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Can we become a *Viksit Bharat* or will be caught in the middle-income trap?

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Can we become a *Viksit Bharat* or will be caught in the middle-income trap?

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Abstract[1]

The fast-paced economic recovery after deep contraction during the pandemic has helped India to reach the pre-pandemic level of income and the momentum has been maintained. India has emerged as the fastest-growing large economy and is poised to become the third-largest economy by 2030. The fast pace of growth has prompted the Prime Minister to set an aspirational target of becoming a developed country status by the centenary year of independence, 2047. The task is gigantic as, at present with a per capita income level of just about USD. 2600 India is characterised as a lower-middle-income country and has a rank of 142 among the 197 countries in the UN Charter. Achieving a developed country status would require an increase in per capita income by 5 times, at the current exchange rate. Equally important is the challenge of absorbing the addition to the labour force and absorbing those in the informal sectors in productive better-paying jobs. This paper presents the nature of the challenge and the macroeconomic and structural reform needed to achieve them.

Key Words: India as a developed country; Economic Reforms

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Introduction

After the serious setback suffered during the pandemic, India has shown an impressive growth performance. The "V" shaped recovery resulted in the economy growing at 9.2 per cent in 2021-22 followed by 7.2 per cent in 2022-23. In the first half of the current year, India's GDP is estimated to have grown at 7.7 per cent. The impressive growth has been driven predominantly by gross fixed capital formation. To a considerable extent, this is due to the hike in infrastructure spending by the Union and State governments and public enterprises. Although there are some risks to growth in the second half due to the weakened performance of agriculture, the RBI expects the economy to grow at 7 per cent during the year 2023-24. The Article IV report of the IMF states that India has contributed 16 per cent to global growth during the last year (IMF, 2023), In terms of international comparison, India has moved into the fifth largest economy surpassing the UK in September 2023 and now is behind only the U.S, China, Japan and Germany. According to Standard & Poor, it is set to become the third-largest economy by 2030 and the IMF predicts it even earlier.

The impressive growth performance has led to the government setting aspirational growth targets and following the exhortation by the Prime Minister, the Ministry of Commerce and Industry has set up a working group to chart a path towards achieving the 5 trillion-dollar economy by 2025. Due to the pandemic, the target date had to be shifted, and it is now expected to achieve it in 2027. Now the Prime Minister has set the target of becoming a developed country by 2047, the centenary year of independence and the NITI Aayog is expected to bring out the vision document required to achieve the task soon.

The challenges of achieving the status of a developed country status by the centenary year of Independence are formidable. That would require a more than five-fold increase in per capita incomes in the next two and a half decades. This requires catapulting the economy from the present 6-7 per cent growth to 9 per cent on average on a sustained basis for the next 25 years. This cannot be achieved in a business-as-usual situation and would require significant increases in the levels of saving and investment, and productivity increases. That can only be achieved with significant macroeconomic and structural reforms to keep the cost of borrowing for investments at a reasonable level, impart flexibility to factor markets, create a more open economic environment for trade and investment and improve the ease of doing business.

The objective of this paper is to identify some important areas where reforms must be carried out. Acceleration in growth requires creating an enabling environment to increase both savings and investment on the one hand and increase productivity on the other. The second section sets out the magnitude of the task and the challenges in achieving them in some detail. The third section analyses the macroeconomic and structural reforms needed to create the enabling environment. The final section lists the opportunities and risks and gives a summary of the conclusions.

II. Viksit Bharat: The Task Ahead

The growth pattern of India during the first four decades of planned development is well documented. The public sector-dominated, heavy industry-based, import-substituting industrialization strategy tied the economy to what is popularly characterised as the "Hindu rate of growth: of just about 3-7% per year for about three decades since the planned development strategy was initiated (Table 1). Although the economic reforms were initiated in 1991, as a consequence of some sporadic liberalisation in the 1980s, economic growth accelerated to 4.7 per cent. The aftermath of economic liberalization led to shifting the economic gear of the economy to record an average annual growth of 5.7 per cent during 1988-2003, and to 7.9 per cent during 2003-14, but thereafter slowed down to 6.9 per cent until 2014-20 (Table 1). The pandemic led to a severe contraction of the economy and the economy shrank by almost six percentage points in 2020-21. However, despite unfavourable global headwinds like the slowing global economy and the Russian war in Ukraine, the economy staged a sharp recovery after the pandemic registering a growth of

9.2 per cent in 2021-22 to reach the pre-pandemic level and 7.2 per cent in the next year. According to the RBI, it is expected to grow at 7% this year. In per capita terms, the growth registered was the highest during the period 2003-14 (6.3 per cent) and thereafter slowed down to 5.6 per cent when the pandemic and the subsequent period saw a growth of just 2.2 per cent.

In an environment where there has been a significant deceleration in global growth, Indian growth performance looks stellar. The World Bank data shows India as the fastest-growing large economy in the world since 2021-22 and is projected to continue the trend until 2025 Table 2). While the high growth is partly due to the sharp decline in 2020-21 due to the pandemic, it is seen that the recovery was also the sharpest in the next two years. Furthermore, the economy recorded the fastest growth among large economies amidst adverse global headwinds and supply disruptions. With exports continuing to remain subdued, much of the growth had to be fuelled by private consumption and public investment. This has set the policymakers to aspire for high growth and set the target of achieving a developed country status by 2047. The important questions are on the extent of acceleration in growth needed to achieve the developed country status over the next 25 years to achieve the developed country status, and the policy interventions required to achieve it. Equally important is whether these are within the realm of feasibility.

Table 1 Phases of Indian Economic Growth		
Period	Growth in GDP (Constant Prices)	Growth in Per Capita GDP (Constant Prices
Phase I (1950-81)	3.7	1.6
Phase II (1981-88)	4.9	2.8
Phase III (1988-2003)	5.7	3.7
Phase IV (2003-14)	7.9	6.3
Phase V (2014-20)	6.9	5.6
Pandemic Times (2020-2023)	4.	2.8

Source: Panagariya (2020) and Author's estimate (for 2003-14, 2014-20 and 2020-23

Table 2 Global GDP Growth (Per Cent)						
Economies	2020	2021	2022	2023*	2024*	2025*
I. World	-3.1	6	3.1	2. 1	2.4	3
II. Advanced Economies	4.3	6.4	2.6	0.7	1.2	2
1. United States of America	-2.8	5.9	2.1	1.1	0.8	2.3
Euro-area	-6.1	5.4	3.5	0.4	1.3	2.3
III. Emerging Countries	-1.5	6.9	3.7	4	3.9	4
1. East Asia and Pacific	1.2	7.5	3.5	5.5	4.5	4.5
(i) China	2.2	8.4	3	5.6	4.6	4.4
2. Europe and Central Asia	-1.7	7.1	1.2	1.4	2.7	2.7
3. Latin America and Caribbean	-6.2	6.9	3.7	1.5	2	2.6
4. Middle East and North Africa	-3.8	3.8	5.9	2.2	3.3	3
5. South Asia	-4.1	8.3	6	5.9	6.1	6.1
(i) India**	-5.7	9.1	7.2	6.3	6.4	6.5
6. Sub-Saharan Africa	-2	4.4	3.7	3.2	3.9	4

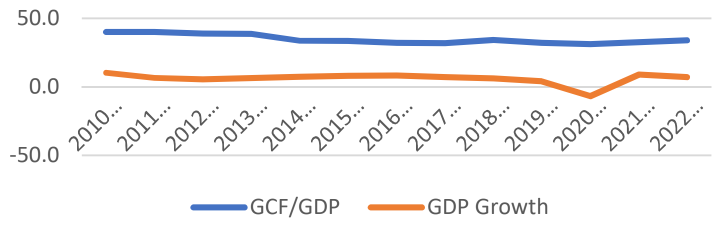
Source: Global Economic Prospects, World Bank. June 2023.

A close examination of the target shows that the acceleration required to catapult the country from a lower middle income to a developed country category by 2047 is humungous. According to the World Bank Definition, the developed country definition requires the country to have a per capita income of USD. 13205. The World Bank's estimate of India's per capita income in 2022 is USD.2490.9 and in 2023 this can be taken as close to USD. 2600. This implies that the per capita income of the country will have to rise by more than 5 times in the next 25 years. At the current exchange rate (or in US Dollar terms), India will have to register an average annual growth of per capita income at 7.5 per cent. In other words, if India continues to grow at the highest per capita average income recorded during the phase 2003-14 at 6.3 per cent, it will end up at the upper middle-income level at the per capita income of USD. 11266. The exchange rate depreciation would require further acceleration in the growth rate. The population is likely to increase during this period at a decelerating rate and peak by the terminal year. The aggregate annual growth rate in GDP during the next 25 years will have to be at least about 9% to reach the developed country status by 2047 if India has to avoid the middle-income trap.

It is not enough to accelerate growth, but the growth will have to be inclusive. With declining employment elasticity of growth, absorbing an increasing number of people entering the workforce has been a challenge and will continue to be so in the next 25 years when the population is expected to peak. Besides, in India 44 per cent of the workforce toils in agriculture and another 42 per cent in small enterprises with less than 20 workers. The labour productivity of these workers remains low, and they persist at the subsistence level. (Panagariya, 2020, Mitra, 2022). Many of them need to be released to more productive formal sector occupations which not only create opportunities but also empower them with the required skills. According to the OECD (2022). over two-thirds of the people in the age group 23-34 with an education level below upper secondary or at the other end, only 20 per cent of the persons in this age group with tertiary education which implies that most Indians cannot qualify for high paying service sector jobs in IT, IT-enabled services, finance, and other business services. Therefore, the focus of expanding employment will have to be to create a thrust in labour-intensive manufacturing. Even here, according to the Niti Aayog's (India, 2017) Action Agenda, small firms (with less than 20 workers each) account for 75 per cent of manufacturing workers and contribute to 10 per cent of manufacturing output which implies that there is a huge labour productivity gap between large and small firms. Not surprisingly, the average wage of a formal-sector manufacturing worker is six times the average wage of a worker in an informal-sector enterprise. In contrast to India's labour-intensive manufacturing employment concentrated in firms with less than 20 workers, China's is concentrated in 1000+ worker firms, with much higher productivity (Hasan and Jandoc, 2013). Thus, good jobs will mainly have to be created in relatively large, formal-sector manufacturing firms in labour-intensive industries. In such firms, output growth and job creation will go hand in hand. Furthermore, low productivity in small industries makes them non-competitive in export markets, Greater flexibility in capital and labour markets needs to be imparted to achieve this.

In the given global environment, the acceleration in growth for a sustained period requires a significant increase in investments and the major driver for this must be the increase in domestic savings (Rangarajan and Srivastava, 2020). The trend in savings and investment shows a steadily declining trend. As a ratio of GDP, the saving rate has declined from about 36.9 per cent in 2010-11 to 29 per cent in 2021-22 and the capital formation to GDP ratio declined from 39.8 per cent to 31-32 per cent during 2016-2020 before reviving to 34 per cent in 2022-23. Although, most analysts claim an incremental capital-output ratio of 4, the actual ratio has been almost 5 during 2011-19. At this ratio, the investment will have to scale up to at least 40 per cent of GDP. Much of this has to be financed from domestic savings, though further liberalisation of the foreign investment regime could lead to an increase from the current 2.7 per cent of GDP. Such a sharp increase in savings and investment for a sustained period is unlikely and therefore, increasing productivity is critical.

Figure 1
Trends in Gross Capital Formation and GDP Growth



Achieving this aspirational target requires significant structural reforms to be undertaken without much loss of time. Otherwise, there is a real fear that India may be stuck in the middle-income trap. Spurring domestic demand alone is not adequate to accelerate and sustain high growth in any country that has experienced high growth over long periods and most of them. They had to be propelled by exports and this requires the country to be competitive. Competitiveness cannot be achieved by maintaining high levels of tariffs. Achieving competitive manufacturing requires undertaking domestic reforms, however, difficult they are. With the predominance of small firms -accounting for over 75 per cent of manufacturing employment, and with no incentive for them to grow to achieve an optimal economic size and scale, the competitiveness in the sector is lost. There are significant disincentives for the small to become medium and large to make them competitive.

III. Strategy to Accelerate Inclusive Growth: Fast Track Structural Reforms:

India has made considerable progress in the country in terms of macroeconomic stability, efficient financial sector, and digital infrastructure. In fact, after a decade-long problem of distressed balance sheets of both the corporates and banks and non-banking financial companies, the financial sector looks healthy. The corporates are in a consolidation phase and poised to undertake additional investments due to the 'crowding in' effect of higher levels of public investment in infrastructure. While the shocks – both internal and external do impact the economy adversely, India has acquired a certain degree of immunity. The deficient rainfall, volatility in oil prices, international capital flows and global environment including hostilities do not adversely impact the economy as much as they did in the past (Gupta, 2023). There is also a reasonably high degree of political and policy certainty and continuity and that adds to the investment climate. With many multinationals adopting a China+1 strategy, right signaling and further liberalization of foreign trade and investment regime and freeing of factor markets can attract greater investments. Some of the important reforms needed to create the enabling investment climate are discussed below.

(i) Reforms at fiscal consolidation while protecting spending on infrastructure:

An important feature of the post-pandemic recovery has been an attempt by the government to increase capital expenditure while trying to achieve fiscal consolidation. The fiscal deficit in India reached an unprecedented 13.2% of GDP in 2020-21 and outstanding government liabilities peaked at 90%. From this position, the next two years have seen a serious attempt by the government to reduce both the deficit and debt to an estimated 9% and 83.9% respectively in 2023-24. During the last two years, the Union government has attempted to substantially compress the fiscal deficit while making additional allocations to infrastructure spending. The Central government fiscal deficit relative to GDP is budgeted to be reduced to 5.1 per cent in 2024-25 and is targeted to be reduced to 4.5 per cent next year.

Achieving the aggregate fiscal deficit of 6 per cent of GDP and the debt target of 59 per cent of GDP recommended by the 14th Finance Commission is no longer within the realm of feasibility. In fact, in its Article IV consultation document, the IMF (2023) has projected that in the worst-case scenario, if the fiscal slippages due to various shocks seen during 2000-2020 materialise, the government debt could exceed 100 per cent of GDP. Of course, the government has strongly refuted such a possibility. While the probability of such a large-scale slippage is not very high, this underlines the importance of reaching the medium-term fiscal deficit target of 7 per cent of GDP (4.5 per cent at the Centre and 2.5 per cent at the State level) by 2025-26 and thereafter, further fiscal tightening would rebuild buffers at a faster pace to safeguard against the shocks. This will, in addition, reduce the debt servicing burden which currently is equivalent to one-third of the tax revenue to create more fiscal space for spending on infrastructure, health, and climate change mitigation and adaptation.

An aggressive attempt at fiscal consolidation towards sustainable levels of deficit and debt while continuing to spend more on infrastructure is critical to creating an enabling environment by 'crowding in' private investment. As stressed in the IMF's Executive Board's assessment, (IMF, 2023; p.2), ambitious efforts are needed to achieve medium-term consolidation of public debt levels and contingent liabilities. The Board has also advised the government to put in place, "…a sound medium-term fiscal framework to promote transparency and accountability and align policies with India's development goals".

Like in most other countries, the rule-based fiscal policy over the last two decades has not guaranteed fiscal sustainability. There have been frequent changes in the rules, deviations from the targets, suspension of the rules and resorting to exceptional clauses and this has raised questions on credibility. With deficits and debt reaching unprecedented levels, the time is now opportune to design new rules based on the lessons from past experiences. Effective implementation of rule-based fiscal policy must be done within the overall system of scientific budget management and a realistic medium-term fiscal policy (Davoodi et. al, 2022, Caselii et. Al. 2022b). As recommended by the 15th Finance Commission, it is important to embark on budgetary reforms to evolve a new fiscal architecture for the 21st Century involving three important interdependent policy pillars namely: (i) fiscal rules across all levels of government towards achieving sustainability; (ii) a scientific public finance management system to provide comprehensive consistent, reliable and timely reporting of fiscal indicators that are a part of the fiscal rules; and (iii) an independent fiscal institution to assess and advice on the working of the first two pillars mentioned above.

The time is opportune for working out the new set of fiscal rules specifying the deficit and debt targets as the objective conditions have significantly changed from the time when the 12th Finance Commission set the targets. In particular, the 12th Finance Commission determined a 6% fiscal deficit target based mainly on the household sector's financial savings were about 10 per cent of GDP. This has come down drastically since and is estimated at 5.1% in 2022-23. Given the reduced borrowing space, the continued high volume of withdrawal of household savings by the government would significantly reduce the borrowing space for private investments and drive up the borrowing cost. A more scientific public finance management system imbibing the technological advances and adoption of an accrual accounting system is important to ensure timely and transparent budget implementation. Similarly, the creation of an independent institution like the Fiscal Council is important to evaluate the realism of the budget forecasts, timely monitoring and reporting of the budget implementation issues, and costing of the various liabilities involved in implementing the various policy pronouncements made and schemes introduced from time to time. The IMF studies show that fiscal outcomes have significantly improved in countries creating independent fiscal institutions (IMF, 2013).

Working out a medium-term plan for fiscal consolidation is important not merely to compress fiscal deficit and debt to the desired levels but also to protect more productive spending on physical infrastructure and human capital. India has a demographic advantage, but as mentioned earlier, an overwhelming proportion of the working-age population does not have the education and skills required to participate productively in organised manufacturing and service sectors. Equally important is the fact that female labour force participation in the country is low at 32.8 per cent in 2022. The wages in organised manufacturing and service sectors are six times higher than in small enterprises and preparing the workforce to avail opportunities in these sectors requires significant investments in education, health and skilling. Considering these, a careful strategy for a medium-term plan for fiscal consolidation has to be worked out to reduce the fiscal deficit and debt while protecting the productive expenditures on physical and human infrastructure. Debt reduction will reduce interest payments, but a more aggressive reduction in fiscal deficit is possible only when the proliferating subsidies and transfers are phased out. On the tax side, with the firming up of the technology platform, the revenue productivity of the goods and services tax has shown a steady improvement. The time is opportune for the second-generation reforms by including petroleum products and electricity in the tax base, phasing out many items in the exempted list and simplifying the tax reducing the number of rates (Rao, 2023). The application of modern technology and artificial intelligence has facilitated targeted scrutiny of taxpayers and that should help in improving voluntary compliance with the tax. Equally important is the need to revisit the role of the State and aggressively privatise all commercial enterprises run by the government and use the proceeds either to retire the debt or to make the much-needed spending on public infrastructure.

(ii) Labour market reforms:

As mentioned earlier, the strategy to accelerate inclusive growth has to focus on labour-intensive manufacturing. The growth in the country has been driven predominantly by the services sector. Except in trade, travel and hospitality, the expansion in the services sector cannot absorb the addition to the workforce due to low education and skill levels. Therefore, 'walking on two legs'; both manufacturing and services are necessary. This implies that the focus must shift towards creating an enabling environment for labour-intensive manufacturing growth. As detailed in the NITI Aayog's Action Agenda, small firms with leach less than 20 workers constitute 75 per cent of the workers in the manufacturing sector and they produce just about 10% of the output. The average wage rate in these firms is one-sixth of the former manufacturing sector workers, The small informal sector firms face formidable challenges in competing in world markets. concentration in the informal sector makes it challenging for India to compete in the world market for exports. In contrast, China's manufacturing employment is concentrated in 1000+ worker firms and has much higher productivity. This means that it is necessary to create conditions for small-scale units to evolve into medium and large-scale industries with much higher productivity and wages. As it is the new technological developments have tended to be more capital intensive. In addition, rigidities in the labour markets result in the substitution of capital for labour and make the production system more capital-intensive in a labour-abundant economy. Both capital and skill intensity in production has been increasing over the years across the world and India is not an exception to this. Not surprisingly, the employment elasticity of output has shown a declining trend over the years (Rangarajan, Padma Iyer Kaul and Seema, 2011). Therefore, the policy environment should incentivise them to upscale their activities.

The most important deterrent for the evolution of small firms into large firms is the labour laws. The Central government has initiated reforms to impart flexibility to the capital and labour markets which should help the investment climate in the medium and long term. Merging 24 Central labour laws into four codes is an important reform to impart greater flexibility to the labour market and end the inspector raj. The Industrial Relations Code allows manufacturing units up to 300 workers to hire and fire without the Government's approval and for those with more than 300 workers, approval is needed but if the labour department does not respond within the time frame, the approval is deemed to have been received. Since the issues relating to labour welfare, trade unions and labour welfare are placed in the concurrent List, considering the sensitive nature, the Industrial Relations Code provides the enabling environment and the specific task of creating flexibility in the labour markets is left to individual States. Most of the states too have conformed to the four codes. Creating more productive jobs and imparting export competitiveness to labour-intensive manufacturing requires more flexible labour markets. The study by Gupta, Hasan, and Kumar (2008) shows that the States with more flexible labour markets have witnessed faster growth of labour-intensive manufacturing. Equally important has been the consolidation of numerous, complicated labour laws into four codes by reducing the compliance cost and regulatory burden. However, much remains to be done in this area and as issues relating to workers are in the concurrent List of the Seventh Schedule to the Constitution, coordinated actions between the Union and the States are called for. This is politically a sensitive matter, and it is difficult even for the Union government to incentivise the States to undertake these reforms for fear of being branded as anti-labour. It is not easy to convince the political parties and the public that the measures to protect the interests of labour, in effect, hurt their welfare, and constrain the expansion of employment in the organised sector. If some states take the lead in this and succeed in attracting more investments, this could set the reform in motion through intergovernmental competition. Effective implementation of the reforms is the key to ensuring flexibility in the labour market.

(iii) Manufacturing enclaves for scale and scope:

Ease of doing business is important, particularly in the manufacturing sector. Large administrative and regulatory controls including restrictive labour laws can be avoided and vastly improved infrastructure and marketing facilities can be provided in autonomous and flexible enclaves. China created large-sized enclaves to push its manufacturing and exports which proved to be a great facilitator for manufacturing and exports. One of China's special economic zones (SEZ), Shenzhen for example, is spread over 1950 Kms. India started almost 250 special economic zones (SEZs) to provide such an enabling environment, but the advantage is lost as they are of small size, with an average of 0.3 sq. Km. The largest SEZ in India is the Mundra SEZ in Gujarat spread over 396 kms. To reduce the compliance and regulatory burden, ease of administration, and to provide state-of-the-art infrastructure for manufacturing and exports, Panagariya (2020), has recommended the setting up of 5-6 autonomous economic zones (AEZs) in coastal regions, each spread over around 500 sq. km with independent administrations.

(iv) Thrust on exports and avoiding protectionism:

International experience shows that opening up the economy for trade and investment is important to accelerate growth (Frankel and Romer, 1999, Mitra, 2023). Therefore, further opening up the economy by liberalising investment and trade can be important for accelerating growth. By liberalising the economy, even a small country like Vietnam was able to attract three times the volume of foreign investment as compared to India. The advantage of having a larger foreign direct investment is that it comes with advanced technology and improves productivity and competitiveness. Rather than identifying the sectors eligible for foreign investment, the time has come to allow investment generally in all sectors with a few sensitive sectors on the negative list.

Exports have been a forceful engine in every country that has shown high growth performance. Even in India, after the opening up of the economy in 1991, the share in global exports increased from 0.5% in 1990 to 2.5% in 2022. Labour-intensive manufacturing and exports were the important drivers of growth in South Korea, Taiwan and later China in their initial phase of development. Therefore, export competitiveness, particularly in the labour-intensive manufacturing sector is critical to accelerate growth and create employment opportunities. In India, however, there are several factors constraining the competitiveness of labour-intensive manufacturing. India's share of the world population is over 17 per cent but accounts for just about 2.5 per cent of global exports. While it is a labour-abundant country, much of the exports are in capital-intensive products! This is mainly because, as mentioned earlier, the predominance of small-scale manufacturing makes it internationally non-competitive. A majority of the workers lack the required skill levels.

Despite our experience that restriction on international trade is self-defeating, the policy stance since 2017 has turned inwards. The steadily increasing trend towards protectionism is seen by the fact that the simple average tariff has increased from 8.9 per cent in 2010-11 to 11.1 per cent in 2020-21. The proportion of tariff lines above 15 per cent has increased from 11.9 per cent in 2010-11 to 25.4 per cent in 2020-21 (Panagariya, 2021). In 2010-11 the average MFN applied tariff on non-agricultural products increased from 10 per cent in 2015 to 15 per cent in 2021. (Sengupta, 2023). The increasing trend in protectionism has led to a steady fall in the share of exports to GDP and it is difficult to fathom how accelerating the growth above 8% can be achieved unless the trend is reversed.

The doubling of import duties on even some labour-intensive products such as toys, furniture, kites and footwear was a clear admission of the lack of competitiveness in these industries with low skill requirements. In addition, there was a doubling of import duties also on electronics and communications devices and related inputs. The protectionist trend has only strengthened since then with tariff increases on items like imports of electronics and automobile components, fabrics and agricultural products in 2020 and 2021. The proposal to license the import of laptops/personal computers will only hurt the information technology sector and service sector exports and thankfully, this has been rolled back. Thus, India has failed to take advantage of its abundant labour by expanding low-skilled labour-intensive manufacturing, input processing and assembly (especially in electronics). In this respect, India has been outperformed by even countries like Bangladesh and Vietnam.

While the protectionist trend is seen across the globe, putting serious questions on multilateralism, joining the regional blocks could be the strategy to follow. In this connection, India's withdrawal from joining the RCEP is not in the best interest of using trade as an engine of growth. The recent signing of Free Trade Agreements (FTAs) with Australia and UAE are important and hopefully, Indian negotiations for similar agreements with UK and EU will result in the signing of the agreements soon.

The focus is on self-reliance and or "Atmanirbhar". Starting with large-scale electronics manufacturing, 14 industries have been so far chosen for assistance in this flagship programme to ramp up domestic production and be a part of the global supply chain and provide them with "production linked incentives" (PLI). While many countries have followed the strategy of providing 'infant industry protection' and subsidising the winners, it is necessary to ensure that infants become adults and sunset clause is strictly adhered to. In India, it is politically difficult to close a programme once it is started. It is necessary to ensure that the strategy does not degenerate into the old import-substituting industrialisation. Expressions like phased manufacturing programmes and non-essential imports do not nix well with the lexicon of development.

(v) Other structural reforms:

The Insolvency and Bankruptcy Code (IBC) has been hailed as a landmark reform, but there have been implementation problems. The two important problems plaguing the system are the enormous delays in resolution and the huge haircuts the lenders have to take. According to a statement by the RBI Governor, as of September 2023, 67 per cent of the ongoing corporate insolvency resolution process (CIRP) cases have already crossed the total timeline of 270 days, including a possible extension period of 90 days. It is important to ensure that the insolvency resolution process is timely, effective and reasonable. The delays are caused by the promoters succeeding in gaming the system and the acute capacity constraint of the resolution professionals to manage the National Company Law Tribunals. There have been enormous delays in the admission of the application under the resolution process itself. The immediate need is to strengthen the information utility (IU) system under the Insolvency and Bankruptcy Code (IBC) which was conceptualised to ensure faster admission. The delays have also resulted in low recoveries and the lenders taking very high losses.

The three new legislations enacted in the farm sector to provide flexibility to the farmers to sell their products anywhere were mired in controversy and could not be implemented. The amended Essential Commodities Act deregulates the production, storage, supply and distribution of cereals, pulses, potatoes, onion and oilseeds and enables the private sector to play an important role in these activities. The Farmers' (empowerment and protection) Agreement of Price Assurance and Farm Services Act, allows small farmers to agree with corporates for contract farming. What is required is strong regulation to prevent the misuse of the provisions. It is also important to end the uncertainty on exports to keep domestic prices low for consumers.

Given the shortage of resources and administrative capacity, the time is opportune to rethink the role of the State. It should complement the market rather than compete with it. The budget 2022-23 has promised to privatise several public sector companies including Air India, Container Corporation of India, Shipping Corporation of India, Bharat Earth Movers Limited, Bharat Petroleum and Chemicals Corporation and the IDBI Bank. However, progress in these except in the case of Air India has been slow. It has also stated that two more public sector banks will be privatised. Implementation of these will hold the key to freeing the government from the shackles of activities which are truly in the domain of the private sector.

With India becoming the most populated country with 1.43 trillion people and with 65 per cent belonging to the working age group, prosperity can be secured only by empowering them with the skills needed to improve their productivity. The government must take proactive steps to improve human capital by a better focus on education, healthcare, skill development and improving the female participation rate. Given the predominant role of the State governments in these sectors, they have a much larger role in this task. While the framework for quality standards could be provided by the union government, the States have a much greater role in implementing human development which is critical for accelerating growth and enhancing quality employment.

V. A Summary and a Starting Point:

After the serious setback suffered during the pandemic, India has shown an impressive growth performance to record the highest growth rate among the large economies. It has become the fifth largest economy surpassing the U.K. last September and is projected to become the third-largest economy by 2030. The acceleration in growth seen in recent years has raised expectations and the Prime Minister setting an ambitious target of achieving the developed country status by the centenary year of independence of the country.

The challenge of achieving such an aspirational target is daunting. This requires a transformation of the economy from the present per capita income level of USD. 2600 by about 5 times to achieve USD. 13200. This implies the economy will have to register per capita income growth at an average annual rate of 7.5 per cent in the next 25 years or the aggregate growth of GDP at 9-10 per cent annually on a sustained basis, assuming a constant exchange rate. In addition, the growth will have to be inclusive to employ 2 million persons added every year to the labour market and those released from agriculture and unorganised sectors in more productive high-paying jobs. Achieving these objectives would require appreciable increases in investment on the one hand from the present level of 30-31% of GDP to about 40% and significant increases in productivity to reduce the incremental capital-output ratio from the present level of about 5. Financing such large increases in investment through domestic savings alone may not be feasible. The recent addition of Indian government bonds in J. P. Morgan's index can help in attracting some external savings but that may not be enough. It is important to liberalise external trade as well as investments to attract the significant additional investments required to accelerate growth to the required level. These call for significant macroeconomic and structural reforms.

On the macroeconomic side, it is imperative to create additional fiscal space for the corporate sector to make investments at reasonable costs. From the levels of high levels of deficit and debt, reworking a medium-term fiscal framework towards achieving fiscal consolidation to release larger borrowing space for private investments. At the same, the government will have to continue elevated levels of expenditures on physical infrastructure, education, healthcare and climate change mitigation and adaptation. This would require a significant increase in revenues by second-generation GST reforms. Equally important is phasing out of subsidies and replacing them with cash transfers wherever needed to avoid distortions. The government will should privatise all commercial enterprises and use the proceeds for infrastructure investments or retiring debt.

Other important reforms include moving forward on globalisation by reversing the trend towards protectionism seen in the last few years, by reducing import duties and entering into more trade agreements. Experience in the first four decades of the import-substituting regime of industrialization has demonstrated the self-defeating nature of such a strategy and achieving greater competitiveness and expansion in exports is possible only when the domestic industry is exposed to international competition.

Creating an enabling environment for imports and enhancing productivity require structural reforms. Creating greater flexibility in the labour market is important. Equally important is the creation of large enclaves to impart greater efficiency in regulations and building the scale. The manufacturing sector in India is dominated by small and inefficient firms and creating conditions for their transformation to achieve economies of scale and scope is critical to improving their competitiveness. Focus on education, healthcare and skill development and creating more favourable conditions for female work participation. More efficient administrative and regulatory regimes are other important areas the government will have to work on to achieve the goal of becoming a developed country in the centenary year of independence.

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