



## "To Unlock Full Economic Potential, India Needs to Prioritise Rural Development, Foster Innovation, and Strongly Navigate Geopolitical Complexities"

**Subodh Mathur,**  
Senior Economist

### "Urgent Reforms, Regional Leadership, and Strategic Alliances are a Must in a Changing World"

**INTRO:** This week on **Socio-economic Voices**, we have **renowned economist Subodh Mathur** sharing an intense roadmap for India's economic resurgence amid rising global and neighborhood challenges, spotlighting critical reforms, geopolitical imperatives, and the imperative for regional collaboration. An exclusive interaction with senior journalist **Mahima Sharma** only at **Indiastat**.

**MS:** One of your articles in 2019 had said that it was time for Chief Ministers (CM's) to take control to better manage the economy of India? Without getting into political aspects, we would like to know your take 5 years down the line. Where do we stand today and what more needs to be done for a better inclusive society?

**SM:** Since 2019, Chief Ministers have become more aware of their economic powers and responsibilities. For example, the UP Chief Minister has announced an economic goal for UP's State GDP.

**However, it has become common for the CMs to promise more subsidies to people who are not benefitting adequately from India's economic growth.** For example, in the recent Karnataka and Madhya Pradesh elections, one of the issues was subsidies, or freebies as some people call them. The CMs see that the coming elections for the Lok Sabha are leading to an increase in the subsidies being provided by the Union government, and this gives them a model to copy.

**The net result is that the States and the Union governments are increasingly moving to a Subsidy Raj.** This holds back needed government investment, which in turn holds back private investment, and in turn, this holds back India's GDP growth. In the end, this holds India's GDP growth rate below 7%, while what we need is a much higher growth rate to become a well-off country by 2047. In short, the CMs are not yet working towards this goal.

**MS:** In your assessment, what are the most pressing economic reforms that India needs to undertake to spur **INCLUSIVE AND SUSTAINABLE** growth and development?

**SM:** There are three reforms that are most pressing. First, rural productivity must increase. **Right now, we have about 40% of the population producing less than 20% of the GDP.** And there are plenty of rural subsidies to paper over this lack of adequate incomes in the rural areas. In India, agriculture is a State subject, so efforts by the Union government are not enough to improve rural productivity. **Regrettably, few States are taking significant steps to do this. It's true that India does produce enough food - properly distributed - to feed all Indians adequately.** This means that the nature of the challenge has shifted. Unfortunately, even think tanks don't pay enough attention to this challenge. So we have rural lag in actions and ideas. This has to change but there is no single entity responsible for this.

**Second, there has to be more effective support and promotion of the Small and Micro enterprises in the MSME group.** The Medium (the first M) enterprises are doing well, which gives the impression that the MSME sector is doing well. However, the ground reality of the Microenterprises, which are the largest group in the MSME sector, is poor. Again, the responsibility is split between the State and Union governments. We need a better effort here.

**Third, the focus in the financial sector has been on the opening of bank accounts for all, digitalization (and demonetization, though few talk about it) and the introduction of GST.** These are welcome steps but they miss the real need of the Indian economy. This need is to provide debt and equity on risk-adjusted terms, to many more firms and entrepreneurs. The schemes of various governments to provide loans points to the failure of private groups to do this. This implies that debt and equity are readily available to large, established companies, which has led to the emergence of large conglomerates that operate in multiple sectors at the same time. At the same time, new competitors cannot emerge because they cannot get finance.

**India needs a competitive economy, if our limited investment resources** are to be used efficiently to produce high growth rates. This cannot happen until the financial system provides debt and equity, taking account of differences in risk, to many more firms and entrepreneurs. The RBI and the Union Finance Ministry need to start addressing this issue.

**MS: As per defence experts (COL SODHI INTERVIEW TO INDIASTAT), we stare at an expected hostile attack from our neighbors. How should India navigate beforehand amid these geopolitical complexities and regional tensions to safeguard its economic interests? Which all arenas need to be strengthened for long-term safeguarding the interest of the masses?**

**SM:** This is a multi-faceted issue that requires an analysis of issues from several sectors. As an economist, I will restrict myself to economic issues. As I see it, Pakistan's economy has fallen so far behind India's economy that Pakistan now has to look inward rather than towards hostilities with India. The February 2024 Pakistani elections show that many young people in Pakistan, who have no memory and limited interest in the 1947 Partition, have lost faith in the Pakistan Army, which had successfully projected itself in the past as Pakistan's ultimate guardian against India. Thus, Pakistan is now much less of a threat to India, except for its nuclear weapons.

**Now, the main threat is China. My slogan for several years has been "Wake up. Wake up. Wake up. China, not Pakistan. China, not Pakistan. China, not Pakistan."** With a GDP five times India's GDP, and roughly similar population, China is in a good position to outspend India on the armed forces. Plus, China is able to buy its way into India's neighboring countries - note the reliance of Pakistan and Sri Lanka on China's money, and even Bangladesh and Nepal have China's money.

**So, China is encircling India economically, which can lead to military encirclement. The only economic way out for India is to raise its GDP growth rate to much higher levels, such as 10% for years to come.** Then, India will be in a better position to deal with China on its borders and in the neighboring countries.

**MS: Are there any potential areas of economic cooperation or conflict that you believe will shape India's strategic calculus in the coming years?**

**SM:** India has not focused enough on its region - instead we tend to focus on our links to developed countries. There has been a Look East move but this is not enough. India needs to work out good relations with all of its neighboring countries. The recent troubles in the Maldives indicate that India has not focused enough on its neighbors. **We need to trade more with them, and share with them India's technological developments in a strategic manner.** In short, India needs to become a regional leader, not in terms of just the rank, but in terms of its relations with its neighbors.

**MS: With the increasing prominence of sovereign wealth funds (SWFs) globally, how can India strategically engage with these entities to attract long-term investment in critical infrastructure projects and strategic industries? What considerations should India take into account when negotiating investment agreements with SWFs?**

**SM:** While SWFs do have considerable funds, the real problem in India is the lack of Indian private investment, which is now lower (investment/GDP ratio) than in recent past years. So, our first priority should be on increasing Indian private investment. The next priority should be on creating an efficient economic system, into which foreigners can invest their funds. At the moment, prospective FDI finds that the Indian politico-economic system is a challenge to

earning good returns. **So, India gets much less FDI than it deserves and needs.** While some specific deals may be worked out with SWFs, India's focus should be broader than working out deals with them.

**MS: How can FDI complement and stimulate domestic entrepreneurship and innovation ecosystems in India? What synergies and partnerships can be forged between foreign investors and local startups to drive technological advancements and market competitiveness - namely in artificial intelligence, biotechnology, and clean energy gain prominence?**

**SM:** As I write above, the real issue is that the level of Indian private investment is too low, and the investment is not efficient enough in the absence of adequate competition. And, FDI finds too many challenges in the Indian economy. So, they work with Indian partners often just to iron out these local challenges, and not as productive partners. **Thus, what we need is to remove these local challenges. While India did make some progress in its rank on the World Bank's Ease of Doing Business Index, that progress was not enough, and too narrowly focused.**

At this time, India has enough talent to be an attractive partner in AI, biotechnology, and clean energy. But, our production system is inefficient and not competitive enough. This is where we need action. If we do it, the foreign money/technology will flow to India on its own.

**MS: How do you foresee India's role evolving in the next decade in the context of regional and global economic architectures vis-a-vis Indo-Pacific, QUAD nations and BRICS (Brazil, Russia, India, China, South Africa)?**

**SM:** I think that BRICS was always a hollow proposition in economic terms, even as it had a political appeal. **Today, South Africa's economy is in great trouble, so they cannot contribute to BRICS. China has created its own alternatives to BRICs such as BRI and AIIB. China's interest in BRICS is now mainly political. Russia is tied up with the economic consequences of the Ukraine war. So, I expect nothing for India from BRICS.**

The QUAD idea is already leading to funds from Japan (and interest from Australia) for India. But, as the US and China look for ways for their economic relations to be maintained even as they become political rivals, the interest in QUAD may decline. So, it is not a major source of growth for India. The Indo-Pacific is a broader version of the QUAD, and the same analysis/conclusions apply.

**MS: Your take in 2022 seems to remain the same in 2024: "Subsidies are holding back development and progress in India." Please share this with the perspective of the rural population which is often struggling to make ends meet as farmers, as educators and more.**

**SM:** I have focused on subsidies mainly because this has been ignored by most analysts, and treated as political freebies by civil society. However, I am not against subsidies as such, and recognize that they are needed for many years to come. **But, it is important to put an overall cap on the subsidies, and then let the political process work within that cap.**

I have stated above that increasing rural productivity is a major reform needed in India. One part of this is to upgrade rural schools. The ASER annual reports show that Indian government schools do not provide a good education. These schools are run by State governments, and the efforts by the Union government, as in the form of the New Education Policy, are futile. **It is time to hold the CMs responsible for this mess, and to take help from non-profit institutions in improving the schools, particularly with the rise of digital education.** We need to recognize that the Union government is not responsible for this mess, and it cannot get us out of this mess.

**Another effort the State governments can make is to promote rural non-farm jobs. However, they are not well-equipped to do so. The reason is that neither the District authorities nor the Panchayati Raj authorities have any history of doing this, and lack the experience/expertise. Thus, this has to be done by new non-profit institutions.**

Fortunately, there are enough people in India who are interested in doing this - what is missing are workable channels through which they can operate. It's time for the CMs to create such channels, working with non-profit institutions.

## About Subodh Mathur

Subodh Mathur is an academically oriented applied economist who has worldwide experience in developing innovative on-the-ground projects. Currently in the process of creating a new non-profit Indian institution that aims to create jobs and increase incomes in selected small towns (pop. around 1 lakh) in selected States.

## About the Interviewer

Mahima Sharma is an Independent Senior Journalist based in Delhi NCR known for her multi-niche news reach. She has been in the field of TV, Print & Online Journalism since 2005 (earlier additional three years in the allied media). With a rich professional history at CNN-News18, ANI - Asian News International (in collaboration with Reuters), Voice of India, and Hindustan Times, Mahima is also the Founder & Editor of The Think Pot. Recipient of various awards for different works beyond journalism as well, Mahima Sharma was conferred with the REX Karmaveer Chakra (Silver) 2023, presented by iCONGO in association with the United Nations. Since March 2022, she has also been engaged in the pivotal role of Entrepreneurship Education Mentor at Women Will, a Google-backed program in collaboration with SHEROES. Mahima can be reached at [media@indiastat.com](mailto:media@indiastat.com)

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