

# Can India Become an Economic Superpower by 2047?

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In January 2024, as thousands braved the chill at Delhi's Red Fort, Prime Minister Narendra Modi unveiled his latest ambitious vision<sup>1</sup> "Viksit Bharat 2047", a pledge to transform<sup>2</sup> India into a developed country by the centenary of its independence for a projected 1.65 billion population. This vision comes after a decade of significant economic transformation under Modi's leadership. India has rebounded from economic uncertainty to outpace major global economies, recently surpassing the UK as the fifth-largest economy and positioning itself to become the third-largest<sup>3</sup> by 2027. As India charts its course towards 2047, the question remains—can this momentum be sustained to achieve superpower status? This roadmap will require strategic reforms, robust policy frameworks, and a focus on sustainable and inclusive growth.

## Economic Growth Trajectory

India's economic growth over the past two decades has been noteworthy. The country has transitioned<sup>4</sup> from being a low-income economy to an emerging market powerhouse with a nominal GDP of approximately \$3.9 trillion as of 2024. The growth in India's GDP has been driven by a combination of factors, including demographic dividend, rapid urbanization, technological advancements, and economic reforms. Despite this rapid growth, there is a significant disparity in individual income levels. India's GDP per capita stands at<sup>5</sup> \$2,612, placing it 140th globally—behind even some smaller economies like Bangladesh. This discrepancy underscores the need for more inclusive growth strategies that ensure economic benefits are distributed more equitably across the population.

The country's young population, with a median age of around 28 years, offers a significant labor force advantage. This demographic dividend could contribute to sustained economic growth, provided that appropriate investments are made in education, skill development, and healthcare. However, achieving superpower status requires more than just GDP growth. India must address issues such as income inequality, regional disparities, and social infrastructure to ensure that economic gains are distributed equitably.

## Infrastructure Development

Infrastructure development is a critical driver of economic growth, and India has made significant strides in this area. The government's flagship initiatives, such as the Bharatmala and Sagarmala projects, aim to enhance road, rail, and port connectivity across the country. Additionally, the National Infrastructure Pipeline<sup>6</sup> (NIP) envisages an investment of over \$1.4 trillion by 2025 in sectors such as energy, transport, urban infrastructure, and digital infrastructure. The advent of smart cities and the expansion of digital infrastructure are expected to catalyze economic growth by attracting investments and improving the ease of doing business. The rollout of 5G technology, along with the Digital India initiative, is likely to boost the information technology (IT) and services sector, which has been a major contributor to India's GDP.

## Challenges

### Rural-Urban Divide

The pace of infrastructure development must be accelerated, especially in rural areas, to bridge the urban-rural divide. Rural regions continue to suffer from inadequate connectivity, limited access to essential services, and poor infrastructure, which hinders their economic potential. The slow pace of development in these areas can be attributed to various factors, such as complex bureaucratic processes, a lack of skilled manpower, and limited financial resources. These obstacles often result in significant delays, ultimately impeding the country's goal of inclusive growth.

### Hurdles to Land Acquisition, Environmental Clearances and Project Financing

Additionally, land acquisition remains a significant hurdle due to disputes over compensation, lengthy legal battles, and resistance from local communities. Environmental clearances, while necessary for sustainable development, often involve prolonged delays due to strict regulations and procedural complexities. Project financing is another concern, with many infrastructure projects facing funding shortages due

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to the high costs involved and reluctance from private investors. So, India must address these challenges to ensure timely completion of infrastructure projects.

### **Industrial and Manufacturing Growth**

India's potential as a manufacturing hub is widely recognized. The "Make in India"<sup>7</sup> initiative, launched in 2014, aims to transform India into a global manufacturing hub by promoting investment, fostering innovation, and building best-in-class manufacturing infrastructure. India's manufacturing sector, which contributes<sup>8</sup> around 15% to the GDP, has the potential to grow significantly. Sectors such as electronics, automobiles, textiles, and pharmaceuticals offer immense opportunities for growth. Additionally, the push towards renewable energy and electric vehicles (EVs) presents new avenues for industrial expansion.

### **Challenges**

The manufacturing sector in India faces several challenges that hinder its growth and competitiveness.

#### **Labor Market Rigidities**

India's labor market is bound by several rigidities, including outdated labor laws that limit flexibility in hiring and firing workers. Many companies, especially large-scale industries, find it difficult to scale operations due to complex labor regulations. Reforms in labor laws are needed to create a more flexible and dynamic workforce, allowing industries to adapt more swiftly to market demands.

#### **Regulatory Bottlenecks**

Despite improvements in ease of doing business rankings, India's regulatory framework can still be cumbersome for manufacturers. Lengthy approval processes, overlapping regulations, and complex compliance requirements often delay project execution and discourage investment. Simplifying regulations and streamlining approval processes can significantly enhance India's manufacturing competitiveness.

#### **Inadequate Infrastructure**

Although the government is investing heavily in infrastructure development, many manufacturing hubs still lack the basic infrastructure necessary for smooth operations, such as reliable power supply, efficient transport networks, and modern logistics facilities. Infrastructure gaps contribute to increased costs and delays, making it harder for India to compete with global manufacturing giants like China.

### **Skill Gaps in the Workforce**

The manufacturing sector requires a highly skilled and technically proficient workforce. However, the quality of education and vocational training in India often falls short of industry standards. Many workers lack the necessary technical skills to meet the evolving demands of advanced manufacturing sectors, such as electronics and pharmaceuticals. Investments in education and vocational training, aligned with industry needs, are crucial to bridge this skill gap.

### **Financing and Investment Challenges**

While sectors like electronics and EVs hold great promise, access to financing remains a significant challenge for small and medium-sized enterprises (SMEs) in manufacturing. High borrowing costs, lack of credit, and limited investor confidence can stifle innovation and growth. Providing better access to financing, along with government support schemes, can help manufacturers expand their operations.

### **Trade and Investment**

India's trade and investment policies will play a crucial role in its journey towards becoming an economic superpower. India has been working to enhance its trade relations with key global economies, as evidenced by the Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates and ongoing negotiations with the European Union and the United Kingdom. Foreign direct investment (FDI) inflows into India have been robust, with the country receiving<sup>9</sup> \$70.95 billion in FDI during 2023-24. Mauritius (25%), Singapore (23%), USA (9%), Netherland (7%) and Japan (6%) emerge as top 5 countries<sup>10</sup> for FDI equity inflows into India FY 2023-24. The government has undertaken various reforms to attract foreign investment, such as liberalizing FDI norms, simplifying tax structures, and improving the ease of doing business.

### **Balancing Trade Protectionism and Global Integration:**

India's trade policies must strike a balance between protecting domestic industries and integrating with global supply chains. The country's decision to opt out of the Regional Comprehensive Economic Partnership (RCEP) reflects concerns about competition from other Asian economies, particularly China. To become an economic superpower, India must engage more actively in global trade and investment networks while ensuring that domestic industries remain competitive.

## The Role of Consumption and Investment in Economic Growth

India's economy is heavily driven by consumption, with 75% of household expenditures going towards essential goods such as food, medicine, and education. However, this consumption-driven model has limitations, especially when it comes to sustaining long-term economic growth. Investment in productive assets, as measured by Gross Fixed Capital Formation (GFCF), is relatively low in India, accounting for only 33% of GDP. In contrast, China invests 43% of its GDP in GFCF, which includes infrastructure and manufacturing.<sup>11</sup>

The low level of investment in productive assets is a significant barrier to India's economic growth. To reach the \$30 trillion mark by 2047, India needs to significantly boost its investments in infrastructure and manufacturing. This increase will not only enhance productivity but also create jobs, particularly for the 70% of India's 1.4 billion population that falls within the working-age group.

## Challenges in Corporate Investment

One of the critical challenges in India's economic journey is the sluggish growth in private sector investment. This issue can be traced back to the aftermath of the 2008 financial crisis, which triggered<sup>12</sup> a Non-Performing Asset (NPA) crisis in India. Many companies that had taken loans to invest in large-scale infrastructure projects found themselves unable to repay due to delays in government approvals and project execution. This situation led to a cautious approach among private investors, resulting in a decline in corporate investment in the last decade.

Reviving private sector investment is crucial for India's economic growth. The government needs to address the underlying issues that have made private investors wary, such as bureaucratic delays and the complex approval processes for large projects. By improving the ease of doing business and creating a more investor-friendly environment, India can encourage private companies to resume their investments in critical sectors like infrastructure and manufacturing. Initiatives like the Production Linked Incentives (PLI) scheme, which offers incentives such as cheap land and tax benefits, are steps in the right direction. These initiatives encourage both domestic and foreign companies to invest in India's manufacturing sector, which is essential for job creation and economic growth.

## Government Debt burden

With the private sector pulling back, the Indian government has taken on a more significant role in investing in infrastructure. While this approach has been necessary, it has also increased the government's debt burden. India's tax revenue<sup>13</sup> is relatively low, with only

1.5% of the population paying income tax. Within this small group, a mere 4.5 million people contribute 80% of the tax revenue. This limited tax base restricts the government's ability to fund capital-intensive projects without accruing significant debt.

## Expanding the Tax Base for Sustainable Infrastructure Investment

To manage its debt and continue investing in infrastructure, the government must expand its tax base. This expansion can be achieved through tax reforms that encourage compliance and make it easier for individuals and businesses to pay taxes. By increasing tax revenue, the government can fund essential infrastructure projects without relying heavily on borrowing.

## Technological Innovation and Digital Economy

Technological innovation is a cornerstone of economic superpower status, and India has emerged<sup>14</sup> as a global leader in the IT and software services sector. The IT industry, which accounts for about 8% of India's GDP, has been instrumental in positioning India as a knowledge economy. Indian IT firms have a significant presence in global markets, providing services ranging from software development to business process outsourcing.

The digital economy is another area where India has shown promise. The Unified Payments Interface<sup>15</sup> (UPI), a real-time payment system developed by the National Payments Corporation of India (NPCI), has revolutionized digital transactions in the country. In 2023, UPI processed over 8 billion transactions per month, highlighting the rapid adoption of digital payments.

India's focus on innovation is further evident in its growing startup ecosystem. With over 90,000 startups and more than 100 unicorns, India has the third-largest startup ecosystem<sup>16</sup> globally. Initiatives such as Startup India and Atal Innovation Mission have provided a conducive environment for entrepreneurship and innovation. To maintain its competitive edge, India must continue to invest in research and development (R&D), promote intellectual property rights, and foster a culture of innovation. Additionally, bridging the digital divide and ensuring cybersecurity will be critical to sustaining the growth of the digital economy.

## Human Capital and Education

India's demographic advantage can only be realized if the country invests in human capital development. The quality of education and healthcare will determine the productivity of the workforce and, consequently, the country's economic growth.

The National Education Policy (NEP) 2020 aims to overhaul the education system by emphasizing critical

thinking, experiential learning, and vocational training. The policy also focuses on increasing the Gross Enrollment Ratio (GER) in higher education and improving the quality of education at all levels.

Healthcare is another critical area that requires attention. The COVID-19 pandemic exposed the vulnerabilities in India's healthcare system, underscoring the need for increased investment in public health infrastructure. Initiatives such as Ayushman Bharat, which provides health insurance to low-income families, are steps in the right direction, but more needs to be done to ensure universal healthcare access. India must also address issues such as malnutrition, child mortality, and

gender inequality to improve its human development indicators. A healthy and educated population will be the foundation of India's economic superpower ambitions.

## Conclusion

India's journey towards becoming a \$30 trillion economy by 2047 is filled with challenges, but it is a goal that is within reach. By addressing these mentioned challenges strategically, India can not only reach its economic goals but also establish itself as a global superpower. The next two decades are crucial, and with consistent execution and a focus on key sectors, India can realize its dream of becoming a \$30 trillion economy and a global leader by 2047.

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