

# It is India's time

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## **Introduction:**

There is much excitement about India's fast-growing economy, not least triggered by the central bank recently upgrading GDP growth for 2023-24 to a dizzying 7 per cent. All of this feels a bit odd considering that global growth remains challenged. India's performance needed to be probed more.

## **How India accelerated the economy despite challenges?**

1. Until a couple of months ago, the outlook for rural demand was weak given it's an El Nino year, which is associated with poor rains and food production.
2. However, many rural workers instead turned to the many construction jobs on offer as the government accelerated capex, while robust housing demand kept property development up, supporting rural employment and ensuring a floor below which wages did not fall.
3. And, given that bank credit, house prices and construction cycles tend to be correlated, the banking sector's clean balance sheets support further loan growth, pointing towards a continuation of this upcycle, even if a shade softer than before.
4. This nexus, it seems, explains the recent growth upgrade.

## **What has permanently changed in the Indian case?**

1. A small but fast-growing part of the economy which we call "new India", and which makes up about 15 per cent of GDP, is central to speeding up growth.
2. It comprises two high-tech sectors.
3. One is the exports of high-tech goods and services like mobile handsets, drugs and pharmaceutical products, as well as IT services, where India has been gaining global market share since 2017. Of these, services exports are particularly impressive.
4. India is no longer a giant call-centre of the 1990s, nor a software services provider of the early 2000s.
5. It now sells a broad range of professional services like accounting, legal and R&D.
6. India has even become a hub for Global Capability Centres, which are essentially service delivery centres for multinationals.
7. Encouragingly, these services exports have reached an important threshold, from where growth tends to be rapid, as the experience of other service exporting nations shows.
8. The second key sector is India's impressive digital public infrastructure which tech start-ups have plugged into, enabling them to grow rapidly in recent years.
9. They are now spreading across a host of sectors like fin-tech, e-commerce, ed-tech and logistics.
10. They have had wide-ranging benefits, from attracting substantial foreign capital to promoting a proentrepreneurship culture.
11. If these two sectors continue to grow, India's GDP could expand to 6.5 per cent per year over the next decade, higher than the 6 per cent growth on the eve of the pandemic.
12. That pace would more than double the size of the economy, lifting India from a lower to an

upper middle income status economy and enabling it to become the third largest in the world (from fifth currently).

### **The jobless growth is still a challenge for India:**

1. Even this speed of growth isn't enough to create all of the 70 million new jobs needed over the next decade. In fact, it would generate just a third of them.
2. At the heart of the jobs problem are sluggish low-tech manufacturing and agriculture sectors.
3. Too many manufacturing firms remain too small for too long, so they never enjoy economies of scale or create many jobs.
4. And while agriculture employs 46 per cent of the labour force, it produces only 16 per cent of economic output.
5. So to get growth humming louder, both of these sectors — part of "old India" — need change.

### **How the 'Old India's' problem of jobless growth can change?**

1. Perhaps it's possible that "old India" — which makes up 85 per cent of the economy — can be energised by "new India"?
2. This shift can take place if tech start-ups, now focused largely on services, become more ambitious and foray into the digitalisation of manufacturing and agri-tech.
3. Start-ups can use digital infrastructure to help clusters of small manufacturing firms enjoy the advantages of larger manufacturers.
4. This is possible by providing them with access to cheaper inputs, larger end markets, new credit platforms, and digital quality checks.
5. Similarly, technological innovation can help solve problems in the agricultural sector.
6. Some of these changes, like easier access to credit, are already happening, but need to scale up.
7. Digitalisation will create more jobs than it eliminates through technology advances.
8. By opening up opportunities like better access to new markets, digitalisation can increase GDP growth by more than it raises labour productivity, leading to net job creation.

### **Economic reforms are the key to growth:**

1. For large and sustainable gains, real reforms are necessary.
2. An example is that for agricultural e-commerce firms to reach scale, a more market-friendly legal framework is needed.
3. Ease of business must improve across many sectors rather than just a few.
4. And then there are challenges around reviving domestic capital expenditure, as well as improving education and employability.
5. If the reforms cycle continues to pedal forward, India could grow at 7.5 per cent over the next decade.
6. More importantly, this clip of growth could solve two-thirds of India's jobs problem.

### **Global environment is in India's favour:**

1. Two things stand in India's favour.
2. One, the world seems to be de-globalising in goods trade, but still-globalising in services trade. That's good for India, which has a larger share of services in its GDP than fast-growing Asian economies of the last few decades.
3. Two, some 60 per cent of India's capital stock planned for 2040 is yet to be built, and the country might potentially leapfrog into new green technology rather than becoming overburdened by "re-fitting" obligations.

**Conclusion:**

A small but fast-growing part of the economy which we call 'New India', is central to speeding up growth. One is the exports of high-tech goods, the other is India's digital public infrastructure. There's a time for everyone. If it plays its cards well, now's the time for India.

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