indiastat
focused on facts

SOCIO-ECONOMIC VOICES

“Growth, Not Austerity, Is India’s True Path to Fiscal Consolidation”

Ranveer Nagaich,
Economist & Public Policy Specialist

“India’s China+1 Opportunity Needs More Than PLI Schemes—It Demands Systemic Reforms”

Intro: India stands at a crossroads where fiscal prudence must coexist with the hunger for growth, where AI disruption is both an opportunity and a threat….where ambitions to lead the Global South wrestle with deep-rooted structural challenges. On **Socio-Economic Voices** this week, in a wide-ranging conversation, economist **Ranveer Nagaich** breaks down why India's fiscal targets hinge on growth, how supply chain shifts from China are a long game and what it will truly take to unlock India's manufacturing potential. If you've ever wondered how India's economic future, policy roadmap and global aspirations intersect, this is the interview with **Mahima Sharma** of **Indiastat** that you cannot afford to miss.

MS: In your experience, how must India plan to reconcile its FY26 fiscal deficit target of 5.1% with its capital expenditure push?

RN: Growth is the only way to reconcile fiscal consolidation targets, along with a push to capital expenditures, not just in the current fiscal year, but also in the coming years.

The reason is purely mathematical. Fiscal consolidation targets are usually derived with nominal GDP as the denominator. So, if nominal GDP grows at a faster rate, than say, borrowings, then these ratios (fiscal deficit, debt/GDP) will shrink.

The other way growth would help is through growing revenues – whether through direct taxes, indirect taxes or non-tax revenues. Direct taxes have been growing at a healthy pace – **they grew at 16% in FY25, touching Rs. 27 lakh crore gross collections, as per official data. GST collections are also growing, showing 11% growth in April 2025.**

So, as the economy grows, the taxes collected will increase too. This will reduce the need for borrowings, helping fiscal consolidation. What the government can do is to increase the buoyancy of tax collection further. This means making it easier to file taxes, widening the tax net, GST rate rationalisation, amongst others. This will boost compliance by reducing the compliance burden.

Recently, we saw that the RBI transferred a record surplus transfer of Rs. 2.69 lakh crores to the Central Government. This counts as non-tax revenue (NTR). Similarly, the profits of public sector enterprises (PSEs) are NTRs. Proceeds from asset monetisation or disinvestment count too. These are other avenues that can be pursued to raise revenues.

MS: With China’s economy slowing, can India realistically absorb supply chain shifts or is this an overestimation?

RN: We have all the right ingredients to succeed in absorbing supply chain shifts. However, we need policy action to make it a reality. There are many nations competing in this shift of manufacturing away from China. Vietnam is a pertinent example.

The production linked incentive (PLI) schemes are definitely a step in the right direction. If we see the example of Apple, nearly USD 22 billion worth of iPhones are now made in India, from negligible levels a few years back.

We must also recognise that the capacities built up in China are massive and will not shift overnight. This will be an ongoing process. China did not become a manufacturing behemoth overnight. They started with low-value added manufacturing (assembly) and moved up the value chain as we see now. As their industries learned and matured, they forayed into high-tech manufacturing. Even now, for instance, in semiconductors, most of the manufacturing is done in Taiwan, which China imports.

We must build our capabilities and move up the value chain in a gradual way, as China has done in the past. **Absorbing these supply chain shifts is not necessarily linked to sector-specific incentives. It is about the broader ecosystem – ease of doing business, infrastructure, trade policy and labour regulations, amongst others.**

A lot of work has been done on ease of doing business, but we need to take it further. Deregulation is the next big step we must take for the Indian economy to thrive and attract global investments.

MS: How is India's Free Trade Agreement with the UK and EFTA expected to alter its export diversification strategy?

RN: The current global environment is seeing a breakdown in the multilateral trading order. The World Trade Organisation (WTO) dispute settlement mechanism remains in gridlock. The US is negotiating bilaterally, aiming to reduce its trade deficits. While the US remains our largest trading partner, we are looking at diversifying our export destinations. In recent years we have concluded negotiations with Australia and UAE, for instance.

It is in our best interest to pursue trade deals bilaterally or with blocs such as the EFTA or the EU, as these agreements will give us new markets to pursue and diversify our export destinations.

As per the Ministry of Commerce's NIRYAT portal, our exports to the UK were valued at USD 14 billion in FY 25, c.3% of our annual merchandise exports in FY25. There is certainly a lot of untapped potential here. Trade with Iceland, Norway, Liechtenstein and Switzerland was collectively valued at USD, the EFTA countries was ~ USD 2 bn in FY 25.

With the UK FTA, we will see tariff elimination on 99% of goods. This will make our exports to the UK more competitive, in areas such as garments, marine products, leather, footwear and others. The UK FTA also covers the service sector, which will boost job creation in India and also labour mobility between the two nations. The agreement with the EFTA countries comes with a binding commitment of USD 100 billion of investments in the next 15 years.

Our core strategy of building export competitiveness will not change, as it is about building domestic capabilities to tap export markets.

MS: Given the new labour codes are still not fully implemented, is India ready to handle the surge in formal employment under the burgeoning landscape of AI?

RN: I believe even with the advent of AI, we are well placed to handle the surge of formal employment. The labour codes will no doubt help and push for greater formal employment. **So while AI is likely to bring both productivity and displacement effects, several sectors will still remain labour-intensive and carry the potential to create millions of jobs in the future.**

According to PLFS data, 45% of our labour force is in agriculture. Pulling labour out of agriculture requires that we create jobs in labour-intensive sectors, such as manufacturing or services. Labour-intensive manufacturing could include areas such as electronics or garments. Tourism can be a major creator of both direct and indirect jobs.

However, at the same time, for these sectors to thrive, an ecosystem approach is crucial. **Policies cannot be seen in isolation – it is not just labour laws holding back manufacturing or tourism.** For example, while we have such diverse tourism offerings, many sites suffer from a lack of connectivity, a lack of hotels, availability of skilled human resources, etc. To start a new restaurant or hotel in India, a myriad of licenses and compliances must be followed. The same goes for manufacturing. Compliances, trade policy, infrastructure all have equally important roles to play.

MS: What structural constraints are preventing India's manufacturing share in GDP from breaching the 17% mark? And how can these be handled in a better way?

RN: According to National Accounts Statistics (NAS), manufacturing's share of GDP went from 16.1% in 2011-12 to about 15.7% in 2024-25 (at constant prices). So, the share has stayed broadly constant in the past decade and a half.

As I mentioned earlier, boosting manufacturing is not just about manufacturing policies. It is about the broader ecosystem. It includes aspects such as the cost of logistics, trade policy, ease of doing business etc. Predictability and consistency in the policy ecosystem is also crucial.

At the Central level – trade policy, logistics and ease of doing business are crucial areas. At the state level, labour rules, land acquisition and ease of doing business are crucial reforms.

Action, for instance, is required on trade policy, particularly in the category of intermediate goods. Countries that have grown on the back of manufacturing have almost always had an open trade regime, especially in crucial inputs. However, in India, inputs crucial to the manufacturing of final goods have duties higher than those of comparable nations, such as Vietnam. This makes our manufacturing less competitive.

Quality control orders (QCOs) have also proliferated in recent years. A study by Arvind Subramanian, Josh Feldman and others, published in Business Standard, showed that from less than 100 products and 10 sectors covered by QCOs, 769 products and 110 sectors are now covered. These QCOs are a form of non-trade barriers (NTBs) hampering our manufacturing competitiveness.

MS: As India pushes for semiconductors and AI dominance, how can our skilling programs align with futuristic goals to generate better employment?

RN: There is presently a gap between industry demands and skill development programmes. **This gap can only be filled through deepening partnerships between industry and academia.** If we look back at the 1990s and see how our IT industry grew, we see the advent of many training and skilling institutes, such as NIIT, for instance. They provided training and skilling to many of the youth, who went on to find employment in the lucrative IT sector.

And these were private sector-led efforts – the industry's development to the workforce's training. **Course design must be informed by industry and industry-led. At the same time, the industry should also come forward and devise internship, apprenticeship and hiring programmes** at these institutes to boost demand for these courses and to create a pipeline of skilled human resources.

We need more formal channels of partnerships between academia and industry. As a personal anecdote, whilst I was at the University of Warwick in the UK, there was a centre called the Warwick Manufacturing Group. The centre not only carries out industrial R&D, but provides degrees, degree apprenticeships, hosts a skills centre and provides support for SMEs in terms of training, digital manufacturing and manufacturing.

This provides a handy model for our educational institutions and industries to emulate. Not just in tech such as AI-ML, but also in areas such as digital and green manufacturing.

MS: How do you see India's demographic dividend playing out in the next 5 years, when youth unemployment remains above 16% (and is further expected to fall at the hands of expanding AI and automation)?

RN: If we look at data historically, youth unemployment (15-29), has always been above the overall unemployment numbers. For example, the latest PLFS data has put youth unemployment at ~ 10%. The overall unemployment rate is ~ 3.2%. But if we go back to the 2011-12 Employment and Unemployment Survey (EUS), the survey also mentions that unemployment levels for the youth were much higher than the overall population. Back then, data was presented for rural and urban areas separately, giving us a range of 2-3% of national unemployment rates. Youth unemployment rates then were in the range of 5-13%.

This raises the question—is it a job problem or a skilling/training problem? If we look at the unemployment rate of 29+, then it drops precipitously. This implies that our youth graduate from academic or vocational courses without the required skills. As per the India Skills Report, about half (51.3%) of our graduates were considered employable in 2024. While this has improved from 34% in 2014, this is still a major gap.

Further, the Economic Survey 2023-24 noted that less than 5% of the 15-29 age cohort have received any formal vocational or technical training. Informally, 17% received training through informal sources.

Reducing youth unemployment is about bridging the skills gap. Industry-academia partnerships will reduce this skills gap. We must learn from global best practices. The WMG model is one avenue. Germany's model of apprenticeship is another one to study and emulate. It provides students with real-world experience, combining theory and practice.

MS: Can India lead the Global South with its current per capita income still under $2,800? What does leadership mean here? Else if we cannot, then what's required to fix the issues in an implementable way?

RN: In the G20, our per-capita income was the lowest of the G20 countries, yet, we steered one of the most successful G20 presidencies in recent years. It was about bringing the developing world on the same page. **While blocs such as the G7 or OECD have generally presented unified fronts, the views of the developing world have often been scattered and hence, their priorities have not been reflected in the agenda of multilateral groupings.**

This is where India succeeded. Early on in our presidency, the Prime Minister convened the Voice of the Global South Summit. This informed our priorities early on in the summit and we pushed for outcomes that had solutions for the Global South at their heart. We included the African Union (AU) as the 21st member of the G20, another big win. Leadership in this context means bringing the developing world together to speak in one voice and advocate for reforms of multilateral institutions and groupings to better reflect the realities of today's world.

Leadership also means sharing our lessons with the world. The India story also holds valuable lessons for the Global South. Our experience in digital transformation, through digital public infrastructure (DPI) is one such example. Our moves in climate action are another. Other countries have used debt as a tool to exert influence. But that is not our approach. Last year, the Prime Minister proposed a 'Global Development Compact', which operationalises this approach.

ABOUT RANVEER NAGAICH

Ranveer Nagaich is an economist and public policy expert with over a decade of experience across government and enterprise in India. He served as Senior Policy Specialist in the G20 Secretariat, advising India's G20 Sherpa and drafting key elements of the New Delhi Leaders' Declaration. At NITI Aayog, he worked directly with the Vice-

Chairperson and CEO to shape India's long-term economic strategy and policy reforms across sectors. With rigorous training in economics and deep experience spanning agriculture, tourism, industry and digital policy, he brings multi-domain expertise to complex policy challenges. His writing spans op-eds, policy notes, research papers and book chapters.

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