Strategy for India's Future Growth

Why in news?

India’s future growth strategy needs to be calibrated in view of the changing global conditions.

India’s growth projections
• India’s growth in 2023-24 is currently projected by the Reserve Bank of India at **7%**. • International Monetary Fund (IMF) and the World Bank have pegged it at 6.3%. • India is likely to realise the RBI’s currently projected growth of 7% in this fiscal year. • In the medium term, the IMF has projected an annual growth of 6.3% up to 2028-29

What are the challenges that India faces?

- **Deglobalisation-** There is a trend of reducing global integration and increasing protectionism among countries due to various factors such as geopolitical conflicts, sanctions, and supply chain disruptions .
- **Geopolitical conflicts**- The ongoing conflicts such as Russia-Ukraine war and the Israel-Hamas war have escalated in recent years and have caused humanitarian crises, regional instability, and diplomatic tensions.
- **Economic sanctions**- The geopolitical conflicts have led to sanctions and isolation leading to breaks in supply chains as well as disruptions in international settlements due to non-access to systems such as *SWIFT* for the sanctioned countries.
- **Reduced world real GDP growth**- It has fallen, implying that the global economy is slowing down and facing recessionary pressures.
- **Reduced global exports**- This is due to reduced real GDP of the world as countries including India want to reduce their dependence on imported petroleum due to supply uncertainties and *price volatility*.
- **Increase in household debt**- This reflects the decline in household savings, if the trend persists even after the recovery of economy from the pandemic this could pose a risk to India’s growth potential and fiscal sustainability.
- **Climate friendly technologies**- India’s climate commitments may have negative impact on economic growth as some sectors face higher cost and lower productivity.

How India should frame the future growth strategy?

- **Self-reliant model**- India should adopt independent and resilient economic model, where it can generate enough domestic demand and supply to support its growth, without relying too much on external sources.

- **Domestic growth drivers**- India needs to rely more on domestic sources of growth, to achieve and sustain a 7% plus real growth, *domestic savings* will be critical.
- **Low ICOR**- Incremental Capital Output Ratio must be low for the higher productivity of capital and a higher potential growth rate of the economy.

Incremental Capital Output Ratio is the ratio of the change in capital stock to the change in output, it measures how much additional capital is needed to produce one unit of additional output

- **Demographic dividend**-As per UN population projections, the share of India's working age population is projected to peak at 68.9% in 2030 while its overall dependency ratio would be at its lowest at 31.2%.
- **Strategize employment**- The non-agricultural growth will have to be high enough to absorb labour released from agriculture which is estimated at 45.8% in 2022-23 by the Periodic Labour Force Survey.
- **Adopt new technologies**- Absorption of productivity-enhancing technologies including Artificial Intelligence (AI) and Generative AI would add to overall growth.
- **Productive investment**- India needs to invest in training and skilling its workers to cope with the changing structure of output and to adopt new technologies.
- **Focus on service sector**- The adverse impact of climate-promoting technological changes can be minimised by emphasising service sector growth which is relatively climate friendly.

The service sector accounts for about 55% of India's GDP and employs over 30% of its workforce.

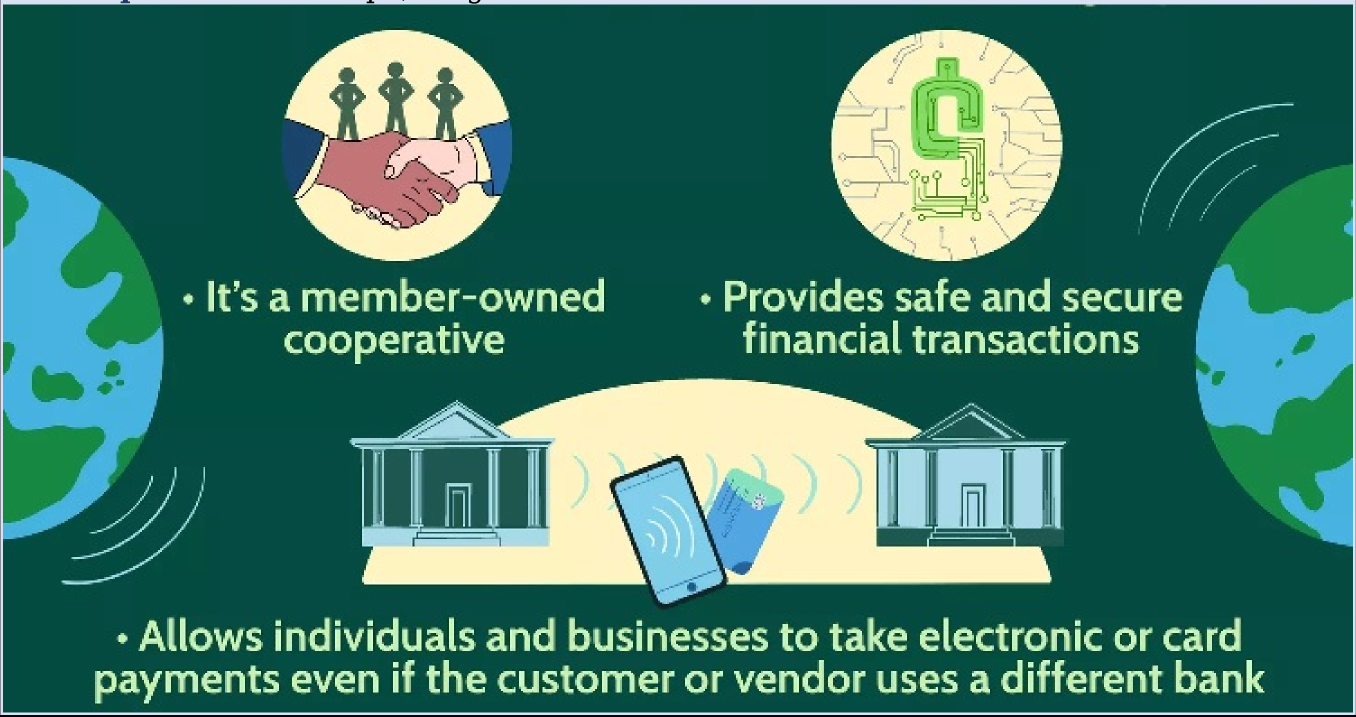
- **Fiscal responsibility**- It is important to ensure that the combined fiscal deficit and debt to GDP ratios are brought down to 6% and 60%, respectively for sustainable growth.

What lies ahead?

- Higher savings and investment rates can boost economic growth by providing more resources for productive activities.
- The need of the hour is to enhance the skills and employability of the young workforce to the labour market.
- India must adopt a technology mix which is employment friendly to create more jobs and reduce inequality.

SWIFT

• The Society for Worldwide Interbank Financial Telecommunications (SWIFT) system is an electronic communications network.
• **Founded-** In 1973.
• **Aim-** To simplify international financial transactions.
• **Bank Identifier Code-** SWIFT assigns each financial organization a unique code with either 8 or 11 characters.
• **Headquarters-** La Hulpe, Belgium.



References

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