

## **CAN INDIA GROW? CHALLENGES, OPPORTUNITIES, AND THE WAY FORWARD**

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Despite India's impressive economic growth rates in the mid-2000s, the long-term magnitude and sustainability of this progress remains uncertain. India's rapid population expansion requires that the country sustain long-term growth to enable job creation over time. For the country to achieve this enduring trajectory, India must correctly identify the economic fundamentals behind such growth. This should include both short-term, cyclical barriers and long-term, structural impediments that hold it back. Articulating a set of policy priorities and guiding principles that address these issues is the best way forward for India's future economic prospects.

### **Hurdles to Long-Term Economic Growth**

- India's high-growth phase of 2003–2008 had much to do with growth-friendly global economic conditions that have since run their course.
- The country's domestic structural deficiencies—namely poor human resource capabilities; a narrow and predominantly informal industrial base; and a fragmented, low-productivity primary sector—keep a lid on growth and a floor on inflation.
- India also faces formidable long-term headwinds due to premature deindustrialization, the limitations of a services-led growth model, the plateauing of global trade, stagnation in developed economies, and the costs associated with climate change.
- The country's state capacity deficiencies amplify the effects of these constraints.
- These hurdles must be seen in light of favorable tailwinds such as low commodity prices, China's economic slowdown, and India's relative attractiveness as an investment destination.

### **Policy Recommendations**

**Embrace a feasible growth model.** Lasting economic progress is best achieved by realistically assessing India's structural impediments and growth potential. The government must accept that sustained growth rates of 8 percent or more are likely out of reach, and it should resist short-term growth strategies that rely on bubbles and fads by instead promising less and delivering more. The government should vigilantly steer clear of both state-led import substitution and overreliance on market-based policy prescriptions.

**Prioritize growth-friendly policies.** The Indian government should pursue reforms in the areas of higher and lower education; urban governance; housing, land, credit, and labor markets; and infrastructure contracting. It should also seek to shrink the informal economy and expand the tax base, while also improving state capacity and personnel management.

**Foster greater federalism.** Indian states should be allowed to engage both cooperatively and competitively with the central government and with each other. Proactive bottom-up actions by state governments will be needed to effectively scale up the fragmented agricultural sector and industrial production.

#### **ABOUT THE AUTHORS**

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