DAILY EDITORIAL ANALYSIS

TOPIC

Calibrating Strategy for India's Future Growth

CALIBRATING STRATEGY FOR INDIA'S FUTURE GROWTH

In Context: India's future growth strategy needs to be calibrated in view of the changing global conditions.

Data on India's Growth

- **Growth Potential:**
  - India's growth in 2023-24 is currently projected by the Reserve Bank of India at 7%.
  - The International Monetary Fund (IMF) and the World Bank have pegged it at 6.3%. With a growth of 7.8% and 7.6% in the first two quarters of 2023-24, respectively,
- **India's way towards third-largest economy:**
  - The **data sourced from the International Monetary Fund (IMF)** show that India is indeed forecast to become the third-largest economy by 2027.
  - **Despite India's economy not growing as fast as it would like to** (read 8%-9% per annum), **even a more modest growth rate of 6% per annum** will be enough for India to overtake Germany and Japan by 2027.
- **India's Global position:**
  - India's GDP has grown by 83% between 2014 and 2023.
  - This is just a shade lower than the 84% increase achieved by **China** during this period. The **US** GDP increased by 54%.
  - However, barring these three countries, all the other top 10 countries have seen their GDP stagnate or even contract.
    - Of the five countries that India overtook in the 9 years since 2014, the **UK's** total GDP has grown by a total of 3%, **France's** by 2%, **Russia's** by 1%.
    - **Italy's** GDP has not grown at all while **Brazil's** GDP has contracted by 15%.

Challenges

- **Deglobalisation:**
  - There is a movement towards deglobalisation.
  - Many ongoing geopolitical conflicts such as the Russia-Ukraine war and the Israel-Hamas war have created a climate of sanctions, leading to **breaks in supply chains** as well as **disruptions in international settlements** due to non-access to systems such as SWIFT for the sanctioned countries.
  - **World real GDP growth has also fallen**, leading to reduced demand for global exports.
- **Reduction in imports & exports:**
  - Many countries including India want to reduce their dependence on imported petroleum due to supply uncertainties and price volatility.
  - The erstwhile export-led growth strategy may not be available to India any more.
    - It has to evolve its own future growth strategy.
- **Fall in the household sector's savings:**
  - One area of concern relates to the recently noted fall in the household sector's savings in financial assets which declined to 5.1% of GDP in 2022-23 from an average of 7.8% during the pre-COVID-19 period of 2015-16 to 2019-20 — a fall of 2.7% points.
  - If these trends persist, it will pose a significant risk to India's growth potential since it is the surplus household sector financial savings that become available to the government and the corporate sector to draw resources from to meet their investment demand in excess of their own savings.
- **Greater gaps ahead:**
  - Moving from rank 10 to rank 5 was relatively easier because the GDPs were within $1 trillion of each other.
  - The gap between the third rank and the first two is far greater.
    - In 2027, India's GDP will be one-fifth of China's (short by $20 trillion) and one-sixth of the US's (short by $26 trillion).
- **Low per capita GDP:** At $2,600 per annum, India's per capita GDP is not only the lowest among the top 10 countries but considerably lower than that of the countries it has overtaken, such as $47,000 in the UK or $10,000 in Brazil or $37,000 in Italy.

- **Others:** Threat of rising inequality, Possibility of egregious consequences in trying to achieve growth etc.

Suggestions

- **Focus on domestic growth drivers:** India will have to rely relatively more on domestic growth drivers. To achieve and sustain a 7% plus real growth in particular, domestic savings will be critical.
- **Employment & skilling:**
  - India would find itself in a unique position in the next three decades with a large potentially employable population seeking jobs in the presence of progressively **more labour-saving innovations** and **technologies**.
    - According to United Nations population projections, the share of India's working age population is projected to peak at 68.9% in 2030 while its overall dependency ratio would be at its lowest at 31.2%.
  - These patterns call for **increased allocation of resource**s for **training** and **skilling** India's growing working age population.
  - **Non-agricultural growth** will have to be high enough to absorb labour released from agriculture
- **Technology led growth:** Facilitating absorption of productivity-enhancing technologies including Artificial Intelligence (AI) and Generative AI would add to overall growth.
- **Need of service sector growth:**
  - India has committed to certain targets to reduce carbon emissions in view of global climate concerns.
    - In the COP26 Summit, in 2021, India had committed to reducing total carbon emissions by one billion tonnes between 2021 to 2030 and achieving the target of net zero emissions by 2070.
    - India's own initiatives include the Green Grids Initiative (GGI) and One Sun One World One Grid (OSOWOG).
    - It is also placing an emphasis on the use of electric vehicles and ethanol-based and hydrogen fuels.
  - Climate-promoting technological changes may reduce the potential growth rate.
  - This adverse impact can be minimised by emphasising service sector growth which is relatively climate friendly.
- **Adhering to fiscal responsibility targets:**
  - In recent years, there has been considerable slippage in achieving the fiscal responsibility targets.
  - To sustain growth close to its potential, it is important to ensure that the **combined fiscal deficit and debt to GDP ratios** are brought down to 6% and 60%, respectively, so that the burden of interest payments relative to revenue receipts is kept within acceptable limits.
  - This would enable achieving a balance or surplus on the revenue account of the central and State governments, which in turn would reduce government dissavings and augment the overall savings rate of the economy.

Way Ahead

- India is a **strong investment destination** due to its diverse economy, growing middle class, and stable political environment.
  - Its **expanding technology sector** and **economic liberalisation** may offer opportunities for **businesses and investors**.
  - The **nation's democratic institutions** also provide a reliable foundation for long-term investment and hope for a prosperous future.
- Raising the **savings and investment rates**, improving the **skill acquisition** of the young entrants to the labour market and adopting a **technology mix** which is **employment friendly** are issues on which the country must focus to achieve a growth rate of 7% to 7.5%.

DAILY MAINS QUESTION

India's future growth strategy needs to be calibrated in view of the changing global conditions. Analyse the challenges in the way of India's economic growth?