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EDITORIAL ANALYSIS

Seventeen Years in the Same Bracket: India and the Middle-Income Trap

BUSINESS STANDARD

10 July 2026 · ECONOMY · GS3

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Business Standard 10 July 2026 GS3

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THE LIFT LINE

Standing still on the income ladder while the economy grows is its own kind of warning, because it means India is running fast enough to stay in place but not yet fast enough to climb.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

The World Bank's updated Country Income Classifications, refreshed around July 1, 2026, again placed India in the "lower-middle-income" group, where it has sat since 2009, with gross national income per capita of roughly 2,760 dollars in 2025. Some peers moved up a rung. The persistence of India's classification, even as the economy expands, is a live illustration of the middle-income trap and the arithmetic behind Viksit Bharat 2047. This is core GS3 growth and development.

GS Paper 3: Indian economy, issues relating to growth and development, and the challenges of structural transformation.

For **Prelims**, hold the mechanics: the World Bank classifies economies each July using gross national income per capita computed by the Atlas method, which smooths exchange-rate swings; the four groups are low, lower-middle, upper-middle and high income; for the current fiscal year the lower-middle band runs from about 1,176 to 4,635 dollars; and India, at around 2,760 dollars, sits within it. For **Mains**, discuss what escaping the middle-income trap requires: productivity, human capital and institutional reform.

BACKGROUND AND CONTEXT

Every July the World Bank updates its classification of economies into four income groups, based on gross national income per capita for the previous calendar year, calculated using the Atlas method to reduce the distorting effect of short-term currency movements. The thresholds are revised annually for global inflation.

In the July 2026 update, covering fiscal 2027, the lower-middle-income band spans roughly 1,176 to 4,635 dollars of GNI per capita.

India entered the lower-middle-income category in 2009 and, with GNI per capita around 2,760 dollars in 2025, remains there in the 2026 update. The concern is not the label itself but the pattern it reveals. India has grown substantially over these years, yet in per-capita terms it has advanced within the band rather than out of it, while some comparable economies have graduated upward. This is the shape of the "middle-income trap," where countries grow out of poverty but then stall before reaching high-income status, squeezed between low-wage manufacturers below and high-productivity innovators above.

THE CORE ARGUMENT / ISSUE

Growth is not the same as graduation

Aggregate output has risen, but income group is decided by per-capita GNI, which a large and growing population dilutes. Escaping the band requires per-capita income to rise fast and sustainably, not just headline GDP.

The trap is about productivity

Countries stuck in the middle typically lose their cheap-labour edge before they build the productivity and innovation to compete higher up. Avoiding the trap means raising total factor productivity through better technology, skills and institutions, not merely adding more capital and labour.

The 2047 arithmetic is demanding

Reaching high-income status by the centenary of independence implies moving GNI per capita several-fold, from roughly 2,760 dollars towards the high-income threshold (https://ujiyari.com/vocab/threshold/) of over 14,000 dollars. That requires sustained, rapid per-capita growth over more than two decades, which in turn demands deep structural reform.

ELEMENT	WHERE INDIA STANDS	WHAT GRADUATION REQUIRES
Income group	Lower-middle since 2009	Sustained per-capita rise
GNI per capita (2025)	Around 2,760 dollars	Several-fold increase by 2047
Growth quality	Output up, per capita lagging	Productivity-led growth
Human capital	Improving but uneven	Health, education, skilling

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Separate the size of an economy from the prosperity of its people, and growth in output from growth in productivity. A large economy can still be a lower-middle-income one if output is spread thin across a big population, and rapid early growth can stall if it rests on cheap labour rather than rising productivity. The transferable rule: escaping the middle-income trap is a productivity problem, not merely a growth-rate problem, and it is solved by investing in human capital, upgrading technology and reforming the institutions that let firms grow, compete and innovate. The classification is a scoreboard; the real contest is on the factory floor, in the classroom and in the quality of the state.

THE DIAGRAM IN WORDS

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India crosses into lower-middle-income in 2009 -> economy grows for 17 years -> but per-capita GNI (around 2,760 dollars) advances within the band, not out of it -> peers graduate upward -> middle-income trap: lost low-wage edge, not yet high-productivity -> Viksit Bharat 2047 needs several-fold per-capita rise -> fix: productivity + human capital + structural reform
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WAY FORWARD

1. **Raise productivity, not just investment.** Prioritise technology adoption, research and firm-level efficiency so growth comes from doing more with each worker, not only from adding more workers and capital.
2. **Invest deeply in human capital.** Expand and improve health, education and skilling so the workforce can move into higher-value activity, which is the core of escaping the trap.
3. **Reform for firm growth.** Ease the constraints, in land, labour, credit and regulation, that keep firms small, since larger, more productive firms drive rising per-capita income.
4. **Broaden the base of prosperity.** Support agriculture, informal-sector formalisation and lagging regions so per-capita gains are widely shared and durable, sustaining the growth needed for 2047.

PYQ LINKAGE AND PRACTICE

UPSC has asked about inclusive growth, the challenges of the Indian economy, and the requirements of long-term development. This editorial connects those to India's income classification and the road to Viksit Bharat 2047.

Practice question: "Escaping the middle-income trap is a problem of productivity, not merely of growth rates." Critically examine in the context of India's goal of high-income status by 2047. (250 words, 15 marks)

Sources: Business Standard (https://www.business-standard.com/), World Bank Data Help Desk (https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups)

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