A road map for India to grow at 10% rate over the next 3 decades

- ***Amitabh Kant****

India needs robust growth to meet the aspirations of our people. Sustained growth rate of 10% can potentially see per-capita incomes increase 8x current levels, an incredible feat for a country with 1.4 billion people. We have seen the economic transformation of countries such as Japan, South Korea, and China, where they grew at rates of 10%+ for three decades. Exports and investments drove these high growth rates.

Such growth rates will require strong fiscal health, a thriving manufacturing sector, liveable cities, skilled human capital, and be driven by private investment. Investment rates will need to rise to ~ 35% of GDP. In turn, investment is financed by savings. Increasing domestic savings will be crucial in financing these additional investments. Improving fiscal health, along with a focus on formal job creation will increase the pool of domestic savings.

Fiscal Stability

In FY24, the combined fiscal deficit (Centre + States), stood at 8.6% of gross domestic product (GDP), and the combined debt/GDP ratio stood at 81.6%. Government deficits will come down in the coming years as the economy continues to grow. Tax to GDP ratios are improving, touching ~ 18% in the past year. Capital expenditures have also almost doubled in the past ten years, reaching 3.5% of GDP. Whilst these parameters have improved significantly since the peak impact of COVID19, further fiscal consolidation is needed. At the same time, the push towards capex must be sustained in the coming years.

Annual net government borrowings have expanded from ~ Rs. 9 lakh crores in FY20, to about Rs. 18 lakh crores in FY24. Sustained higher borrowings by government can potentially lead to higher debt servicing costs, by raising benchmark bond yields. As these yields serve as a benchmark, this translates into a higher borrowing cost for the rest of the economy. This is essentially what is known as crowding out.

Improving government revenues will reduce the need for future borrowing. And these need not necessarily be tax revenues. Non-tax revenues can also be bolstered. Asset monetization and reducing government equity in PSUs needs to be pursued. Whilst tax to GDP ratios will improve as the economy formalises, a focus on manufacturing and exports can speed up this process and widen the tax net. Labour intensive manufacturing can create large-scale employment opportunities, bringing more resources into the direct tax net.

Manufacturing Exports

A focus on labour intensive manufacturing and exports can also improve our current account balance. Our current account balance has almost always seen deficits, primarily owing to our merchandise trade deficit, but slightly offset by our surplus in trade of services.

Whilst the production linked incentive (PLI) schemes are an interim solution, we must continue to address the cost disadvantages we face. The rules for the four Labour Codes must be notified at the earliest, harmonised across Centre and States. States must take the lead in instituting ease of doing business reforms to reduce the cost of doing business. A renewed momentum promoting EoDB at State Level is necessary. Taking cues from mobile manufacturing, we must work with lead firms in areas such as textiles and garments to boost employment and exports. The potential of food processing exports has not yet been fully realised as well.

Sustainable Urbanisation

The 12 new industrial cities announced under the National Industrial Corridor Development Programme (NICDP) will play an important role in making our manufacturing competitive. These industrial cities will provide world class connectivity, the provision of plug and play facilities, and align urban development with community needs, creating liveable and productive cities. By building these new cities in a 'ahead of demand' manner, means that they will be able to cope with exponential growth. Dholera, for instance is designed to be twice the size of New Delhi. Furthermore, these cities will also relieve pressure existing urban centres.

Human Development

Apart from tackling infrastructure related supply-side issues, concerted action is needed in addressing the shortage in supply of skilled labour. To improve employability, both education and vocational programmes need to be industry led. The recently announced internship scheme is a progressive step. Degree apprenticeships could be another avenue to pursue. Outcome oriented funding models for skill development and vocational education can be considered. The employment linked incentive (ELI) scheme must also be implemented at the earliest. Expanding access to training in future areas of growth such as IT hardware, electronics manufacturing, digital banking and finance, for women will be crucial in boosting the female labour force participation rate.

Private Capex

Whilst much has been done, efforts as outlined above will spur private investment in the economy. Tapping both domestic and international demand will lead to a sustained cycle of private sector led growth in India. Our private sector must innovate, and invest in R&D. A focus on quality is crucial as well. Without a focus on quality, we will not be able to tap international markets. While an enabling environment has been created, our private sector must evolve from being domestic champions to global ones. Similarly, we need our small and medium enterprises to mature into large industries. We need 10,000 large companies by international standards, ready to compete in global markets. Similarly, private innovation and capex will also be crucial in the energy transition. Whether it is critical raw material processing, or green hydrogen, the efforts must be private sector led.

If India is to grow at rate of 10%, several states will have to grow at 10%+. We will need 12 champion states which will now take India's growth story forward. States such as Uttar Pradesh, Bihar, Chhattisgarh, Jharkhand, Rajasthan, Madhya Pradesh, and Odisha are populous state with rich mineral resources. They will have to grow at rapid rates to create jobs. These states must take the lead in implementing reforms, reducing their dependence on agriculture, undertake ease of doing business and modernise their economies.

**The author is India's G20 Sherpa, and former CEO of NITI Aayog. Views are personal.*

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