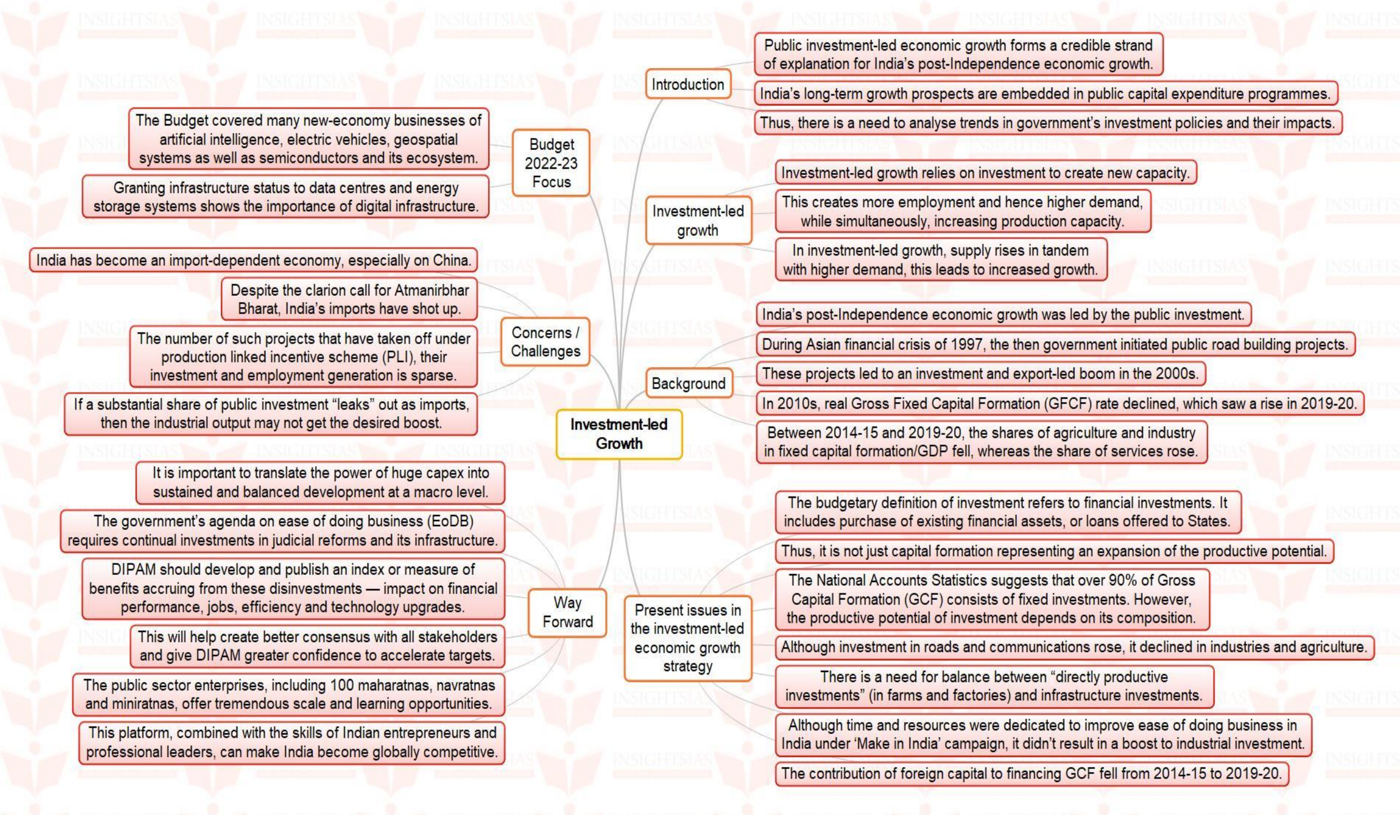

General Studies-3; Topic: Government Budgeting.

Investment-led Growth

Introduction

- Public investment-led economic growth forms a credible strand of explanation for India's post-Independence economic growth.
- India's long-term growth prospects are embedded in public capital expenditure programmes.
- Thus, there is a need to analyse trends in government's investment policies and their impacts.

Investment-led growth

- Investment-led growth relies on investment to create new capacity.
- This creates more employment and hence higher demand, while simultaneously, increasing production capacity.
- In investment-led growth, supply rises in tandem with higher demand, this leads to increased growth.

Background

- India's post-Independence economic growth was led by the public investment.
- During Asian financial crisis of 1997, the then government initiated public road building projects.
- These projects led to an investment and export-led boom in the 2000s.
- In 2010s, real Gross Fixed Capital Formation (GFCF) rate declined, which saw a rise in 2019-20.
- **Between 2014-15 and 2019-20, the shares of agriculture and industry in fixed capital formation/GDP fell, whereas the share of services rose.**

Present issues in the investment-led economic growth strategy

- The budgetary definition of investment refers to financial investments. It includes purchase of existing financial assets, or loans offered to States.
- Thus, it is not just capital formation representing an expansion of the productive potential.

- The **National Accounts Statistics** suggests that over 90% of Gross Capital Formation (GCF) consists of fixed investments. However, the productive potential of investment depends on its composition.
- Although investment in roads and communications rose, it declined in industries and agriculture.
- There is a need for balance between "**directly productive investments**" (in farms and factories) and infrastructure investments.
- Although **time and resources were dedicated to improve ease of doing business in India under 'Make in India' campaign,** it didn't result in a boost to industrial investment.
- The contribution of foreign capital to financing GCF fell from 2014-15 to 2019-20.

Budget 2022-23 Focus

- The Budget covered many new-economy businesses of artificial intelligence, electric vehicles, geospatial systems as well as semiconductors and its ecosystem.
- Granting infrastructure status to data centres and energy storage systems shows the importance of digital infrastructure.

Concerns / Challenges

- India has become an import-dependent economy, especially on China.
- Despite the clarion call for Atmanirbhar Bharat, India's imports have shot up.
- The number of such projects that have taken off under production linked incentive scheme (PLI), their investment and employment generation is sparse.
- If a substantial share of public investment "leaks" out as imports, then the industrial output may not get the desired boost.

Way Forward

- It is important to translate the power of huge capex into sustained and balanced development at a macro level.
- The government's agenda on ease of doing business (EoDB) requires continual investments in judicial reforms and its infrastructure.
- DIPAM should develop and publish an index or measure of benefits accruing from these disinvestments — impact on financial performance, jobs, efficiency and technology upgrades.
- This will help create better consensus with all stakeholders and give DIPAM greater confidence to accelerate targets.
- The public sector enterprises, including 100 maharatnas, navratnas and miniratnas, offer tremendous scale and learning opportunities.
- This platform, combined with the skills of Indian entrepreneurs and professional leaders, can make India become globally competitive.