Time to Ride the Reform Wave

After seeing 5X growth in less than two decades, the Indian economy encountered the pandemic speed-breaker, but with inclusive policy reforms and enabling infrastructure, we can get back on track soon

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F**ROM POLITICAL** campaigns to prime-time news debates, the phrase $5-trillion economy has been stressed upon so many times that Indians cannot possibly forget it. It took our economy nine long years—from FY06 to FY14—to double its size from $1 trillion to $2 trillion. Another five years to reach $2.9 trillion. And as our leadership has often suggested, we were set to achieve the coveted $5-trillion mark by FY25. For any nation, 5X growth in less than two decades is a matter of pride. But then, the pandemic happened.

What followed was a record contraction in the Indian economy, reversing years of progress and gains. The country still has tenable economic growth prospects thanks to a stable and democratic political landscape, favourable demographics, a large captive domestic market, and sustainable external debt. However, the frailties of the Indian economy are equally evident. Not only were the pre-existing inequalities in terms of income and pervasive poverty exacerbated, but the low rate of employment, huge infrastructure gaps, slow pace of reforms, and issues of ease of doing business were also brought into the spotlight.

To transform the economy and boost its long-term potential, the Indian government has come up with laudable policy initiatives such as the Production Linked Incentive (PLI) Scheme, PM Gati Shakti National-Master Plan, and the Atmanirbhar Bharat Mission.

Build Infrastructure, Enable Growth

The road to a $5-trillion economy and beyond will essentially be paved by infrastructure. Infrastructure creation and upgradation need to be all-encompassing—from physical infrastructure that constitutes roads, railways, ports, airports, power, and irrigation to social infrastructure comprising health, sanitation, education and housing to digital infrastructure involving telecommunication and broadband to transport networks. All these entail substantial investments and given the persistent lull in private investment in recent years, the funds essentially need to be government-led.

In December 2019, the government unveiled the National Infrastructure Pipeline (NIP) that set targets for infrastructure building over six years (till FY25) across various sectors and regions by the government in conjunction with the private sector at a cost of around ₹76 lakh crore.

The major part of this investment (around 80 per cent) is proposed to be undertaken by the central and state governments. However, their ability to do so effectively and in a financially prudent manner remains a challenge due to the continued slowdown and the resultant lower revenues. The fact that over 75 per cent of government expenditure is committed in nature, lesser revenue generation could lead to rationalisation of expenditure towards (discretionary) development of infrastructure.

A back-of-the-envelope calculation based on our projection of economic growth indicates that the Indian economy could reach the $5-trillion mark by FY27 with an annual average nominal GDP growth of 12.3 per cent during FY22-27. The infrastructure investment required for this, which would be an average of 26 per cent of GDP, would have to progressively increase from ₹56 lakh crore to ₹106 lakh crore during FY22-27, taking the total investment to ₹478 lakh crore during the six-year period to FY27.

India needs to act upon structural reforms across sectors and facilitate ease of doing business to attract private investments. Further liberalisation of FDI policy and measures to attract foreign funds, viz. pension and sovereign funds could help in this.

Focus: Manufacturing and Exports

Alongside infrastructure creation, key policy reforms and measures such as the PLI scheme rolled out to boost the manufacturing sector are set to propel economic output in the coming years. Not only will the PLI scheme significantly change the manufacturing landscape, but it will also make India more competitive for integration in the global supply chain. This could in turn enhance the country's exports, push job creation, and aid demand. The Gati Shakti programme for multimodal connectivity of infrastructure, too, has the potential to strengthen local manufacturing and facilitate exports. However, the success of these programmes hinges on enabling infrastructure and structural reforms.

The country should focus on sustainable and equitable growth as the central theme while striving to achieve the dream of a $5-trillion economy

Digital Drive

One of the major transitions that the pandemic gave impetus to is the digitisation of the Indian economy. According to a Reserve Bank of India report, the total digital transaction volume in FY21 stood at ₹4,371 crore, as against ₹3,412 crore in FY20, signifying the increased electronic shift. Technology and digitisation are set to dominate the narrative of the Indian economy in the coming future. However, despite the fast and widespread adoption of digital technology in the last two years, there are shortfalls and challenges in terms of accessibility and ability to use digital technology. Though the government has been undertaking programmes to bridge this disparity, the foremost requirement is to improve upon the telecom and broadband infrastructure and to improve digital literacy in the country.

Images of the crumbling healthcare infrastructure during the second wave of Covid-19 and the plight of workers in the informal sector during the first lockdown are still fresh in everyone's memory. This nerve-wracking disruption to the lives and livelihoods of people—especially the ones with lesser resources must serve as a reminder to make sustainable and equitable growth the central theme that the country should focus on while striving to achieve the $5-trillion dream. BT