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SOCIO-ECONOMIC VOICES

“India Needs to Implement Bold Reforms to Sustain Economic Growth”

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"Amid Rising Global Tensions, Strengthening India’s Forex Reserves is Crucial"

Intro: In an era of shifting global dynamics, India's economic future hinges on strategic reforms and innovation. This week **Indiastat** interacts with **Dr. Arun Singh, the Global Chief Economist at Dun & Bradstreet,** who stresses that the nation must address structural challenges through targeted policies in labour, exports, and agriculture. Speaking to senior journalist **Mahima Sharma** on **Socio-economic Voices**, he emphasises that the nation must strengthen its forex reserves amid geopolitical tensions, enhance FDI, and focus on renewable energy to achieve sustainable development. This and more in an **exclusive conversation** below...

MS: India’s GDP growth rate has been strong compared to other major economies, but some experts warn about potential stagnation due to structural issues. What implementable policy measures would be needed for India for maintaining or exceeding global growth rates over the next decade?

Dr Singh: India's strong GDP growth can continue over the next decade with key structural reforms. Sustaining this growth will require policy measures focused on transformation, inclusiveness, and sustainability.

India needs to simplify labour laws and invest in skill development for industries like AI, robotics, and advanced manufacturing. Formalise the informal economy by providing better access to credit, social security, and easing regulations.

We also need to **prioritise high-value sectors like electronics, pharmaceuticals, and defence.** Create special economic zones (SEZs) with world-class infrastructure and incentives to attract investment. Diversify export markets, reducing reliance on traditional regions and exploring opportunities in Africa, Latin America, and Central Asia.

The next step should be to modernise agriculture through value chains and agro-processing. Simplify land leasing laws, digitise land records, and ease land acquisition for industrial and infrastructure growth.

This all needs to go hand-in-hand with **significant investment needed in transportation, energy, and urban infrastructure** to lower logistics costs and enhance competitiveness. Leverage public-private partnerships (PPPs) and Smart Cities projects for urban growth.

Foster financial sector reforms and invest in digital infrastructure, including AI, IoT, and automation in manufacturing and services.

And the most important aspect keeping in mind the ongoing climatic change, India needs to **focus on expanding renewable energy, sustainable urbanisation, and climate change mitigation** to ensure long-term energy security.

Regulatory reforms, ease of doing business, and investment in skill development are crucial to maintaining India's growth trajectory.

MS: India's forex reserves are at US$681 billion in August 2024 but with rising geopolitical tensions and the potential for global economic shocks, how resilient is India's reserve position? And what should be the strategy going forward?

Dr Singh: India's forex reserves of $681 billion (August 2024) provide a strong buffer against external shocks. However, rising geopolitical tensions, global economic uncertainties, and evolving trade dynamics require a more strategic approach to managing these reserves for long-term resilience. Let's understand these one by one:

Current Resilience of Forex Reserves

The reserves can cover 10-12 months of imports, offering a solid cushion against balance of payments crises. The reserve-to-short-term debt ratio exceeds the international norm, providing security against external debt obligations. However, a significant portion of reserves in U.S. dollars exposes India to risks from dollar depreciation or geopolitical instability. The reserves are bolstered by foreign portfolio investments (FPIs), which can be prone to sudden outflows during global economic shifts.

Now coming down to what are the **Risks to Forex Reserves...**

- **Conflicts between major economies** could cause market volatility, impacting capital flows, exchange rates, and trade.
- **Commodity Shocks** like India's reliance on oil imports makes it vulnerable to price shocks, while global interest rate hikes may tighten liquidity and strain reserves.
- **Current Account Deficit (CAD)** - High import bills, particularly for crude oil and gold, continue to widen the CAD, putting pressure on reserves if export growth and capital inflows don't balance.

So, how should India be **Strengthening its Forex Resilience?**

We need to prioritise **Foreign Direct Investment (FDI)** over volatile FPIs to ensure long-term capital stability. Next, we also have to manage **external debt** to avoid excessive short-term borrowing.Then side-by-side promote **export growth** in high-value sectors like electronics, pharmaceuticals, and agriculture.

In parallel steps India needs to expand **renewable energy** and domestic oil production to reduce vulnerability to global oil prices. We also need to enhance **currency swap agreements** and deepen forex and bond markets to manage currency volatility. And lastly, the nation needs to encourage **INR trade settlements** and offshore INR-denominated bonds to boost the rupee's global role.

MS: India's current account deficit (CAD) more-than-halved to a seven-year low of US$23.2 billion in FY2024 from $67 billion in FY2023. How do your read this as an expert on how this will socio-economically impact the masses? How must India leverage this momentum?

Dr Singh: The drop in current account deficit reflects lower import bills, strong exports, and robust remittances. The sharp reduction in CAD offers an opportunity to strengthen macroeconomic stability and promote inclusive growth.

By focusing on export diversification, boosting domestic manufacturing, and maintaining financial stability, India can build a more resilient economy that benefits the broader population.

A lower CAD eases pressure on the Indian Rupee (INR) by reducing the need for foreign exchange, helping stabilise the currency and limit exchange rate volatility. This stability can aid in controlling inflation and provide policymakers with more flexibility to implement growth-promoting fiscal and monetary measures.

A reduced CAD indicates stronger domestic production and less dependence on imports, signalling an improved trade balance. With lower external pressure, the government may have more fiscal space to invest in social programs and welfare initiatives, supporting long-term socio-economic development.

MS: With global trade dynamics shifting, especially with the rise of protectionism, how viable is India's reliance on export-led growth? What should be the focus areas to stay competitive?

Dr Singh: India's reliance on export-led growth faces challenges from rising protectionism, trade wars, and geopolitical tensions. To stay competitive, India must diversify export markets, increase value-added exports, enhance domestic competitiveness, and build strategic alliances.

Many countries are adopting protectionist measures like tariffs and non-tariff barriers (NTBs) to shield domestic industries. The "China Plus One" strategy, where global supply chains are shifting away from China, offers India an opportunity to attract multinational investments and strengthen its manufacturing base.

While export-led growth remains viable, India must adapt to global trade shifts. Key strategies include diversifying export markets, boosting domestic competitiveness, leveraging digital trade, and securing strategic trade agreements. By investing in high-value sectors, sustainable practices, infrastructure, and human capital, India can navigate global trade uncertainties and maintain robust growth.

Steps India should take to stay competitive can be an amalgamation of the few necessary ones. As a nation we have to **diversify export markets** and reduce dependence on traditional partners and explore new markets in Asia, Africa, Latin America, and the Middle East. Next we need to **focus on high-growth sectors** like pharmaceuticals, biotechnology, renewable energy, electronics, and software services. Further the nation needs to **enhance value addition** by moving up the value chain to increase export competitiveness. We need to **expand digital and IT services exports** by promoting cross-border e-commerce by streamlining regulations and enhancing payment systems. We also need to **leverage FTAs and trade diplomacy** by forging strategic trade agreements to access new markets. India also needs to further **promote regional cooperation** by strengthening ties through BIMSTEC, ASEAN, and the Indo-Pacific Economic Framework (IPEF). And lastly, **improve infrastructure** by modernising export processing zones (EPZs) and strengthen trade-related logistics to support export growth.

MS: India's public debt vs GDP and longer term pending debt is consistently rising and thus raising concerns about fiscal sustainability. What innovative fiscal policies or reforms, in your expertise, are necessary to ensure that this debt level does not hinder future growth? (Please share this in the light of rising geo-political tensions in South Asia if you can, else you may please give a deep overview).

Dr Singh: India's public debt-to-GDP ratio, at 85-90% in 2024, poses risks to fiscal sustainability. Rising debt, alongside geopolitical tensions that may increase defence spending, and global economic uncertainties, necessitates innovative fiscal reforms to balance growth and debt management.

To sustain growth while managing debt, **India must implement certain critical policies that boost revenue, rationalise spending, improve public investment, and leverage digital governance.** Efficient defence spending and strategic alliances are crucial, given South Asia's geopolitical landscape. A medium-to-long-term fiscal consolidation strategy is key to achieving fiscal stability. Thus, I am sharing some key policy measures that India needs to adopt:

a. **Expenditure Rationalisation**
India should improve efficiency by shifting from broad-based subsidies to targeted ones, utilising direct benefit transfers (DBT). This change could help reduce wasteful spending. Additionally, the government should aim to cut non-productive expenses, including excessive subsidies and inefficiencies in public-sector enterprises.
b. **Fiscal Responsibility**
Establishing medium-term targets for the fiscal deficit and debt-to-GDP ratios should be a priority. This can be achieved through a revised fiscal responsibility and budget management (FRBM) framework to enhance financial management.
c. **Revenue Mobilisation**
To promote fairness in the tax system, India should broaden the tax base and reform tax exemptions. Simplifying the Goods and Services Tax (GST) and expanding its coverage to include sectors like petroleum and real estate, along with improving tax administration, should also be pursued.
d. **Public-Private Partnerships (PPPs)**
The government should attract private investment in critical sectors such as healthcare, education, urban infrastructure, and green energy. This strategy could help reduce the fiscal burden on the government.
e. **Deepen Domestic Debt Markets**
India should work on developing corporate and municipal bond markets and consider introducing green and infrastructure bonds to diversify financing sources.
f. **Fiscal Federalism** Encouraging state-level fiscal reforms should involve linking central financial transfers to performance, promoting more efficient public spending at the state level.
g. **Skill Development & Employment** Investing in skill development programs aligned with emerging sectors should be prioritised. Additionally, providing incentives for job creation in labour-intensive industries, micro, small, and medium enterprises (MSMEs), and startups should be encouraged.

MS: India's FDI Soars by 26.4% in Q1 2024-25. While FDI inflows have risen, global investment patterns are evolving due to technological shifts and geopolitical changes. How should India adapt its policies to continue attracting and maximising FDI?

Dr Singh: To maintain the recent momentum in FDI inflows, India must focus on refining its policies. While over 1,500 outdated laws have been eliminated since 2021, further reforms are crucial in areas like land acquisition and environmental clearances, which often delay infrastructure projects. **Simplifying these processes can attract large-scale investments. The Production-Linked Incentive (PLI) scheme has also played a key role, with ₹1.23 lakh crore committed to 14 sectors, including electronics and automotive, by March 2024.** Expanding the PLI to emerging industries like AI, electric vehicle (EV) batteries, and green hydrogen will ensure India stays aligned with global tech trends.

Moreover, India must move up the value chain in sectors where it has gained traction. For instance, India's smartphone exports reached ₹129 crore in FY24, but the country primarily serves as an assembly hub. **Focusing on vertical integration in high-tech industries, such as semiconductors, is essential.** Partnerships with firms like Foxconn and recent efforts in semiconductor manufacturing are positive steps, as global demand for semiconductors is projected to reach $1 trillion by 2030. By developing expertise in chip design and manufacturing, India can significantly enhance its position in the global supply chain and boost FDI.

Additionally, negotiating more bilateral and multilateral trade agreements will encourage FDI. Recent free trade agreements with the UAE and Australia have bolstered exports, and similar deals with the EU and UK can enhance strategic inflows. Labour reforms to boost productivity and better intellectual property protection are also necessary to attract tech-driven investments. As global capital shifts toward nations with stable, high-growth potential, India's policy refinements should aim at fostering long-term investor confidence.

MS: How well is India positioned to actually influence global economic policies that align with its own development goals, particularly in areas like a) trade, b) finance, and c) climate change? And what more in each of these sectors needs to be done, to stay ahead of the curve from other developing nations?

Dr Singh: India's growing global stature, exemplified by its G20 presidency in 2023, offers a unique opportunity to solidify its influence in trade, finance, and climate change policies. I would like to share a few key aspects related to each one of these.

Trade - India's record export growth of $776.7 billion in FY24 is promising, but sustaining this momentum requires more comprehensive Free Trade Agreements (FTAs). Recent deals with Australia and the UAE, as well as ongoing negotiations with the UK, are positive steps. However, **India must also integrate digital trade frameworks to enhance its global competitiveness. Strengthening its role in regional supply chains, especially within ASEAN, is crucial for leveraging its strategic location.** Active participation in initiatives like the Indo-Pacific Economic Framework (IPEF) will further bolster India's regional influence. Additionally, improving logistics and infrastructure through projects like Gati Shakti can increase export efficiency.

Finance - India's fintech sector is a global leader, with 131 billion UPI transactions amounting to ₹200 trillion in FY24. To enhance its financial influence, **India should advocate for IMF quota reforms that reflect its growing economic standing.** Developing the offshore rupee market could further solidify India's role as a financial hub, especially along emerging South-South trade routes.

Climate Change - India has demonstrated leadership through the International Solar Alliance, but accelerating domestic progress is vital. While the country aims for 500 GW of renewable energy capacity by 2030, only 173 GW has been achieved so far. Aggressive investment and green financing are necessary to close this gap. Additionally, **India should push for annual commitments from developed nations, in line with COP21 targets,** to support its energy transition and meet both domestic and global climate goals.

MS: What could be the potential socio-economic impacts of the Bangladesh crisis on the Indian economy, and how is India addressing these challenges?

Dr Singh: The current crisis in Bangladesh presents significant socio-economic challenges for India, particularly in trade, migration, and regional stability. With bilateral trade reaching $14 billion in FY24, Bangladesh is a key market for Indian exports, including textiles, pharmaceuticals, and machinery. Any disruption in Bangladesh's economy could negatively impact these sectors, especially in India's eastern states.

Political instability in Bangladesh may lead to increased migration into India, particularly in border states. This influx could strain resources, disrupt local labour markets, and create social tensions. Additionally, Bangladesh's economic struggles could slow down regional initiatives like the BBIN (Bangladesh, Bhutan, India, Nepal) Motor Vehicle

Agreement, which aims to boost connectivity and trade. Such delays would hinder India's efforts to strengthen economic integration with its neighbours.

India is responding by diplomatically engaging with Bangladesh. To mitigate trade disruptions, India is enhancing border infrastructure and streamlining customs procedures. Border security measures are also being reinforced to manage migration and prevent illegal crossings. Furthermore, India is working to deepen economic cooperation with Bangladesh in areas like energy and infrastructure to promote long-term stability in the region.

MS: How do you view India's increasing share in the global economy, and what factors do you believe are driving this growth?

Dr Singh: India's global economic influence is growing rapidly, with GDP projected to rise by nearly 7% in FY25, according to Dun & Bradstreet estimates. This growth is driven by key factors, including India’s demographic advantage, where 65% of the population is under 35. This youthful workforce fuels consumption, innovation, and strengthens sectors like technology and manufacturing.

The government’s significant infrastructure investment—₹11 lakh crore allocated in FY2024-25—boosts connectivity and productivity, supporting initiatives like "Make in India," which aims to establish India as a global manufacturing hub. Additionally, India’s increasing share of global services exports, particularly in IT and digital services, is a major growth driver. Services exports reached $339 billion in FY24, accounting for 40% of the country’s total exports, with the IT sector leading due to its talent pool and cost advantages.

India’s aggressive push into renewable energy is also attracting significant global investments, particularly in solar and wind energy projects. At the same time, the country’s digital transformation, with over 800 million internet users, has made India a prime destination for Foreign Direct Investment (FDI), which grew by 26.4% in Q1 FY24-25.

However, to sustain this momentum, India must address structural challenges like income inequality and low female workforce participation, currently at 32.7% compared to South Asia's 75%. By focusing on education and skills development in emerging areas like AI and green jobs, India can enhance labour market outcomes, maintain its growth trajectory, and solidify its position as a global economic powerhouse.

About Dr Arun Singh

Dr. Arun earned his PhD in economics from the University of Mumbai, India. Currently, he is the Global Chief Economist at Dun & Bradstreet, where he leads the Global Economic Research Team. This team specialises in providing country insights for 132 nations and conducts macroeconomic research, modelling, and forecasting. Their pragmatic and solution-focused analyses support informed decision-making for both corporations and government entities, helping them navigate economic and business trends effectively.

With over 20 years of experience as a professional economist, Dr. Arun's expertise encompasses both quantitative and qualitative economic research, econometric modelling, forecasting, analytics, and industry-specific research. His work covers a wide array of sectors and includes areas such as the real economy, public finance, monetary and fiscal policies, the external sector, as well as infrastructure and social development.

Before joining Dun & Bradstreet India, Dr. Arun was with Tata Group, where he undertook detailed analysis and research on various economic issues. He contributed to treasury strategies for several group companies and participated in long-term strategic assessments for different businesses.

About the Interviewer

Mahima Sharma is an Independent Journalist based in Delhi NCR. She has been in the field of TV, Print & Online Journalism since 2005 and previously an additional three years in allied media. In her span of work she has been associated with CNN-News18, ANI - Asian News International (A collaboration with Reuters), Voice of India, Hindustan Times and various other top media brands of their times. In recent times, she has diversified her work as a Digital Media Marketing Consultant & Content Strategist as well. Starting March 2021, she is also a pan-India Entrepreneurship Education Mentor at Women Will - An Entrepreneurship Program by Google in Collaboration with SHEROES. Mahima can be reached at media@indiastat.com