdown in growth

2013-14 has seen a slowdown in the rate of economic growth to 4-5 per cent. Real GDP per capita growth is even lower [8]. This is a cause for concern as India needs a high growth rate to see rising living standards, lower unemployment and encouraging investment. India has fallen behind China, which is a comparable developing economy.

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