



Key Reforms Needed for India's Economic Growth

[Source: IE](#)

Why in News?

[India's path to becoming a developed economy](#) was highlighted by the Deputy Managing Director of the [International Monetary Fund \(IMF\)](#), who emphasised the need for reforms in domestic resource mobilisation, infrastructure investment, and increasing [women's workforce participation](#).

What Key Reforms are Needed for India's Economic Growth?

- **Simplification of GST:** India can increase revenues-to-[Gross Domestic Product \(GDP\)](#) through [Goods and Services Tax \(GST\)](#) by simplifying the **tax structure**, having **fewer tax rates**, and **broadening the tax base** by reducing exceptions, which could potentially raise an additional 1% point of GDP in revenue.
 - The revenues-to-GDP ratio is a way to measure a **country's tax revenue relative to the size of its economy**, as measured by GDP.
 - It can provide insight into a country's tax policy, potential taxation, and international comparisons between tax revenues.
 - Countries would need to **rely on domestic resource mobilisation**, as money from international institutions or multilateral development banks will be a fraction of the spending needed.
 - In India's case, increasing **fiscal space should occur through raising revenues-to-GDP** rather than reducing overall spending.
- **Broaden Personal Income Tax Base:** Expanding the [personal income tax base](#), reducing **loopholes in tax exemptions**, and improving property tax collection through better technology are crucial for ensuring sufficient progressivity and enhancing revenue generation in India's taxation system.
 - Additionally, **effective collection of capital gains and property taxes** is essential for bolstering fiscal resources.
- **Targeted Subsidy Reforms:** India can also **save money by targeting benefits and [subsidies more effectively](#)**, such as through **tailored fertiliser subsidies based on farm size**, as being done as a pilot project in Karnataka.
 - Ensuring subsidies reach the right beneficiaries can significantly impact revenue savings.
- **Skilled Workforce and Education:** Enhancing the [quality of education](#) and developing a more [skilled workforce](#) are essential for India's economic advancement. This includes improving formal education and skill acquisition to ensure a competitive workforce, especially in comparison to G20 peers.
- **Women's Labour Force Participation:** Women's participation needs to increase from the **current 35% to achieve high-income status**.
 - This requires not only creating more opportunities for women but also ensuring their safety in the workplace.
- **Job Creation and Employment Policies:** India needs to **create between 10 to 24 million jobs annually** over the next decade. This requires substantial efforts in job creation across diverse sectors.
 - Focus on inclusive growth that spans multiple sectors, not just a few industries, to ensure broad-based employment opportunities.

- **Land and Labour Reforms:** Land and labour reforms are also **essential for transitioning to a high-income country.**
 - Greater flexibility in labour markets is needed. The [2019 labour codes](#) offer a balance between flexibility and worker protection, but their effective implementation is vital.
- **Ease of Doing Business:** Improving the regulatory environment, enhancing the **efficiency of the judicial system, and simplifying business procedures** are essential to fostering a conducive environment for economic activity.
- **Openness to Trade and Lower Tariffs:** India must reduce its **average tariff rates** and become **more open to international trade.**
 - Lowering trade barriers will enable India to integrate better into global supply chains and enhance its position on the world stage.
- **Investment in Infrastructure:** While India has made significant progress in public and [digital infrastructure](#), there remains a considerable gap. Continued investment in this area is necessary for sustaining economic growth.

Current Economic Status of India

- India aims to become a "**developed nation**" by **2047** under the banner of "**Viksit Bharat 2047.**"
- **India has surpassed the UK to become the [fifth-largest economy globally.](#)** Analysts from Morgan Stanley project that **India could overtake Japan and Germany to reach the third spot by 2027.**
 - India has grown well, being the **fastest-growing major economy at 7%**, but the challenge is to **maintain and further increase the momentum to raise per capita incomes and become an advanced economy.**
- India's **digital governance reforms** have **enhanced financial inclusion**, streamlined public service delivery, and reduced corruption to a significant extent. The digital payments ecosystem has expanded significantly, allowing millions to transact with ease.
- **Current Economic Indicators:**
 - **Nominal GDP:** USD 3.54 trillion for FY24, reflecting strong growth.
 - **Real GDP Growth:** Estimated at 8.2% for FY24.
- **World Bank Classifications by Income Level:** Until 2006, the World Bank categorised India as a low-income nation. In 2007, **India transitioned to the lower-middle income group** and has remained in that classification since then.

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Drishti Mains Question:

Q. What are the critical reforms needed for India to transition from a lower-middle-income to a developed economy?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Mains

Q. Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? **(2014)**

