

The Indian Economy

Peter Varghese AO

The Indian economy needs to be understood in its own terms. It will always march to its own tune. It is the only country with the scale to match China but it will not be the next China. Indeed comparisons with China only get in the way of understanding the singularity of the Indian economy and the nature of the opportunities in the Indian market.

No Indian government will be able to direct the economy in the way China does. Nor will it ever have the control over the allocation of resources which has been intrinsic to China's economic success. China has a discipline to its economic planning which flows from its one party political system and the competence of its state institutions. Also, for all its diversity, China has a strong Han Chinese core which has no counterpart in the linguistic and cultural diversity of India.

Nor will India's economic model mirror that of East Asia more broadly. India's economic model is and will remain sui generis. Its growth will be driven by consumption and services, less so by exports and manufacturing, and it will be anchored in myriad small and medium size enterprises.

The drivers of Indian growth are structural which suggest they are also sustainable. They include the urbanisation of the world's largest rural population; the gradual movement of the informal economy, accounting for over 80 per cent of India's workers, into the formal economy; a young demographic with a mean age of 28; considerable investment in infrastructure, the absence of which has in the past held back growth, big leaps towards a digital economy and the beginnings of an ambitious program to upskill 400 million Indians.

These structural drivers will likely keep India on a relatively strong post covid growth path in the order of 6-8 per cent each year over the medium term. This assumes incremental rather than radical structural reforms.

But while India has some strong structural drivers of growth it is also the case that more structural reforms are essential if India is to grow faster than six percent a year.

These reforms are well known and have been part of the Indian economic debate for decades. They include reform of the banking system, access to land, labour market rigidities, a skills deficit, deregulation, privatisation and state capacity.

Historically, India's political culture has favoured those who advocate state intervention and state subsidies. This is the combined legacy of Gandhi's self sufficiency and Nehru's Fabian socialism. Calls for structural economic reforms tend to come more from academic economists, business figures and editorial writers than from political parties. Market economics in India is generally not good politics.

India has however shown in the past that when it must it can deliver on economic reforms. In the last four decades India's per capita income has quadrupled and over 200 million people have been lifted out of absolute poverty, largely as a result of changes to economic policy.

The lesson of India's economic history is that the more it opens up its economy, internally and externally, the stronger its economic performance.

The post covid global focus on security of supply chains opens up new opportunities for India. India is high on everyone's diversification strategy. Those who worry about an overreliance on Chinese supply chains tend to see India as an obvious and desirable substitute.

But if India is to act on these opportunities it will need to do all it can to increase the attractiveness of India as a place in which to invest and to do business. Ease of doing business is one element in this and India has done much in this area in the last few years. But even more important are inputs such as infrastructure, regulatory certainty, a sound financial system and access to skills. And fundamental to India's economic success is strengthening the capacity of the state to design and implement the right policies. The competence and resilience of institutions lie at the heart of this challenge.

More recently, The Modi government has shown a stronger interest in economic reform. It has set out an ambitious privatisation program. It is looking to both reduce the space occupied by government in the economy and to improve the efficiency of the civil service. These are welcome signals which build on its introduction of the GST and bankruptcy reforms and its ramped up investment in infrastructure in its first term.

India has always been bracketed with potential. It is now moving to delivery.



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Peter Varghese is in his second term as Chancellor of The University of Queensland. Prior to this appointment, Mr Varghese's extensive career in public service and diplomacy spanned 38 years and included senior positions in foreign affairs, trade policy and intelligence. He served as Secretary of the Department of Foreign Affairs and Trade (2012-2016), High Commissioner to India (2009-2012), High Commissioner to Malaysia (2000-2002), Director-General of the Office of National Assessments (2004-2009), and Senior Advisor (International) to the Prime Minister of Australia (2003-2004). Mr Varghese was the author of a comprehensive India Economic Strategy to 2035 commissioned by the Australian Prime Minister and submitted in July 2018.