Mizuho Brief: India Views

Economics & Strategy | Asia ex-Japan

November 17, 2023 | Vishnu Varathan | Head, Economics & Strategy

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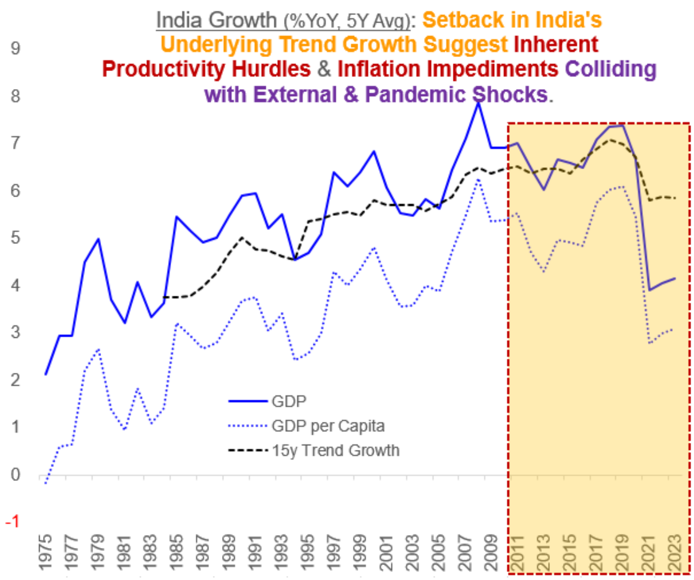
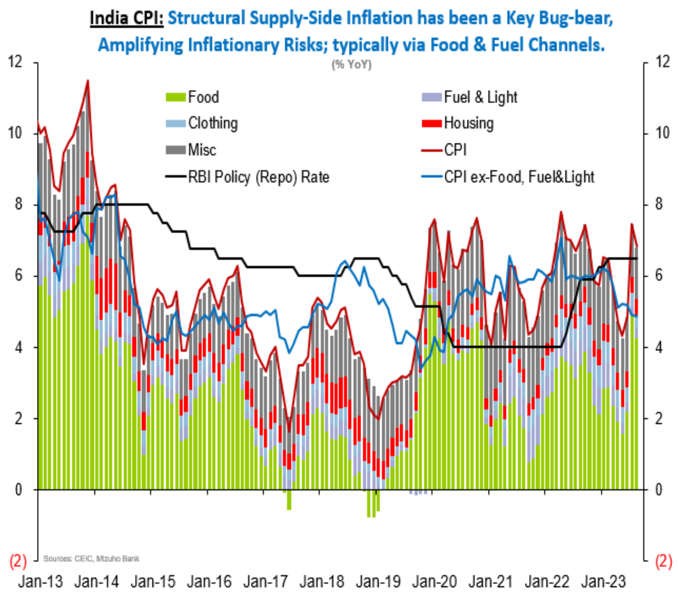
India: Conditionality & Caution

- **Optimism** about "*India's decade(s)*" is **not merely hype**. Instead, a fortuitous combination of *demographics*, *geo-politics*, *industrial gains* augmented by *policy* boost mean India is **poised for higher growth** 5-15 years out.
- Growth potential of 7-8% with **attainable annual growth rates averaging 6.0-7.5% through 2030** is not an outlandish projection.
- *But over-confidence is a pitfall to avoid;* as attaining **growth potential** is conditional on *committed policy*, and *coordinated private-public* investment *efforts*, *initiatives/incentives*.
- Meanwhile, sufficient caution in negotiating is necessitated; as *scope for* **structural buoyancy neither overrides cyclical headwinds nor negates entrenched challenges**.

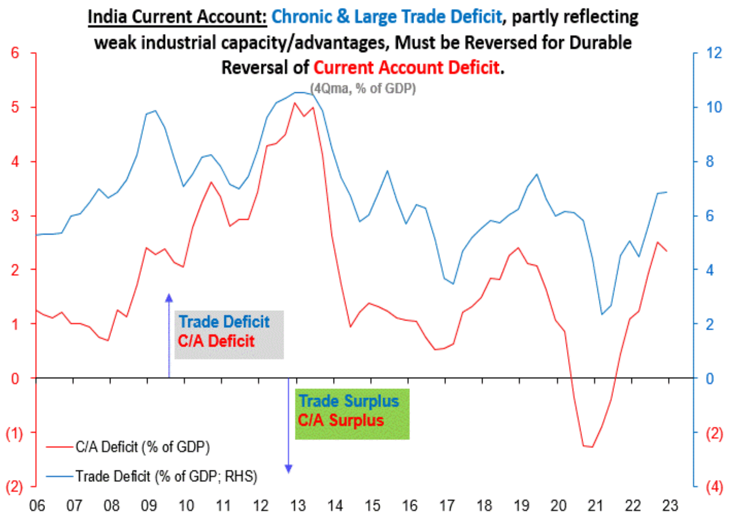


- Indeed, the experience of **India's growth potential compromised in the last 5-10 years** (evident in sharper pullbacks in GDP per capita 5Y growth) suggests **productivity impediments that predated**, *albeit amplified during*, the **pandemic**. And the **bottom-line** is that despite justifiable optimism about renewed growth vigour, not all of the pre-existing impediments are automatically washed away post-pandemic.
- What's more, a confluence of **sticky inflation** amid **oil**'s geo-political premium amid elevated global/US rates impose **intervening growth impediments**; as *cost shocks*, *high rates* and *rupee pressures* **compromise domestic demand offset *to mounting global headwinds***.
- Beyond riding out cyclical setbacks, *inroads to move up the manufacturing value-chain*, alongside *establishing up- and downstream eco-system*, are required to **exploit industrial synergies** and **lift productivity**.
- Furthermore, leveraging on industrial **capacity expansion** to boost logistics/farm productivity are pre-conditions to **structurally alleviate inherent supply-side inflationary** pressures.

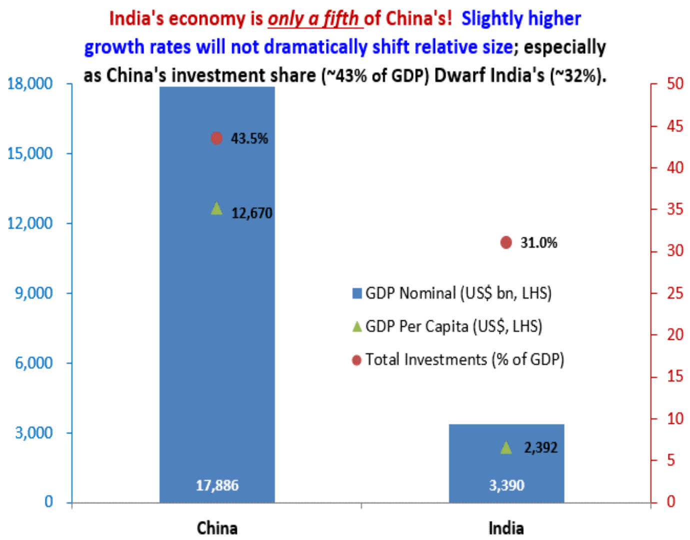


- And this is critical for **India to *transition from a 5.5-6.0%***, where CPI averaged over the last decade, ***to 2-4% inflation* regime**.
- This **structural shift lower** in inflation, *consistent with softer inflation trend in the region*, has a long reach of **positive spill-over for** India's **corresponding industrial competitiveness** as well.

- Apart from taming inflation, which circles back to ultimately boost returns, **productivity-enhancing capacity expansion** lends **critical advantage to rein in**, if not reverse out, India's **chronic Current Account deficit**.
- Especially if the *economies of scale* realized dove-tail with *sharpened comparative advantages* to fundamentally shift exports into high gear (and turn a net export surplus).



- Moreover, the resultant virtuous cycle and feedback **could also diminish India's fiscal deficit**; mitigating underlying "crowding out" risks that have grown along with public debt.
- The upshot is that the **potential for an alluring upgrade to** India's **growth potential is undeniable** in the coming decade(s); *but* is *contingent on* timely and judicious execution of **symbiotic industrial, infrastructure, education, fiscal, and monetary policies**.
- **Political stability** is an **unspoken pre-condition** for realizing the full potential of "India's decade"; given that the requisite horizon for policy continuity far surpasses the typical political cycle.
- But for all the attainable potential and political will to ensure this, it is **critical to differentiate** the *ability to overtake China's growth* (rate) *from unrealistic bluster about supplanting China's global economic position.*



- The stark disparities, with **India's economy being less than a fifth the size of China's**, instinctively suggest that this is misguided.
- And simple arithmetic dictates that *even if China were to stagnate*, India would have to sustain growth at a 14-15% (10%) to surpass China's economy by 2035 (2050).
- Even **more so** from a **manufacturing** sector standpoint given China's disproportionately larger manufacturing eco-system.
- What's more the **savings-investment gap for China is positive** (with even higher savings than investments) as **compared to India's negative savings-investment gap**. Which means India rely on, and even more heavily going forward, on external investments. While this is not necessarily a bad thing, it does suggest potential vulnerabilities to capital outflows (or inadequate inflows).
- Nonetheless, the *silver lining* is that **conditions are ripe for significant** (and long) *overdue* **catch-up in growth and productivity**; led by policy pivot in the industrial sector.
- But *even with geo-political tailwinds from the "China plus one"* initiatives accentuating India's attractiveness, **there should be no complacency** about addressing gaps in human capital investment shortfall; alongside infrastructure ramp-up and key policy de-regulation (land, labour, etc.)

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