

India's Economic Resilience

India is improving its business environment, and a similar effort is needed for human capital.

By Vaibhav Tandon



Economies across the globe have struggled amid the disruptions caused by the Ukraine war and the synchronized fight against inflation. However, things are not looking so gloomy for India, the fifth largest economy in the world. The nation recently celebrated 75 years of independence and the festival of Diwali with gusto, after two years of muted celebrations due to COVID-19.

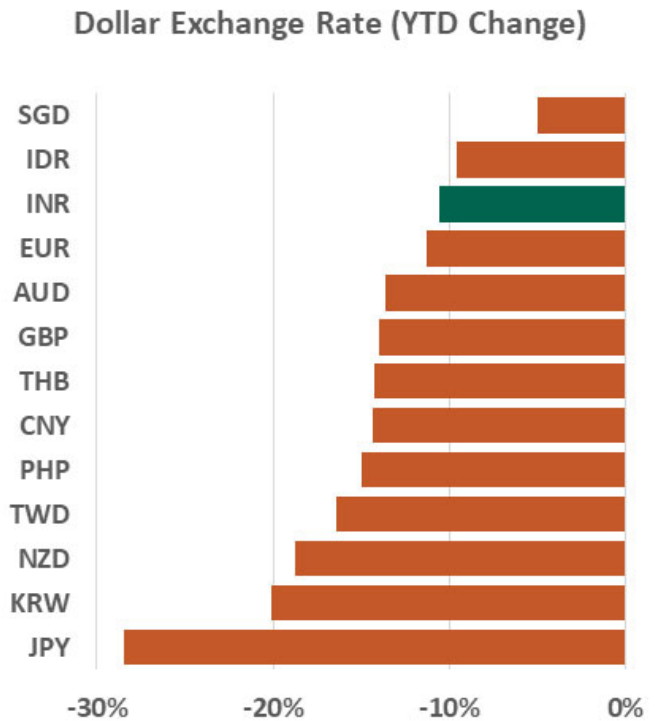
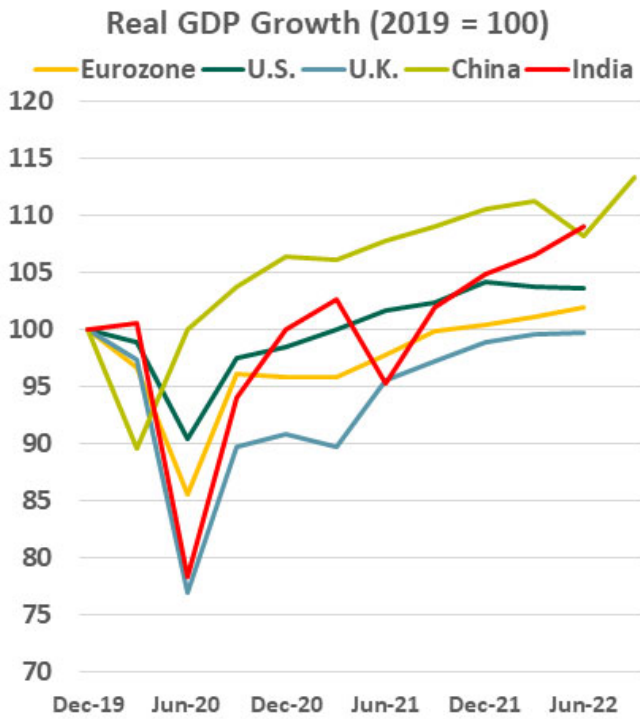
Political and religious milestones aside, India is also celebrating its status as the fastest-growing major economy in the world. With most pandemic-related restrictions withdrawn,

consumption and fixed investment have been the key drivers of growth. Auto sales have surged, airline seat occupancy has jumped, and good monsoon rains have helped the agriculture sector. India's jobless rate dropped to a four-year low in September. Though above the central bank's target range, inflation is in check and lower than the levels seen in many advanced and developing economies. The rupee has tumbled against the dollar, but most other regional currencies have fared worse. External debt remains low compared to other **'BBB' rated sovereigns**. Foreign reserves have fallen by \$100 billion this year, but are enough to cover nearly eight months of imports.

India's \$1 trillion bond market is on track to join JP Morgan's benchmark emerging market bond index next year. This added credibility will lead to **inflows of billions of dollars**, helping the government finance its current account deficits. An improving business climate and policy regime are generating more foreign direct investment inflows.

Skeptical about the merits of expanding trade links, India has long dragged its feet over free trade agreements (FTAs) and opening its domestic market. It pulled out of the Regional Comprehensive Partnership Agreement, a major FTA involving China, Japan, Australia and ASEAN. Trade negotiations with the European Union have lasted for over a decade.

As trade imbalances rise and global value chains readjust, the allure of global markets is shifting the government's stance. 2022 has been a year of significant trade dealmaking. India has already signed FTAs with the UAE and Australia. Discussions are ongoing with the U.K., Russia, Canada, the Gulf Cooperation Council, and the Southern African Customs Union. To become more globally competitive, the government has also unveiled measures to boost manufacturing, strengthen infrastructure (a missing piece in the growth story) and lower logistics costs. Opening the economy will help create jobs and wealth, essential for a country with a high unemployment rate and low per capita income.



Sources: Haver Analytics, WSJ

India's uneven growth will continue to hold the economy back.

But India has yet to fully shed its protectionist stance, reflected in the Self-Reliant India campaign, which seeks to promote domestically produced goods. In recent years, India has undertaken over 3,000 tariff increases, affecting 70% of imports.

Despite its progress, India's poor performance on human development remains the biggest hurdle to advancement. The country has one of the highest poverty rates among major economies, with 10% of the population living below \$2.15 a day. India ranks 107th out of 121 nations in the Global Hunger Index, with 16% of the population undernourished. The top 10% of the population holds nearly 80% of the total national wealth. Climate risks cannot be ignored, with the country getting hotter and drier with each passing year. Of the past 15 years, 11 were the warmest on record.

India is poised to be the world's fastest growing economy this year and next. But a 6-7% growth rate is not enough to meet the needs of over a billion people. India needs higher growth, but more importantly it needs an inclusive approach to become a developed or high-income economy by the time it reaches 100 years of independence. That would truly be something to celebrate.

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