



Dr. Syama Prasad Mookerjee
Research Foundation



India's Global Emergence as a 'Bright Spot in a Dark Horizon' is No Miracle But Outcome of Structural Reforms Persistently Ushered in by Modi Government Over the Years

Pathikrit Payne

India's Global Emergence as a 'Bright Spot in a Dark Horizon' is No Miracle But Outcome of Structural Reforms Persistently Ushered in by Modi Government Over the Years

A decade down the line, India would be known not just for being the third largest economy of the world but would also be considered as one of the most resilient economies, which would be the biggest hallmark of Modi Government and its all-round growth plan metrics.

In October this year, the International Monetary Fund (IMF) showered India with immense praise for its handling of the domestic economy. IMF's Managing Director Kristalina Georgieva stated, 'India deserves to be called a bright spot in this otherwise dark horizon because it has been a fast-growing economy, even during these difficult times, but most importantly, this growth is underpinned by structural reforms'.

No wonder that for its proficient management of the Indian economy that ensured its sustained recovery and resilient growth in the midst of a multitude of catastrophic challenges that the global economy has been facing for quite some time now, and for ensuring consistent support to the underprivileged sections, Government of India deserves this praise. Specifically, IMF had a lot of admiration for India's Direct Benefit Transfer DBT) Policy.

Rewinding the Tumultuous Global Turmoil

What started with Covid induced lockdowns across several parts of the world that resulted in major global supply chain constraints and disruptions in livelihood generation, got amplified by China's 'Zero Covid Policy' that resulted in more sustained disruptions in supply of even essential commodities, components and finished products, whose shockwaves are still being felt across the world as Beijing's 'Zero Covid Policy' still continues

to abruptly shut down entire cities and provinces, thereby bringing operations in thousands of factories in such provinces and cities, to either standstill or massively reduced.

As if this was not enough, at a time early this year, when most of the economies, after being battered by Covid lockdowns (and stretched to their limits in terms of supporting their respective healthcare systems) were somehow crawling back to a semblance of normalcy, the Ukraine-Russia conflict started. It had a cataclysmic impact on global prices of commodities, especially coal, crude oil, natural gas, food grains and edible oil among others. The rising inflation due to higher commodity prices, supply chain shocks, shortage of global foodgrain availability, coupled with shortage of forex reserves and rising public debt resulted in unprecedented levels of inflationary trends across the world including even in US and Western Europe.

The extraordinary decision of Federal Reserve of US to go in for massive hike in interest rates, to contain domestic inflation, resulted in not just Foreign Portfolio Investors (FPIs) pulling out their funds from emerging economies and parking it in US Treasuries, but also compelled central banks of most countries to raise their respective interest rates to contain this flight of capital.

However, this also resulted in increasing the cost of borrowing for their respective governments as well, who raise money from banks

or through the bond market to meet their own budgetary targets of public expenditures.

The Dark Horizons: Stretched from US to China

To simply understand how things stand right now, the world's largest and second largest economies, namely US and China are in the middle of deep crisis, with the former staring at a major incoming recession, and the inverse yield curve indexes are giving enough evidences of the same.

In case of China, the issues are far more complex and challenging, ranging from rising public debt, massive slowdown in the real estate market, which constitutes more than a quarter of their GDP, a looming mortgage crisis in housing sector potentially running into trillions of dollars, and rising instances of real estate companies defaulting on payment of bonds that have matured.

Also, Beijing's stringent 'Zero Covid Policy' has been having major negative impact on China's industrial activities and retail consumption levels. As a result, even China's economy has been witnessing major signs of slowdown, dampened even further by burgeoning debt and reduced retail demand.

In case of UK, the rising cost of energy, thanks to sanctions on Russia by West, and its resultant impact on government finances has been so severe that within a span of just a few weeks, the country has

witnessed major political upheavals and resignation of two successive Prime Ministers. Even for the latest one, the path ahead is filled with profound challenges which are consequences of cataclysmic rise in electricity bills, depreciating currency and rising cost of borrowing that have long term fatal implications for government finances.

For smaller economies, impact of global turmoil has resulted in countries like Sri Lanka, dependent considerably on tourism industry, almost going bankrupt. The situation of many other smaller economies ranging from Europe, to Asia and Africa is no better either.

India's Emergence as a 'Bright Spot': Outcome of Painstaking Reforms by Modi Government

In the middle of all these, the fundamental question that has intrigued most in the world was how India has managed to fare better than most, and has remained the fastest growing among the major economies of the world.

As per the World Economic Outlook Database of International Monetary Fund, published in October 2022, India's Nominal GDP stands at \$3.469 trillion, while in terms of Purchasing Power Parity (PPP), it stands \$11.665 trillion. For the Financial Year ended March 2022, India's gross tax collection stood at Rs 27 lakh crore, total exports stood at around \$670 billion,

and had received FDI of \$84.83 billion. During the same time frame and up till now, India administered more than 200 crores of free covid vaccine doses and for more than two years now, Government of India has been providing additional free rations to more than 80 crore Indians.

In other words, Government of India took care of the masses through additional free rations and free covid vaccines, and ensured through massive use of technology that the last mile connectivity is consistently ensured for both ration and vaccine delivery so that even the most vulnerable sections are not deprived of the same.

It has to be remembered that the massive turnaround of the Indian economy after a shrinkage of 23.9 % during the first quarter of 2020-21, when India was under pandemic induced lockdown for almost three months, to emerging once again as one of the most resilient economies of the world was no miracle. It is the outcome of painstaking reforms and economic restructuring that has been undertaken by Modi Government even while taking care of the gigantic population during tumultuous times that has now become a case study for others to emulate.

Also, at a time when many of the major economies of the world are facing a massive foreign exchange reserve crisis, India continues to maintain a healthy forex reserve of over \$500 billion

The Key Reforms that Helped India Emerge as a ‘Bright Spot’

During the same period of uncertainties, Modi Government ushered long standing reforms across major sectors and industries. From strengthening of MSMEs by expanding their threshold of investments and turnover, to ushering a new era of ‘Atmanirbhar Bharat’ in defense equipment manufacturing sector, through literal banning of import of weapons systems of different types, and making sure they are procured from Indian companies, to giving a major fillip to India’s start-up ecosystem and opening up of critical sectors such as space for the private sector participation, are just a few of those.

Today Indian’s armed forces are buying specialized drones of different dimensions and utilities in thousands, be it mini, micro or medium range drones, loitering munitions, armed drones, surveillance drones or logistics drones to name a few. Also, almost all, barring a few, are being made in India. But it did not end there only.

Quest to Make India a Manufacturing Hub

One of the biggest lessons of Covid Pandemic, and Ukraine-Russia war, is that it has exposed the fragility of globalization, and vulnerabilities arising out of overdependence on external sources for any specific commodity or

energy. The Sino-India tensions along LAC vindicated the importance of developing a robust domestic ecosystem for a myriad of industries in India for the purpose of reducing dependence on China for finished, semi-finished products or raw materials. In spite of being one of the largest manufacturers of generic drugs India worked, India had an overwhelming dependence on China for import of Active Pharma Ingredients (API). Situation was similar across many other sectors as well. Modi Government started to fundamentally change that landscape through the Production Linked Incentive or PLI scheme.

Modi Government spearheaded radical restructuring of manufacturing sector in its quest to develop India as a global hub for the same, through Production Linked Incentive (PLI) scheme across 14 sectors with an incentive outlay of Rs 1.97 lakh crore to make sure that India becomes a preferred destination for not just global scale industrial manufacturing but also becomes a key hub of the global supply chain for key sectors. Developing resilience in the supply chain is also a critical objective of the PLI scheme. The response from industry for the PLI scheme across the sectors have been very promising.

The PLI scheme policy was preceded in the recent past by allowing 100% FDI in contract manufacturing through automatic route, and bringing down corporate tax rates to levels comparable with

rates of preferred destinations like Singapore. Today, base corporate tax rates in India are among the lowest and it thus makes India a preferred destination for investments.

The GST Effect: Increase in Tax Collection & Business Productivity

One also has to keep in mind that buoyant tax collections even during tumultuous times that indeed helped Government of India to fund its welfare schemes during the peak of the Covid pandemic-induced crisis, and administering more than 200 crore free doses covid vaccines, would not have been possible without radical structural reforms such as implementation of indirect tax reforms through introduction of GST regime, which in turn would not have been possible without the Demonetization Scheme that preceded the implementation of GST.

As a result of GST regime implementation and sustained attempts to plug the loopholes in GST through institutional reforms, India's informal economy, which used to be a whopping 52% of the total economy in 2018, has now come down to somewhere between 15-20%, as per a report by SBI's economic research department. Also, GST implementation made a huge positive impact on productivity and competitiveness of Indian industry. The passage of Insolvency and Bankruptcy Code Act a few years back, also helped in boosting

investors' confidence.

Modi Government's "Mool Mantra": Enhancing Productivity & Developing Resilient Supply Chains

It is also important here to mention that the process of enhancing the productivity of the Indian economy through radical policy reforms included restructuring the manner in which government machinery worked as well. A year back PM Modi initiated the Project Gati Shakti followed by National Logistics Policy each of which are expected to deliver in times to come.

As per Government of India portal, PM Gati Shakti will incorporate the infrastructure schemes of various Ministries and State Governments like Bharatmala, Sagarmala, inland waterways, dry/land ports, UDAN etc. Economic Zones like textile clusters, pharmaceutical clusters, defence corridors, electronic parks, industrial corridors, fishing clusters, agri zones will be covered to improve connectivity & make Indian businesses more competitive. It will also leverage technology extensively including spatial planning tools with ISRO (Indian Space Research Organisation) imagery developed by BiSAG-N (Bhaskaracharya National Institute for Space Applications and Geoinformatics).

The Project Gati Shakti is aimed at creating an integrated approach by bringing together 16 major ministries under a digital platform for more

seamless and faster implementation of project. This is being termed as a game changer in terms of optimal utilization of resources and much faster approvals and permits for projects. In quantum terms, Project Gati Shakti is a Rs 100 lakh crore or a \$1.2 trillion master plan to create edge for India over others as an investment hub.

Likewise, the National Logistics Policy is yet another game changer as it envisages to reduce the cost of logistics from as high as 13-14 % of GDP to a single digit figure in times to come. In other words, National Logistics Policy is another major step towards ease of doing business and enhancing the competitiveness of Indian industry by reducing the cost of not just transportation but also inventory and warehousing whose cumulative impact may be eventually brought down to a range of around 8% of GDP.

Managing Border Challenges in the Midst of Pandemic

It also has to be remembered that when the rest of the world was battling Covid pandemic, for India it was double whammy. It had to simultaneously deal with disputes with China along LAC.

The Galwan incident and a range of border issues that surfaced due to alleged breach of status quo by China along the LAC in Ladakh, resulted in India literally having to prepare for a full-scale war, and thereby make all the necessary

logistical arrangements along with sourcing of additional weapon systems for the same. In the middle of the pandemic, it also had to transport a huge quantum of men and material to regions bordering China for the purpose of bolstering its battle preparedness, and the face-off continued for months.

Thus, Government of India had to manage funds for both the humongous challenges at hand, making sure that for neither, be it battling the pandemic challenge or the border challenges, availability of funds faced no constraint. Also, it had to strategize, and with patience had to mitigate both the problems, against the backdrop of constant barrage of rants and rumblings by political opponents who neither had a solution of their own nor wanted to give time to Modi Government to deal with them. But Modi Government silently worked through those difficult times and has been successful in making India emerge much stronger both militarily, economically and in terms of its proven capacity to deal with Covid like pandemic amidst all odds.

India's Deft Energy Diplomacy Paid Dividends too

Even when things got a bit better, the Ukraine-Russia conflict created a major diplomatic challenge for India. Given its sheer dependence on external sourcing of energy, India's diplomatic independence was stretched to limits to make sure

that even while maintaining good relation with the West, nothing came in the way of India's sourcing of crude oil from countries like Russia at deep discounts, since sanctions on Russia, coupled with already running sanctions on Iran and Venezuela, had shot up the price of crude oil to such extent that it has been breaking the back of many countries who import large quantity of oil and gas.

In case of India, Modi Government's astute management of oil sourcing from a variety of sources including Russia and External Affairs Minister Dr. S Jaishankar's diplomatic blitzkrieg not only made sure that India's macroeconomic fundamentals remained far better than what it is currently for many of its European counterparts, but also enhanced significantly India's stature globally for being assertive and firm on its independent foreign policy and not succumbing to western pressure by toeing to their line on issues related to sanctions on Russia.

Also, India is making it amply clear to the major oil producing nations that if they continue to maintain a regime of high oil prices by cutting down production, then it would only compel countries like India to look for alternate sources of energies. India's quest to develop green hydrogen generation on a mission mode along with persistent focus on enhancing generation capacity of other major sources of renewable energies such as solar and wind, indicates the same.

Further, Modi Government made it clear to its Western partners that India's legacy dependence on Russian defence equipment is itself a result of the West's preference for the dictatorial rulers of Pakistan who they supplied weapon systems for decades and thereby leaving little option for India but to source similar systems from Russia, who all these years have steadfastly stood by India as a time-tested friend. And therefore, it is not possible for India to suddenly give up on Russia just because the West, especially the US wants it that way.

Now, as things stand, even as the West, realising India's potential have made serious overtures over the last few decades towards India, and India too has been sourcing quite a few kinds of weapon systems from the West, it has little impact on its relation with Russia, which remains rock-solid, and has been successfully de-hyphenated from its relation with the West.

With RBI already having created a framework for rupee settlement scheme for international trade, those days are not far away when India would keep the option open for more of rupee denominated global trade if push comes to a shove from West on issues where India prefers sovereign autonomy in decision making instead of toeing to Western diktats. However, it does not mean India is souring relation with the West. India, on the contrary remains one of the very few countries of the world, which has cordial relation with both the Western powers and

Russia.

The Magic of Direct Benefit Transfer or DBT

Last but not the least is Modi Government's massive success with Direct Benefit Transfer (DBT) scheme for transferring government subsidies and welfare payments as part of Centrally Sponsored Schemes to beneficiaries directly to their bank accounts thereby completely doing away with intermediaries and possibilities of leakage.

IMF's Deputy Director Paolo Mauro heaved a lot of praise for Modi Government's DBT scheme and termed it a 'logistical marvel' given the enormity of funds that has been transferred through DBT. He stated "In fact, just because of the sheer size of the country, it is a logistical marvel how these programmes that seek help people who are at low level incomes reach literally hundreds of millions of people".

Modi Government's Jan Dhan Revolution is the Key to Success of DBT Scheme

The success of DBT would not have been possible without the trinity of Jandhan-Aadhaar-Mobile or the JAM revolution that was ushered in by Prime Minister Modi through the opening of bank accounts for financial inclusion of a large section of unbanked Indian populace. Launched in August 2014, in eight years, up till August 2022,

there are now a total of 46.25 crore Pradhan Mantri Jan Dhan Accounts of which 56% of the account holders are women, and 67% of the Jan Dhan Accounts holders are from rural and suburban regions. Also, 31.94 crore RuPay cards have also been issued to such account holders.

Interestingly, these 46.25 crore Jan Dhan Accounts now have a cumulative deposit of around Rs 1.74 lakh crore. Along with Jan Dhan Accounts, the initiative of Modi Government to link bank accounts of beneficiaries of welfare schemes with Aadhaar number played a pivotal role in success of DBT scheme.

Recently the Finance Minister of India, Nirmala Sitharaman stated, “The JAM pipeline created through account holders’ consent-based linking of bank accounts with Aadhaar and mobile numbers of the account holders, which is one of the important pillars of FI (Financial Inclusion) ecosystem, has enabled instant DBT under various government welfare schemes to the eligible beneficiaries. The advantage of the architecture created under FI ecosystem came handy during the Covid-19 pandemic when it facilitated direct income support to farmers under PM-KISAN and transfer of ex-gratia payment to women PMJDY account holders under PMGKP in a seamless and time-bound manner’.

Today, as things stand, even most of the European countries do not have the kind of proficiency in

processing transactions that India has mastered over the years. In advanced economies like Germany, it takes, as per reports, no less than 18 months to match bank and Tax IDs. Compare this with India’s incredible track record, wherein Rs 6.3 lakh crore were transferred to bank accounts of beneficiaries through DBT during FY-2021-22 alone, when the world was witnessing the peak of second wave of Covid pandemic.

Unlike Many, Modi Government Did Not Print Money to Tide Over Pandemic Related Economic Challenges

Apart from major structural economic reforms, one key reason why India has emerged as a ‘bright spot in a dark horizon’ is because, in spite of the severity challenges that the Covid pandemic posed to the Indian economy, Government of India, even while catering to the vaccine and welfare requirements of its gigantic populace, as well as catering to military requirements, did not resort to mindless fiscal stimulus through printing of notes to artificially boost the economy.

It is not that such ill-gotten advices did not come from some of the top functionaries of opposition political parties. But Modi Government maintained tight fiscal discipline and deftly managed forex reserves. This, coupled with ushering of major economic reforms, made sure that India is not facing the kind of economic turmoil that UK is facing

and USA is staring at.

It is said that in case of US, much of the inflation related challenges that US is facing now has a lot to do with the whopping \$1.9 trillion fiscal stimulus that Biden Administration gave last year during the peak of the Covid crisis. In case of Sri Lanka as well, one of the key reasons as to why the country's economy went into doldrums is rampant printing of notes by the Central Bank to pay for its expenditures.

India Emerged Stronger and It Helped Others as Well

It would also be important to mention that India not only took care of its own population during the peak of Covid crisis through indigenous production of vaccines but also supplied the same around 70 odd other countries. Likewise, a few months back when Sri Lanka was facing its worst economic crisis, India shipped all kinds of essential supplies to Sri Lanka when very few from the West was interested in that country.

Challenges Have Not Ended but India is Better Prepared for the Future

While challenges are more to come given the increasing geopolitical turmoil that is gripping the world, India, in spite of all these challenges, remain poised to continue with its growth momentum because the political leadership has consistently kept India's

interests above everything else, and has been doing things which are structurally beneficial to India, instead of taking short cuts. And for these, the praise coming from IMF for Modi Government is apt and truly deserving in nature. It is not to say that India's challenges are over. But one thing is clear that Modi Government would continue with more structural reforms that would work towards making India fundamentally more stable.

Investments for the Future: Shaping a New India

It is also important here to mention that Modi Government is not sitting on its laurels. The battles are far from over. Even as India launched its own 5G, with an eye on developing next generation technologies and filling the void in areas of semiconductor manufacturing, India has started a National Mission for Quantum Technologies and Applications (NM-QTA). Already India has emerged as a country with one of the lowest mobile data rates globally that played a key role in digital revolution and its best example is the success of the Co-Win App to book appointments and receive vaccine certificates for Covid Vaccines.

Also, while Vedanta has already announced its proposal to start a chip fabrication plant with investments worth \$20 billion in collaboration with Foxconn of Taiwan, Government of India has also received more proposals from companies keen to set up chip

fabrication plants in India and seek Government of India's \$10 billion incentive package under the India Semiconductor Mission.

Several more such investments in the pipeline by Indian industry behemoths like Reliance Industries, Adani Group, and many others.

While Reliance Industries proposes to invest Rs 5 lakh crore to set up 100 GW of renewable energy plants and develop a green hydrogen ecosystem in India, it also proposes to invest an additional Rs 60,000 crore to create domestic capacity to produce solar PV modules, energy storage batteries, fuel cells and electrolyzers.

The Adani Group likewise is planning to invest over \$100 billion especially in the realm of 'hydrogen-based' value chain, hybrid renewable power generation capacity and similar ecosystem of domestic capacity building for production of renewable energy equipment ecosystems and value chains, from wind turbines to photo voltaic cells, solar panels and hydrogen electrolyzers.

These investment patterns vindicate how India is working towards developing resilience in energy space to reduce the kind of shocks, prices of crude oil and gas, creates during geopolitical turmoil on energy import dependent economies like India.

Even as Prime Minister Modi inaugurated the Tata-Airbus plant for production of C-295 military

transport planes in India, followed by virtual address to the opening ceremony of Arcelor Mittal-Nippon Steel in Hazira to mark the beginning of work on expanding the capacity of the steel plant from the current 9 million tonnes to 15 million tonnes, the above mentioned investment examples indicate an interesting pattern on India's investments across the spectrum from next generation technology, to next generation energy generation ecosystem to developing a domestic military industrial complex as well as continuation of investments on core industries such as steel. In the recent past, major investment proposals in the realm of steel sector has been witnessed in Odisha as well where the likes of Arcelor Mittal, Jindal Steel and Power, JSW and Tata Steel have got approvals for setting up of steel plants with combined capacity development of over 65.48 million tonnes.

India's Start-Up Ecosystem, DefExpo 22 & the Mudra Magic

Also, India now has the third largest ecosystem for start-ups with more than 77,000 registered start-ups and is home to more than 100 Unicorn Start-ups meaning those with valuation of over a billion dollar.

Interestingly, this year's defence expo, namely Def Expo 2022 gave an impressive shape of an emerging India. An overwhelming majority of the 1340 exhibitors were Indian

companies, or JVs with Indian partners, showcasing their products, in a sector which for long was dependent on imports and where vested interests and lobbies made sure that Indian private sector, in spite of its intrinsic potential had limited gateway. But now, all of this is changing, thanks to Modi Government's Atmanirbhar Bharat Abhiyan.

Interestingly, at the other end of the spectrum, in the last seven years, under the Pradhan Mantri Mudra Yojana, Banks have lent Rs 18.60 lakh crore to more than 34.42 crore beneficiaries. It had a massive positive impact in terms of creation of self-employment opportunities.

Also, with institutional lending now easily available through Pradhan Mantri Mudra Yojana, India's more than 6 crore units of micro enterprises have now been in a better position to create additional employment in the informal sector, something many of the research organisations measuring economic indexes fail to recognise because with time they did not upgrade their qualitative and quantitative metrics. That is the reason as to why, while

some agencies have consistently tried to paint a grim picture of India, in reality the performance of India eventually nixed all dark pictures that doubting Thomases have consistently tried to paint about India under Modi.

Gateway to a \$10 Trillion Economy

At a macro level, the above-mentioned developments, which are just a small part of a large number of similar investments being implemented in India, indicate towards the grand design that PM Modi is working upon to create a \$10 trillion economy in the next one decade. By then, India would be known not just for being the third largest economy of the world but would also be considered as one of the most resilient economies, which would be the biggest hallmark of Modi Government and its all-round growth plan metrics.

(Pathikrit Payne is a New Delhi based Geopolitical Analyst and Senior Research Fellow, SPMRF. Views expressed are his own)



Published by



**Dr. Syama Prasad Mookerjee
Research Foundation**

9, Ashoka Road, New Delhi- 110001

Web :- www.spmrf.org, E-Mail: office@spmrf.org,

Phone:011-69047014



@spmrfoundation

Copyright © Dr Syama Prasad Mookerjee Research Foundation
All rights reserved.