For growth at an 8% plus clip, India must fire on all cylinders, not just services or manufacturing

Step Out of the Either / Or

On February 13, delivering a keynote lecture (bit.ly/3vo YUTh) at St Stephen's College, University of Chicago professor of finance and former Reserve Bank of India (RBI) governor Raghuram Rajan proposed that India follow aservices-led growth model, rather than try to replicate the manufacturing-led growth model seen elsewhere in Asia. There are certainly lessons to be learnt from the growth experiences of countries like South Korea and China. And Rajan is not the only economist who has cited the stagnant share of manufacturing in India's GDP as a reason why India shouldn't try to be a successful goods exporting nation.

Consider that in 1947, India was richer than South Korea in per-capita incomes (PPP terms), with incomes at $937 and $985, respectively. By 1990, incomes in South Korea had touched $13,874. China adopted an outward looking model in the 1980s, and saw their incomes go from $1,930 to $10,000 by 2010. There are certainly lessons to be learnt for India from the Asian growth experiences. The stagnant share of manufacturing in India's GDP has been cited as a reason why India cannot be a successful goods exporting nation.

However, one should consider the reasons for India's stagnant share in manufacturing. First, since the economic reforms, while industrial licensing was dismantled, efforts to achieve size and scale in manufacturing fell short. Poor infrastructure raised the cost of logistics. While the licence raj was dismantled, a web of rules and regulations remained in place, adding to the cost of doing business. The policy paradigm failed to encourage scale in manufacturing

India has since seen a services-led growth model. Its per capita incomes, in purchasing power parity (PPP) terms, have risen from about $2,000 to $7,000 between 1991 and 2021. Had manufacturing grown in this period, its per capita incomes could have been much higher. The potential for manufacturing to create large-scale jobs must not be ignored. While we build towards a service-led economy in the interim, excess labour from agriculture can only be absorbed by the industrial sector.

At the same time, it is also incorrect to suggest that India is returning to the licence raj. In the past few years, we have seen transformative economic reforms-goods and services tax (GST), Insolvency and Bankruptcy Code (IBC), Real Estate (Regulation and Development) Act (Rera), direct tax reforms and revision in MSME norms. A robust digital infrastructure has been put in place.

Central labour laws have been codified. Investments worth above 100 lakh crore in physical infrastructure have been planned. A master plan, PM Gati Shakti, has been put in place to ensure the creation of a seamless, multi modal transport network. A drive to improve ease of doing business has al- so been undertaken, resulting in a 79 position improvement in the World Bank's index.

Laws Outlawed

Close to 1,500 old laws were scrapped. Decriminalisation of certain provisions in corporate law was another key move. Processes were streamlined. rationalised and brought entirely on line. All these reforms and initiatives have been introduced to build the capabilities of India's private sector. Along with these reforms, production linked incentive (PLI) schemes have been launched to boost India's manufacturing capabilities. Clearly this is no licence raj.

The PLI schemes are structured in a radically different manner to earlier ones, the key differentiator being that the former incentivise incremental production, and do not offer input subsidies. These schemes aim to build size and scale in manufacturing Importantly these schemes target areas of strength, such as in labour-intensive manufacturing, as well as sunrise sectors of growth, such as solar photovoltaic (PV) manufacturing and advanced chemistry cell (ACC) batteries.

Incentives are only released when targets are met, and the schemes are envisioned to last for five years. The impact of these schemes on goods ex- ports is slowly becoming visible. In FY2022, India's exports breached the $400 billion mark for the first time.

India is not putting all its eggs in the manufacturing basket. Services have continued to grow at a healthy pace. A dynamic startup ecosystem is in place, with 99 unicorns emerging in the past year. Many startups are innovating using Industry 4.0 technologies. Iron Pillar's March 2022 India Tech Trends report (bit.ly/3kmVxqX) predicts 250 unicorns in India by 2025, and that close to 50% of these companies will be building products to serve global markets.

A robust digital infrastructure has been put in place enabling this transition. Take Unified Payments Interface (UPI), which processes millions of transactions a day. The platform's approach being pursued will enable private innovation to be built on public platforms.

An upheaval is underway in the global economy Global value chains (GVCS) are being realigned. Digital technologies are altering the way we live and work. We have a small window to combat climate change. Going digital and green will determine competitiveness in the future. This upheaval affords India a massive opportunity.

The world will increasingly demand green or carbon-neutral products. India has the chance to be the first country to industrialise without the need to carbonise. Exploring avenues in green hydrogen (GH), for instance, will be crucial. Focus on building capabilities to exploit sunrise sectors of growth must continue.

Money Plant on Shop Floor

Sustained growth is the only solution for India. The agriculture to manufacturing to services transition has been at the core of the structural transformation of economies.

No doubt the global environment is now vastly different to when the Asian Tigers and China underwent their transition. But there are certainly lessons to be learnt.

These countries nurtured domestic industry, focused on quality and cost-competitiveness, and adopted the latest technologies to drive domestic manufacturing and exports. Competing in global markets made domestic firms leaner, more efficient and productive. For India to grow at rates of 8%-plus in the coming decades, it will need all sectors of the economy to grow, not just services or manufacturing

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