

An economy more future-ready

India needs to grow at 7 per cent for the next 25 years to raise incomes. Bulk of the investment to make this happen will have to be raised from within the country



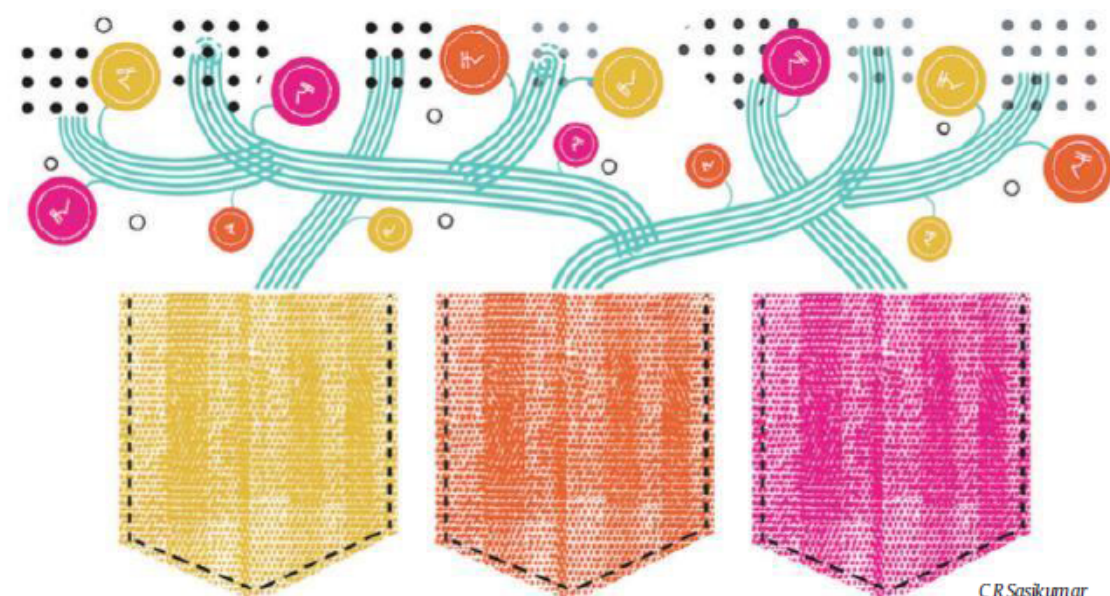
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WITH COVID-19 RECEDING and, hopefully, with Russia-Ukraine War coming to an amicable end soon, India needs to chalk out her future strategy of growth. The broad objective must be to raise the per capita income, estimated in 2022-23 at \$2,379, by almost six times over the next 25 years. That will enable people to have a higher standard of living and eliminate poverty. The critical question now is to identify the challenges that the country will face in reaching this goal and the actions it needs to take to overcome them.

In short, what is needed is a continuous growth of 7 per cent for the next 25 years. Assuming an incremental capital-output ratio (ICOR) of 4, this will require a Gross Fixed Capital Formation rate of 28 per cent. However, the ratio of 4, which is often assumed, is on the basis of improved efficiency in the use of capital. During the high-growth period in the early years of this century, the ratio was low. It has subsequently increased. Excluding two outlier years namely, 2019-20 and 2020-21, the average ICOR over five years from 2016-17 to 2022-23 is estimated to be 4.65. ICOR is the result of many factors, including technology. The required investment rate in the next 25 years may be in the range of 30-32 per cent of GDP. We need to work towards it. This should not be difficult since we have achieved this level earlier. According to the latest release of NSO, the Gross Fixed Capital Formation rate in current prices for 2022-23 is 29.2 per cent of GDP. While recognising that public investment has picked up, it is necessary to emphasise that the investments by the business sector, both corporate and non-corporate, must increase. The composition of investment is also relevant. Investment must flow into sectors and segments which are crucial to promote growth and employment generation. While foreign direct investment must be welcomed, particularly in the newly emerging technological sectors, bulk of the investment must come from within — this has all along been the case in India.

As we look ahead, we need to know what the opportunities and threats are. Let us analyse first the global factors. The overall climate for peace, which is necessary for growth, has deteriorated after the Ukraine-Russia conflict. If this tension continues, it will be a strong negative factor for growth. Supply disruptions of critical imports like oil can cause a severe setback not only to developing countries but also to developed countries.

Another concern globally is the attitude of some countries towards global trade. The World Trade Organisation (WTO) was set up



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to create an environment of low tariffs and restrictions. But rich countries that earlier preached to the developing countries to adopt a free trade model, are backing out for one reason or another and putting restrictions on imports. This is happening at a time when developing countries like India are reaching the stage of being able to compete in the world market. Developed countries need to look at the domestic factors for their current plight like the increased unemployment rate.

Coming to the domestic situation, the key question is the strategy of development. India broke with its past in 1991 when it moved to a more market-oriented economy. Several countries — most notably South Korea earlier and China more recently — achieved high growth over several decades by focusing on exports. This export-led growth strategy may not work for India, particularly in the context of changed global trade situation. What is needed is a multi-dimensional strategy. The emphasis should be on agriculture and related activities, manufacturing and exports. India has emerged strongly in the services area. We need to preserve it and move forward.

Another issue that blends with this is our ability to absorb new technologies. We, in India, must have much less difficulty in absorbing Artificial Intelligence (AI) and its ramifications. But that will have an impact on the industrial structure and, perhaps, employment. The impact of AI is being studied. Is the new technological innovation different from previous ones? Unlike the earlier ones, it is suspected that AI can result in increasing productivity and output but not necessarily jobs. That is bad news for populous countries like India. What is needed is to reorient our educational system to enable students to acquire the required skills. Equally important is to identify labour-intensive economic activities. We have to reckon with a lower employment elasticity with respect to output.

Another concern is the impact on output

because of environmental considerations. Bringing down pollution, including the level of carbon, can have an output effect. Developing countries are right to argue that the burden of pollution reduction must be borne primarily by developed economies that have exploited natural resources significantly in the last century and a half. Nevertheless, India will have to bear part of the burden. In this context, a high annual growth rate of 8 per cent may have to be ruled out. We should be able to meet our multiple objectives including reducing inequality and poverty within the framework of an annual growth of 6 to 7 per cent.

The strategy of development must also include a provision for basic income. There are many issues connected with basic income which need to be resolved. The level of basic income and the coverage of beneficiaries have to be determined taking into account certain normative considerations and the capability of the fisc. With basic income, we should be prepared to cut down most subsidies other than those on food. In an uncertain world, the need for the provision of basic income becomes even more urgent.

In the past 75 years, India has built a reasonably strong and diversified economy. Though India is today the fifth largest economy, which is an achievement, in per capita terms, it is ranked (2022) 149 out of 194 countries. Thus we have a long way to go. Growth is important to lift the economy up. We have the potential. As of now, the external situation is not encouraging. We have to live with it. But a 6 to 7 per cent growth continuously is still possible if the strategy is correct and if we can create an appropriate investment climate.

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