

#TheIndiaDialog Working Paper Series

Working Paper (WP-2023-005 June, 2023)¹

How can India realize its potential?

Setting the scene

Christian Ketels²

US Asia Technology Management Center
521, Memorial Way, Knight Building
Stanford University

Institute for Competitiveness
155, National Media Center
Gurgaon, Haryana, India

¹ The views presented here are those of the authors and do not necessarily represent the position of either Institute for Competitiveness or Stanford University. Working papers are in draft form. This working paper is distributed for purposes of comment and discussion only.

² Dr. Christian Ketels is a member of the Harvard Business School faculty at Professor Michael E. Porter's Institute for Strategy and Competitiveness.

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Setting the scene

If one wants to look for a ray of hope in an otherwise quite bleak global economic outlook the sight inevitably falls unto India. Where overall long-term growth projections are ratcheted down³, India is seen to perceive strong growth potential both in the short-term⁴ and in the long-term.

But India has been there before⁵. It has long been seen as the country of the future, only to then not quite live up to this promise. Unfortunately, the public debate now seems to be focused on whether India's growth to become one of the world's preeminent economies over the near future is inevitable or mere hype⁶.

This paper takes a different perspective. Building on the "Roadmap for Better Growth – India@100"⁷ it concentrates on what India should focus on to realize its potential. Nothing is ever entirely inevitable in economic development. India clearly has significant opportunities, but these will only translate into actual growth and prosperity when active steps are taken to exploit them. India has also already made more progress than many give the country credit for⁸, especially some observers in the West that remain stuck in an outdated perception of the country⁹. But that does not mean that the remaining obstacles ahead are trivial. The government has launched many policy initiatives over recent years¹⁰. But are they enough or the right ones to ensure future success? This is a question that the pride about India's achievements and potential should not overshadow.

The roadmap has been developed in response to the vision of Prime Minister Modi for pushing India towards a growth path that ensures India's transformation into a middle-income country by 2047. The roadmap takes a broad view of the goals that India has set for itself, and then defines new principles for India's development approach, identifies new policy priorities, and outlines a new architecture for implementation. The roadmap is grounded in a thorough analysis of India's current competitiveness, applying the competitiveness framework that Prof. Michael E Porter has developed over the last few decades. It was developed in a collaboration between the author and Dr. Porter with NITI Aayog and the Institute for Competitiveness, India.

India's Current Competitiveness Performance

India is one of the small group of countries globally that has achieved high and sustained economic growth over the last few decades. This strong growth has been overshadowed in the global perception by the even stronger growth achieved by China. The gap between these two Asian powerhouses is both clear and worth studying. But it should not distract from the fact that India's performance itself has been remarkable.

³ [Falling Long-Term Growth Prospects \(worldbank.org\)](https://www.worldbank.org)

⁴ [World Economic Outlook \(imf.org\)](https://www.imf.org)

⁵ [Can India Overtake China? – Foreign Policy](#)

⁶ [Book Review: "India Is Broken" by Ashoka Mody \(foreignaffairs.com\)](#)

⁷ [Competitiveness Roadmap For India@100 – EAC-PM \(eacpm.gov.in\)](#)

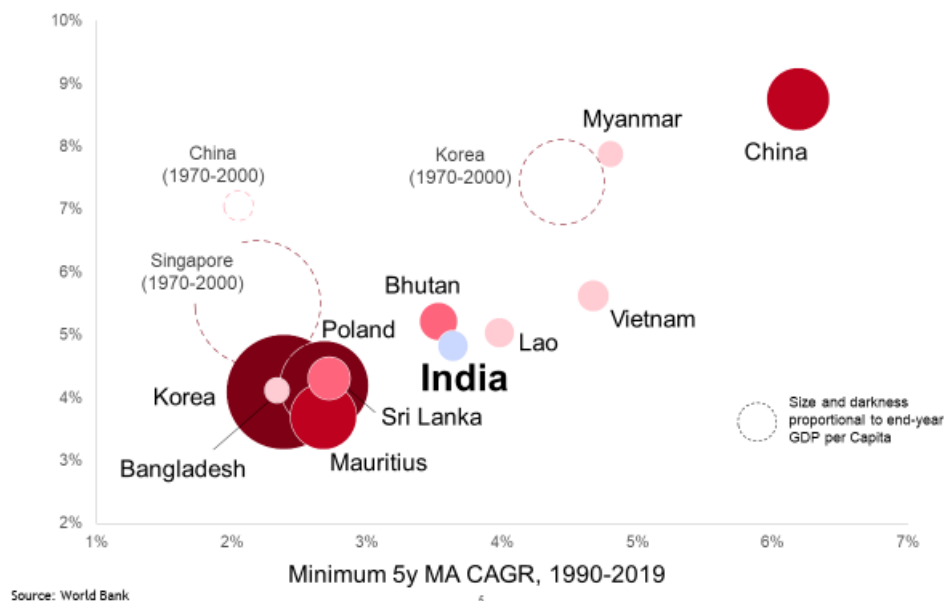
⁸ [MADE IN INDIA: 75 Years of Business and Enterprise : Amitabh Kant, Amitabh Kant: Amazon.in: Books](#)

⁹ [Understanding The 'New India' And What It Means For Europe – Analysis – Eurasia Review](#)

¹⁰ Panagariya, Arvind (2018), India: Three and a Half Years of Modinomics, Columbia SIPA Working Paper 2018-01, Columbia University: New York, NY

Global Leaders in Sustained Prosperity Growth

GDP per Capita Growth, CAGR, 1990-2019



India left the period of minimal growth behind in the early 1990s. The reforms of 1991, enabled (or made inevitable) by a current account crisis driven by external shocks, was a visible transition into a new period of Indian economic policy¹¹. Growth (and changes in policy) had started to emerge already in the years before¹², but the 1991 reforms overcame the limitations of reform by stealth.

Growth has been accelerating over time but then slowed in the years prior to the pandemic shock. There is a lively debate on the reasons for this slow-down, and for the implications this has for India's future growth potential¹³. A key question is whether the slowdown was the result of macroeconomic imbalances or of policies that moved India away from the path towards higher competitiveness. What is clear is that the relatively modest level of investment is a critical concern and will have to be overcome for India to reach its potential. If macroeconomic reasons are to blame, low investment reflects limits in capital supply. Balance sheet imbalances in banks and corporates reduce their ability to finance investment. If policies eroding competitiveness are to blame, low investment reflects barriers to capital demand. Companies do not see opportunities for profitable growth that would require investment.

Following the growth of recent years, India is now a lower middle-income country with average prosperity levels at \$2,000 (\$7,150 at purchasing power parity). A closer look reveals a complex mix of gains and remaining challenges.

¹¹ Panagariya, Arvind (2003), India in the 1980s and 1990s: A Triumph of Reforms, IMF Working Paper WP 04/43, IMF: Washington, D.C.

¹² Rodrik, Dani and Arvind Subramanian (2004), From "Hindu Growth" to Productivity Surge: The Mystery of the Indian Growth Transition, IMF Working Paper No. 04/77

¹³ Subramanian, Arvind and Josh Felman (2019), India's Great Slowdown: What Happened? What's the Way Out?, CID Faculty Working Paper No. 370. See also Basu, Kaushik, Barry Eichengreen, and Poonam Gupta (2014), From Tapering to Tightening: The Impact of the Fed's Exit on India, Policy Research WP 7071, World Bank: Washington, D.C. and Chodorow-Reich, Gabriel, Gita Gopinath, Prachi Mishra, and Abhinav Narayanan (2019), Cash and the Economy: Evidence from India's Demonetization, NBER Working Paper No. 25370, NBER: Cambridge, MA.

Poverty has fallen over time; by how much remains a topic of intense debate¹⁴. The pandemic has pushed millions back into poverty, and was a painful reminder of how vulnerable many Indians remain to economic shocks.

Inequality has increased with very high gains at the top of the income distribution; even here the specifics are debated¹⁵. In any case, progress at the top is not an issue if it reflects higher value creation at the top end of the economy. But the low level of progress at the bottom of pyramid is. In this context it is worrying that equality appears to be strongly entrenched, with India scoring low on measures of social mobility¹⁶. Social progress remains affected by marked weaknesses in environmental quality and the quality of basic education¹⁷. As we will discuss later, these performance challenges are present despite a clear political focus on enhancing the livelihoods of average Indians and many improvements to social policies that have become less distortive and more targeted.

Prosperity can be decomposed into productivity and labor mobilization. India's productivity growth – measured by changes in GDP per employee – has been robust and tracked overall GDP dynamics. Productivity levels remain modest and there are clear challenges. But it is important to note that these challenges are to a large degree not unusual for a country at India's stage of development. India is facing a more unique challenge in labor mobilization. Labor mobilization rates are extremely low, especially for women, and have been falling over time, especially since 2005 when job creation dramatically decreased. The latest data shows more robust job creation but it is too early to tell whether this is merely driven by short-term macroeconomic dynamics at the tail end of the pandemic.

Low productivity and the lack of job creation can be traced back to the structure of the Indian economy: The sectoral transformation from agriculture to industry has been relatively slow, especially in terms of employment. India's apparent relative advantages in labor intensive industries has not been translated into economic activity¹⁸. Instead, the country has specialized in services, particularly skill-intensive IT services. The majority of employees are stuck in small, old, low productivity, and low growth firms, while there is a significant “missing middle”¹⁹. Large firms have driven productivity growth but not job creation.

Both issues have been long-standing concerns²⁰. The pre-1991 policy mix of heavy regulation on companies, especially larger ones, and labor markets provided a clear explanation²¹. But their persistence raises additional questions, given that many of these restrictions have been reduced over time. Path dependency and changing external conditions might play a role; other countries have established positions in labor-intensive industries and technological change has reduced the benefits of low labor costs²². But neighboring Bangladesh has been able to succeed in the textile and apparel sector despite similar circumstances. Some new analysis of this sector points to the

¹⁴ [The Great Indian Poverty Debate, 2.0 | Center For Global Development | Ideas to Action \(cgdev.org\)](#) and Rangarajan, C., and S. Mahendra Dev (2020), Poverty In India: Measurement, Trends And Other Issues, WP-2020-038, Indira Gandhi Institute of Development Research: Mumbai.

¹⁵ [India - WID - World Inequality Database](#) and Dang, Hai-Anh H. and Peter Lanjouw (2021): India: Inequality Trends and Dynamics: The Bird's-Eye and the Granular Perspectives. See also Chancel, Lucas and Thomas Piketty (2017), Indian income inequality, 1922-2015: From British Raj to Billionaire Raj?, WID.world Working Paper Series N° 2017/11 and [Why Thomas Piketty is wrong about inequality in India | Financial Times \(ft.com\)](#)

¹⁶ [Global Social Mobility Report.pdf \(weforum.org\)](#)

¹⁷ [India | Social Progress Imperative](#)

¹⁸ Amirapu, Amrit, and Arvind Subramanian (2015), Manufacturing or Services? An Indian Illustration of a Development Dilemma, CDG Working Paper 409, Center for Global Development: Washington, D.C.

¹⁹ Ayyagari, Meghana, Asli Demircuc-Kunt, and Vojislav Maksimovic (2013), Size and Age of Establishments: Evidence from Developing Countries, WPS 6718, World Bank: Washington, D.C.

²⁰ Hsieh, C. T., and P. J. Klenow (2014), “The Life Cycle of Plants in India and Mexico.” *Quarterly Journal of Economics* 129 (3): 1035– 1084 and Hsieh, C. T., and P. J. Klenow (2009), “Misallocation and Manufacturing TFP in China and India.” *Quarterly Journal of Economics* 124 (4): 1403–48.

²¹ Anand, Rahul, and Purva Khera (2016), Macroeconomic Impact of Product and Labor Market Reforms on Informality and Unemployment in India, IMF WP/16/47, IMF: Washington, D.C. See also Alfaro, Laura and Anusha Chari (2014), Deregulation, Misallocation, and Size: Evidence from India, *The Journal of Law and Economics*, Vol. 57, No. 4, pp. 897-936.

²² [Trouble in the Making? The Future of Manufacturing-Led Development \(worldbank.org\)](#)

unintended consequences of Indian policies, especially trade barriers affecting the cost of key inputs²³. Some regulatory barriers for firm growth have been removed²⁴ and labor markets have been liberalized recently. But there is evidence that companies are now struggling to find the skilled labor they need to break away from the low skill/low wage/low formality equilibrium of the past²⁵.

India has become fully integrated into the global economy through significant trade and FDI linkages.²⁶ The inward-looking India is to a large degree a picture of the past. However, concerns about the benefits India has been able to generate from trade liberalization has more recently led to a shift towards more protectionism or at least a stagnation of liberalization efforts²⁷. India's capital and knowledge stocks are in line with the country's current level of development but provide limited pull for reaching higher. However, the trend of decreasing investment intensity in both capital and knowledge over recent years is worrying.

The Many Indias – de-averaging across regions and sectors

For a subcontinent like India, a national average can easily be misleading. Economic and social outcomes across India are indeed highly heterogeneous. Performance differences appear entrenched with few if any signs of systematic convergence²⁸. A small group of regions accounts for a large share of national output and dominates activities like exports and innovation²⁹. A large number of less prosperous regions appear largely unconnected to the modern Indian and global economy. Differences in business environment quality are significant as well and drive both sectoral mix and performance across and within sectors. Many aspects of business environment quality are driven by state-level policy choices; enabling and supporting effective choices at this level of government is critical for India to make progress in upgrading its competitiveness.

India's economy is an economy of clusters, i.e. geographical concentrations of related and supporting industries in specific fields of the economy. In many cluster categories national value creation is dominated by a small share of leading districts. Differences in cluster mix across regions are large. Cluster mix is systematically related to economic performance, but every location is also unique in its composition. The most prosperous locations are focused on traded clusters, and are specialized in cluster-categories with the highest average wage levels. Traded clusters are economic activities that compete across locations and can choose from where to operate. While in other countries, local sectors report significantly lower wages and skill intensity than traded clusters, these gaps are more limited in India. Especially local government, health care, education, and utilities register high wages; education and health care also high skills.

²³ Anand, Abhishek and Naveen Joseph Thomas (2022), Reigniting the Manmade Clothing Sector in India, Working Paper, O P Jindal Global University

²⁴ Martin, Leslie A., Shanthi Nataraj, and Ann Harrison (2014), In with the Big, Out with the Small: Removing Small-Scale Reservations in India, NBER Working Paper No. 19942, NBER: Cambridge, MA

²⁵ Kapoor, Radhicka (forthcoming), A Big Push for Labour Intensive Industrialisation, in: Radhicka Kapoor and Ashok Gulati (eds.): A Reform Agenda for Competitive, Inclusive and Sustainable Growth: Essays in Honor of Dr Isher Judge Ahluwalia

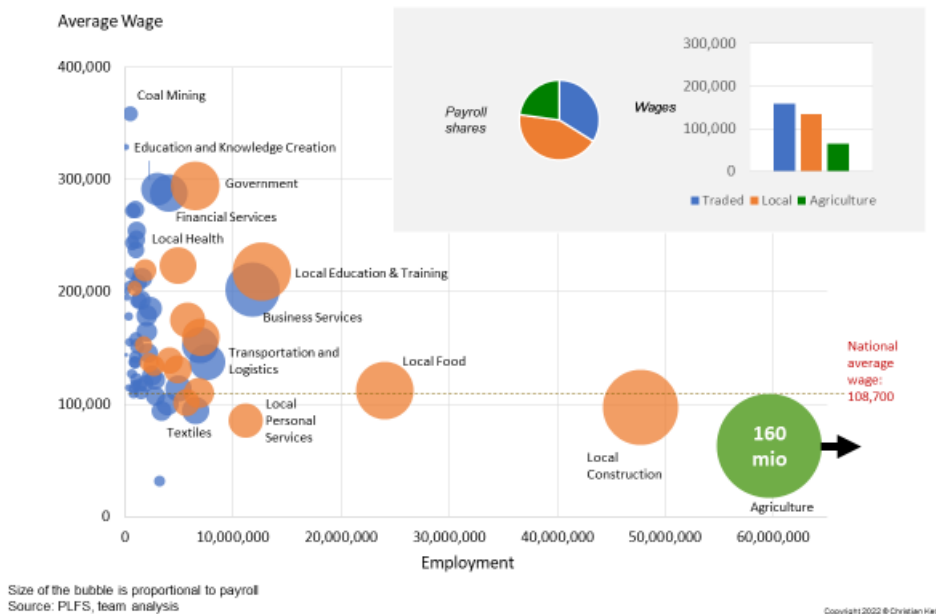
²⁶ Chatterjee, Shoumitro and Arvind Subramanian (2020), India's Export-Led Growth: Exemplar and Exception, Ashoka Center for Economic Policy, Working Paper No. 1

²⁷ Chatterjee, Shoumitro and Arvind Subramanian (2020), India's Inward (Re)Turn: Is it Warranted? Will it Work?, Ashoka Center for Economic Policy, Policy Paper No. 1 and Krishna, Pravin (2019), India's Trade Agreements and the Future of Indian Trade Policy, Columbia University Working Paper 2019-05, Deepak and Neera Raj Center on Indian Economic Policies, School of Public and International Affairs: New York.

²⁸ Chanda, Areendam and Sujana Kabiraj (2020). Shedding Light on Regional Growth and Convergence in India, World Development; Kamila, Anshuman, and Meeta Keswani Mehra (2021), Exploring The Convergence Puzzle In India, IEG Working Paper No. 421, Institute of Economic Growth, New Delhi; and Nayak, Suryakanta and Dukhabandhu Sahoo (2022), Regional economic growth in India: convergence or divergence?, Competitiveness Review, Vol. 32 No. 1, pp. 155-178.

²⁹ Amirapu, Amrit, Hasan, R., Jiang, Y., and Klein, A. (2019), Geographic concentration in Indian manufacturing and service industries: Evidence from 1998 to 2013, Asian Economic Policy Review, 14(1):148–168.

India's Cluster Portfolio



Urbanization levels, across countries strongly related with rising productivity and prosperity, have been rising in India but remain below the level of peers. Internal migration flows are reported as relatively modest in international comparison, and appear focused on movements within rather than across states³⁰. Cultural factors might play a role in driving these outcomes, with many Indians staying in locations where their caste and religious group provides a natural safety net.

India's competitiveness fundamentals

India's competitiveness, as measured by many international rankings, is significantly ahead of its economic performance. India's competitiveness score as measured by data from the Global Competitiveness Report matches China, while its prosperity is significantly lower. Conversely, India and Vietnam have roughly the same level of prosperity, but Vietnam reaches this outcome with significantly weaker competitiveness fundamentals. This may signal the potential for significant future growth. But it is more likely that these rankings reflect the reality for only a small share of India's firms, not the economy at large.

On many individual dimensions of competitiveness, India performs in line with its peers. But India suffers from a particular mismatch: Factor input conditions around skills and infrastructure create opportunities primarily for firms that compete on low wages. But many administrative rules and regulations can only be met by companies that operate at a much higher level of performance. As a result, India fails to see the structural transformation it needs, and many companies remain stuck in informality and low scale.

Another feature of this mismatch is that India performs surprisingly well in more sophisticated dimensions of competitiveness. But the country still lags in key fundamentals, in particular skills, some dimensions of infrastructure,

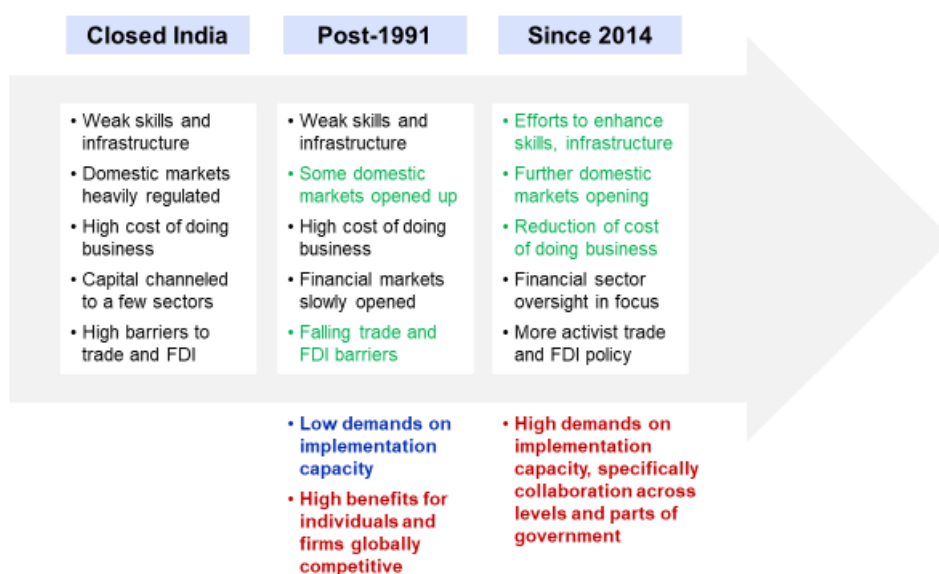
³⁰ Bell, Martin, Elin Charles-Edwards, Philipp Ueffing, John Stillwell, Marek Kupiszewski, and Dorota Kupiszewski (2015), Internal Migration and Development: Comparing Migration Intensities Around the World, Population and Development Review, Vol. 41, No. 1, pp. 33–58 and Kone, Zovanga L., Maggie Y. Liu, Aaditya Mattoo, Çağlar Özden, and Siddharth Sharma (2017), Internal Borders and Migration in India, World Bank Policy Research Working Paper No. 8244, World Bank: Washington, D.C.

and the costs of doing business. Those parts of India’s economy that already have the assets and capabilities to compete in the global economy tend to do relatively well. Those that depend on more basic qualities of the business environment, however, find it hard to take the first steps towards the modern economy.

India has made headway on many factor inputs. In electricity, the country now provides sufficient overall generation capacity to serve nationwide demand. In education, enrollment rates are up as every Indian child is offered the opportunity to get schooling. But the benefits of these improvements too often fail to materialize because of distorted market structures or inefficient governance and incentive systems. In electricity, prices are subsidized for some groups but high for industrial users; many utilities are in financial distress and unable to ensure resilient and sustainable energy production. In education, educational attainment is deteriorating, and even poor parents pay for private schools with better service.

Policy action has been taken on many key dimensions of competitiveness, and the aims of these policies are generally consistent with what is needed to achieve higher competitiveness. But their impact is being hampered by insufficiently integrated reform agendas, policy actors working at cross-purposes, and a lacking runway from policy principles to implementation. And there are weaknesses in the development approach that fails to recognize the new realities of the global economy. A key challenge is the weak institutional capacity of the executive and judiciary and an often-ineffective public-private dialogue.

The Policy Implementation Challenge



13

A Roadmap for Better Growth – India @ 100

The hill to climb: what will it take for India to realize its ambition?

India is a country that has shown its potential to deliver high and sustained economic growth. But India still classifies as a lower middle-income country. And while India will continue to grow based on its demographic profile and inherent growth dynamics, this current trend growth will not be sufficient to reach its goals and potential. There is a long path ahead to realize its ambition to reach middle income and eventually high-income status.

The competitiveness diagnostics have revealed three key challenges that India will have to address: First, the **shared prosperity challenge** - India’s headline GDP growth has been strong and even accelerating until a pre-pandemic slowdown occurred. But weak social progress, rising inequality, and a lack of convergence across regions suggest that this growth has for too many Indians failed to translate into the expected improvements in their quality of life. Second, the **jobs challenge** - India has a vast demographic opportunity with a young and growing working-age population.

But it has increasingly struggled to create jobs for a large part of its labor force, especially women and the less skilled. Third, the **policy implementation challenge** - India's government has pursued an ambitious agenda of economic reforms, largely focused on the appropriate issues and based on mostly sound conceptual principles. But the impact on job creation and the growth of firms has fallen short of ambitions. In addition, India is facing a **shifting external environment** with rising geopolitical tensions and changing patterns of globalization, climate change and net zero-oriented policies, digital transformation and other technological changes - all in a complex macroeconomic context.

The India @ 100 strategy proposes a set of new guiding principles, new priority policies, and a new implementation model to achieve the transformation that India will need to reach its ambitious goals in view of these external circumstances.

New Guiding Principles

The guiding principles for the strategic roadmap are set by clearly defined overall goals and the articulation of a new development approach to get there.

India's ambition to achieve middle-income and ultimately high-income status puts **prosperity** at the center of the proposed goals. The diagnostics have shown, however, that prosperity measured as average GDP per capita is insufficient. And Indian leaders have set goals on "Ease of Living", on regional development, on rapidly increasing renewable energy production, and more. A range of four additional dimensions integrates these different aspects into an overall coherent articulation of India's ambitions:

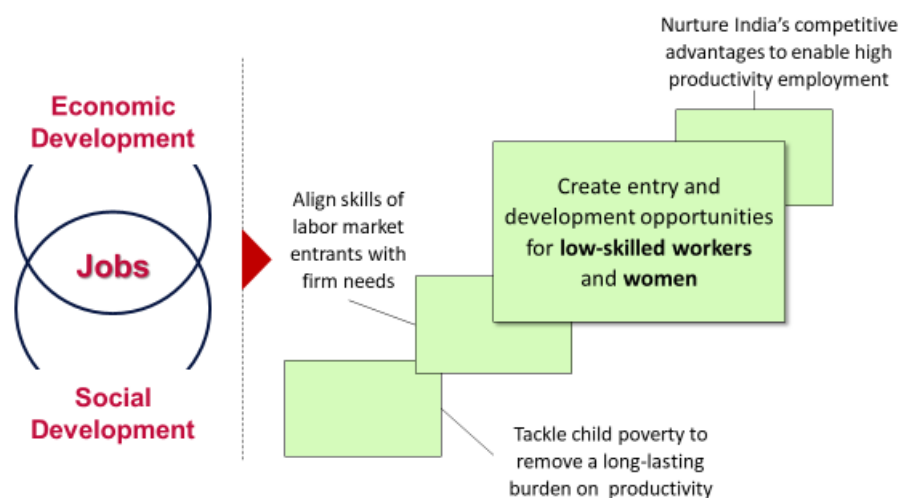
- Prosperity growth needs to be matched by **social** progress
- Prosperity needs to be **shared** across all parts and regions of India
- Prosperity growth needs to be environmentally **sustainable**
- Prosperity needs to be **solid** and resilient in the face of external shocks

India's development approach on how these goals will be achieved is based on two key principles. First, the **integration of the social and economic development agendas**. The India @100 strategy pursues these agendas as mutually reinforcing and fundamentally connected through job creation. India needs to focus on enabling the creation of competitive jobs for those currently outside of the active labor market. Jobs that provide pathways to higher productivity will over time enable individuals to earn their own livelihoods and become self-reliant.

Shared Prosperity through Competitive Jobs



- Social Development through opening up pathways towards competitive jobs for low-skilled and female workers



Second, **Structural Transformation 2.0** as a portfolio-based approach for driving job creation across a number of service and industrial sectors³¹. Changes in technology and the structure of the global economy have reduced the power of the traditional growth model based on export-led industrialization alone.

The immediate priority is to identify sectors with an ability to provide entry level opportunities and growth opportunities for those currently outside the active labor force, particularly low-skilled workers and women. While these jobs will initially have limited productivity, they provide the critical first step on a pathway to better jobs. There is also a need to systematically develop sectors aligned with India’s current and future competitive advantages. While these industries will not provide jobs to the unskilled today, they will provide the source of jobs for a better skilled India tomorrow. Finally, there needs to be a set of policies targeted at children and young adults to provide them with the appropriate skills and capabilities for succeeding in the labor market.

New Policy Priorities

The India @ 100 strategy translates these guiding principles into prioritized policy action. The first set of policies is focused on enabling **competitive jobs**. Competitive jobs earn their wages in the marketplace, support the livelihood of employees, and provide opportunities for developing capabilities and productivity over time. For competitive jobs to emerge, India needs to reframe some of its industrial, regional, social, and business environment policies. The second set of policies are focused on enabling the growth of **competitive firms**. Ultimately there will be no sustainable job creation if India does not enable more productive firms to emerge and scale. India will need to strengthen and reframe its enterprise, competition, and business environment policies to achieve this goal.



India needs to launch a new set of **sector- and location specific growth initiatives** to reframe some of its key industrial and regional policies. Sector- and location-specific initiatives can identify the specific needs of individual clusters and regions and then select from generic policy tools to pursue a coherent strategy for growth and competitiveness upgrading. They will require tight collaboration between public and private sector leaders.

The process for identifying promising fields for such initiatives needs to be open, competitive, and evidence-based. For low-skilled and female workers, critical criteria for attractive sectors are low entry barriers for women and low-skill workers, market opportunities, and the presence of existing competitive advantages. For higher productivity

³¹ See Christian Ketels, Emiliano Duch (2022), Structural Transformation in new global realities: Towards a more location- and sector-driven approach, World Bank Blog Post, for further discussion.

jobs, critical criteria include the evidence of existing competitive advantages, market opportunities, and an alignment with the aspirations of India's national value proposition. Leading clusters can drive activities in the selected sectors.

Cluster categories with particular potential include health services, food, and renewable energy production equipment. All of these provide opportunities for economic growth that provides also social and environmental benefits.

- In health services, India needs to increase its supply of services. The system already employs many women but fails to leverage the large number of less-skilled Indians that could relieve higher skilled doctors and nurses to focus on areas where such skills are necessary. Here regulatory reform is critical to enable value-based health care in line with the realities of the Indian economy.
- In agriculture, there are opportunities for increasing exports and with it the livelihoods of farmers. Such a drive would also create jobs in many adjacent activities like transportation, warehousing, and food production. A recent report to the XV. Finance Commission made a range of very concrete proposal to launch crop- and location-specific efforts in this direction.
- In renewable energy equipment production there is an opportunity to strengthen manufacturing while driving investments into carbon-free energy production. The collaboration with international partners could raise investment capital to quickly scale by ensuring critical market demand. India has already provided significant incentives through its PLI scheme and tariff protection.

India needs **enabling social policies** that enhance the employability of labor market entrants and reduce barriers to look for a job. These policies will address urgent social needs across the country and trigger job creation opportunities. In some areas, that will require more resources, in others there is need for regulatory change. Together they exemplify the opportunities from complementary social and economic development and move beyond the current welcome but insufficient focus on enhancing the efficiency of social programs.

Childhood poverty and the lack of accessible healthcare services can result in stunting and other development impediments that reduce children's productive capabilities throughout their entire life. Low quality education and the poor fit of available skills with the needs of the Indian economy create huge barriers for labor market entry. The provision of childcare services and investments in public safety are often critical factors for women to consider looking for employment. In all of these areas, social policy is also an investment in economic development. Social policies that do not also trigger economic growth will likely require fiscal resources far beyond India's financing capacity³².

India needs to make **strengthening effective market competition** a more central element of its efforts to upgrade business environment conditions. Deeply distorted market structures across many sectors currently lead to poor outcomes, undoing the significant gains made in factor input conditions³³. The list of examples is long: Electricity prices for industrial users are high and utilities are unable to invest sufficiently in the transition to net zero energy sources given their weak balance sheets³⁴. Agricultural market regulation purport to support farmers but the overall impact of regulations is a sector with poor productivity and prices that are below international levels³⁵. Educational outcomes are weak with no signs of improvement despite an increase in enrollment rates and the number of educational institutions. Regulatory frameworks that are unfit for purpose and legacy market structures reminiscent of different times are holding India back.

Effective enforcement of competition policy requires an alignment with the new realities of digital markets and the existing market structures in India. Active policies to encourage entry and enable the scaling of competitive new firms are important given the imbalance between large incumbents and their fragmented competition. Market regulation needs to be used as a tool to encourage competition that encourages firms to compete on productivity. In markets with a strong role of government, robust governance and incentive structures are needed to mimic market

³² García-Escribano, Mercedes, Tewodaj Mogues, Mariano Moszoro, and Mauricio Soto (2021), *The Spending Challenge of Achieving the SDGs in South Asia: Lessons from India*, IMF WP/21/294, IMF: Washington, D.C.

³³ Conway, Paul, and Richard Herd (2009), *How Competitive is Product Market Regulation in India? An International and Cross-state Comparison*, OECD Journal: Economic Studies Vol. 2009.

³⁴ Buckley, Tim, and Kashish Shah (2017), *India's Electricity Sector Transformation: Momentum Is Building; Peak Coal In Sight*, Institute for Energy Economics and Financial Analysis, Lakewood: OH.

³⁵ Bolhuis, Marijn A., Swapnika R. Rachapalli, and Diego Restuccia (2021), *Misallocation in Indian Agriculture*, NBER Working Paper No. 29363, NBER: Cambridge, MA.

dynamics. Across these policies, astute reform management that recognizes the existing political economy of India is critical.

India needs to adopt a comprehensive approach towards enabling the growth of **competitive firms**. Enabling the growth of competitive firms will require deploying a range of supply and demand-side policies, moving beyond current enterprise and industrial policies. The reduction of the regulations and labor market rigidities that historically kept firms small and informal will not be enough.

Infrastructure investments to build physical and digital connectivity are critical for firms to be able to access new markets. Regulatory reforms and improved effectiveness of the judicial system have to be pursued to enhance the ease of doing business. Access to capital has to be dramatically strengthened to enable investment and scaling, based on reforms of the Indian banking system that has weighed on investment rates³⁶. Market opening domestically (regulation) and internationally (trade policy) can create important new growth opportunities for companies as digitalization reduces transaction costs of tapping into distant markets.

New Institutional Architecture

Competitive jobs created by competitive firms require a competitive government to provide an enabling business environment and policy context. India lacks neither ambition nor policy targets, but it lacks effective structures and processes to turn these political goals into real changes in the circumstances firms face³⁷. The path towards competitive government rests on effective coordination within government, capacity within government, and coordination beyond government.

Strengthening **India's federal structure** is critical given the size and heterogeneity of the country, and there is an increasing realization that India needs more effective location-based policies. Recent reforms have increased the fiscal space for states, and there are interesting initiatives to encourage bottom-up initiatives³⁸. But there is no clear overall playbook on effective collaboration across levels of government in areas of concurrent policy authority. And despite the 74th constitutional amendment, there has been little if any effective decentralization from state to strong local or regional entities.

India needs to strengthen **coordination within government** to overcome fragmentation in policy design and implementation. This will require empowering entities with coordination tasks. India has in the past had a more 'tiered' system of ministries that could be revived in specific areas. The government should also review its internal coordination mechanisms, including the creation of a national competitiveness council chaired by the Prime Minister and potentially embedded into Niti Aayog.

Public-private collaboration is critical for policies to be designed with a full understanding of the actual consequences they will have for firms and markets and for policy actions to be able to trigger complementary actions by firms. Public-private collaboration has to be sheltered against the pressures of corruption and strive for narrow firm-level benefits vs enhancements of overall competitiveness. The sectoral growth initiatives are an important testing ground for public-private partnerships. They could be supported by a powerful government agency with the ability to coordinate across policy areas.

³⁶ Acharya, Viral V, Raghuram G Rajan (2020), Indian Banks: A Time to Reform?, NYU Working Paper

³⁷ Kapur, Devesh (2020), "Why Does the Indian State Both Fail and Succeed?" Journal of Economic Perspectives, 34 (1): 31-54.

³⁸ Reddy, Y.V., G.R. Reddy (2018), Indian Fiscal Federalism, Oxford University Press: Oxford; Chakraborty, Lekha S. (2019), Indian Fiscal Federalism at the Crossroads: Some reflections, MPRA Paper No. 93516. MRPA: Munich; Kelkar, Vijay (2019), Towards India's New Fiscal Federalism, NIPFP Working paper series No. 252, National Institute of Public Finance and Policy: New Delhi

Designing a Competitive Government Policy Actions

Priority Policy Areas	<ul style="list-style-type: none"> • Strengthened Federalism needs to be reflected in roles, capabilities, and structures • Institutional capacity needs to build around new structures for cross government cooperation • Public-private dialogue needs to move beyond the choice between silence and cronyism 	<ul style="list-style-type: none"> • Clarify roles and responsibilities across levels of government • Match policies with actual capacity to implement • Embed "one government" principle in structures and careers • Use Sectoral growth initiatives to establish new public-private model of collaboration
Pilot Actions	<ul style="list-style-type: none"> • State/Regional Strategy Challenge Fund offers technical support, co-financing, and streamlined access to union funding programs for specific investments to states and regions that aim to develop a comprehensive economic development strategy. Locations are selected in an open, competitive process based on their commitment to drive a strategic change process • Regional Competitiveness Institutes set up regional "action-research entities" that are independent enough to provide regional governments with neutral advice on policy design and implementation but also close enough to them to be a trusted partner in these processes. • The Indian Competitiveness Observatory makes key policy-relevant data across Indian states and regions available through a national platform. The observatory also enables joint learning and development efforts around evidence-based policy. • The Microeconomics for Competitiveness – Indian Leaders program is an executive training offering to provide public and private leaders with a common language and conceptual framework to enable better collaboration on economic development. 	

36

From Action Plan to Strategic Agenda

As a strategic roadmap that aims to provide long-term direction, the India @ 100 strategy needs to move beyond a current action plan of fixed policy initiatives to be implemented by designated parts of government.

To become an all-of-government agenda, ministries and agencies will need to review how their activities relate to the roadmap.

To be flexible, the roadmap will need to be a living document with regular reviews. New initiatives and responses to crises should be tested against their ability to support its goals, leverage its priority policies, and draw on its new implementation model.

To provide guidance over the next 25 years, the roadmap's elements will play a different role over time. Priority policies will have an impact mostly in the near-term. The institutional model will influence the design and implementation of future policies. The principles can influence how India thinks about its circumstances and ways to improve when these circumstances look significantly different from today.