

MEDIUM TERM OUTLOOK: DEREGULATION DRIVES GROWTH

May we live in interesting times!¹ This Chinese proverb, often understood as an indication of impending turbulence, is pertinent. Worldwide, we see a backsliding of economic integration with geo-economic fragmentation replacing globalisation. Economic realignments and readjustments are imminent. The rise of China as a manufacturing powerhouse and its impact on the manufacturing aspirations of other nations, as well as the supply of minerals, materials, machinery, and equipment needed for energy transition, pose challenges.

Amidst this, India is in the middle of a change that represents an unprecedented economic challenge and opportunity. This chapter examines the India Story in this context. It suggests policy responses with special emphasis on the importance of domestic growth levers and the shedding of regulatory compliance burden. Enhancing economic freedom for individuals and small businesses is arguably the most important policy priority to define and bolster India's medium-term growth prospects.

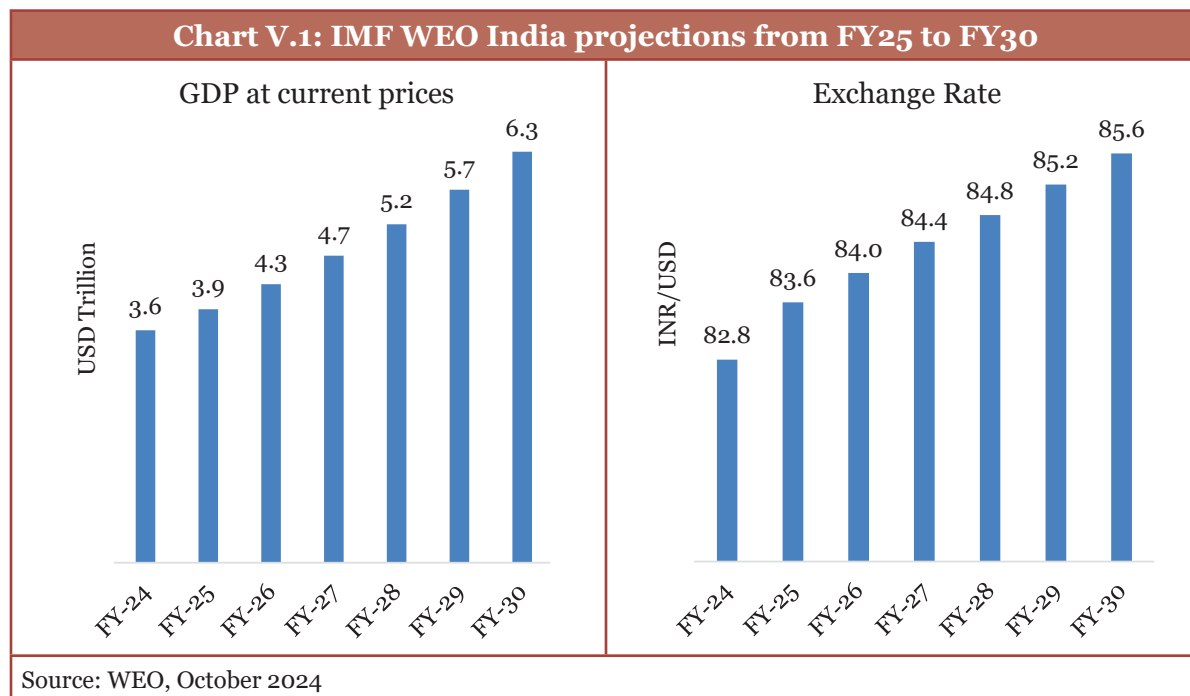
INDIA'S MEDIUM-TERM OUTLOOK

5.1 To realise its economic aspirations of becoming Viksit Bharat by the time of the centenary of independence, India needs to achieve a growth rate of around 8 per cent at constant prices, on average, for about a decade or two. While the desirability of this growth rate is unquestionable, it's important to recognise that the global environment – political and economic – will influence India's growth outcomes.

5.2 The projections for India from the lens of the World Economic Outlook (WEO) of the International Monetary Fund (referred to as IMF or the Fund interchangeably in the rest of this chapter) as recently as October of FY25 are sanguine. The IMF WEO projects India to become a USD 5 trillion economy by FY28 and reach a size of USD 6.307 trillion by FY30 [Chart V.1]. This translates into an annual nominal growth rate

¹ This quote is understood as an apocryphal English interpretation of an ancient Chinese curse and has been inaccurately attributed to a number of individuals. Van Norden, Bryan William (2011). "II. Criticisms and Confucianism". Introduction to Classical Chinese Philosophy. [p. 257]

of nearly 10.2 per cent in USD terms for FY25 to FY30.² To put this in context, in the thirty years between FY94 and FY24, India's dollar gross domestic product (GDP) grew at a compounded annual rate of 8.9 per cent. So, the IMF expects India to grow at a significantly higher rate of 10.2 per cent in dollar terms in the next five years.



5.3 In rupee terms, India's nominal GDP grew at a compounded annual rate of 12.4 per cent in the three decades ending FY24. In the next five years, the IMF projects that India's nominal GDP will grow at around 10.7 per cent annually. So, in effect, given the projected growth rate of only 10.2 per cent in dollar terms, the Fund expects the rupee to weaken, on average, only by 0.5 per cent per annum in the next five years, compared to the 3.3 per cent annual depreciation experienced in the three decades up to FY24. The projected mild rupee depreciation is a recognition of India's growth potential, its attractiveness as an investment destination and the expectation of convergence of India's inflation rate with that of the United States. The Fund also projects that India's current account deficit will rise gently and gradually to 2.2 per cent of GDP by FY30. To reiterate, given the current state of the world and its likely evolution, the realisation of these projections will be a very good thing for India.

5.4 The Ministry of Statistics and Programme Implementation reckons in the first advance estimate the economy will grow at 6.4 per cent in constant prices. For FY26, we project a growth rate of between 6.3 per cent and 6.8 per cent in the first chapter of this Survey. This is in line with the Fund's projection of the growth rate of India's

² India's GDP growth at constant prices adjusted for the inflation differential between India and the USA gives us the estimate of GDP in USD terms. Thus, GDP expressed in a numeraire currency like the USD accounts for prices. That is why it is also a measure of 'real' GDP.

GDP at constant prices at around 6.5 per cent between FY26 and FY30. This chapter explores the policy action agenda to help us achieve or exceed these growth rates.

5.5 It begins by sketching out the global economic and political environment. The first section delves into the reality of geo-economic fragmentation and examines its implications for global growth. The second section outlines the case for acknowledging the elephant [and the dragon] in the room that will have a bearing on the growth projections – fundamental shifts in the global economic order combined with China's manufacturing prowess and strategic dominance. The third section probes into a key channel of the slightly less acknowledged but critical aspect of China's dominance, viz., dependency of the global economy on it for energy transition efforts. India has ambitious goals for energy transition despite being one of the lowest per capita emitters of greenhouse gases. Dependence on China-made goods to achieve that transition enhances the complexity of the challenge for India. The fourth section sheds light on the need to focus on domestic growth levers for India, given the global context and challenges outlined. It makes a case for trusting the ingenuity of people and organisations and using policy to enhance their economic freedoms, which will give impetus to growth in line with the projections of WEO. The last section takes a deep dive into specific aspects of systematic deregulation that need to be focussed on to facilitate economic freedom for individuals and businesses so that India's medium-term growth prospects remain strong.

GEO-ECONOMIC FRAGMENTATION – THIS TIME MAY BE DIFFERENT

5.6 In one of his seminal pieces, *'The Economic Consequences of Peace'*, John Maynard Keynes writes about early twentieth-century London, *'the inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages'*.

5.7 Keynes was describing a state of affairs not unlike the one to which we have become accustomed over the past few decades of hyper-globalisation, wherein the flows of capital, goods, services, and people have transformed our world, helped by the spread of new technologies and ideas. These forces of integration have boosted productivity and living standards, tripling the size of the global economy and lifting 1.3 billion people out of extreme poverty.

5.8 However, just like Keynes' description of how the prosperity of Londoner was destroyed by '*the projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion*', we can draw uncomfortable parallels with the present-day era wherein the global economy is once again confronted with the challenge of geo-economic fragmentation (GEF). This time, it is of a scale, scope and complexity that is likely more severe in its impact than what the world witnessed in the early 20th century.

5.9 The decades since the 1980s have witnessed significant globalisation, marked by remarkable shifts in global trade, investment, and economic activity. Here are some key statistics:

Global trade growth: In 1980, global trade accounted for about 39 per cent of world GDP. By 2012, this share had risen to 60 per cent, reflecting the deep integration of global markets.

Foreign direct investment (FDI): Global FDI inflows grew from USD 54 billion in 1980 to over USD 1.5 trillion in 2019, showcasing the increasing role of multinational corporations in cross-border investments.

Economic growth and poverty reduction: The global economy grew from USD 11 trillion in 1980 to over USD 100 trillion in 2022 (nominal).

Extreme poverty rates (those living on less than USD 2.15 a day) fell from 42 per cent of the global population in 1981 to 8.4 per cent in 2019, driven by rapid economic growth in countries like China and India.

Global population and urbanisation:

The global population grew from 4.4 billion in 1980 to 8 billion in 2022, with urbanisation rates rising from 39 per cent in 1980 to 57 per cent in 2022, fuelling economic activity and connectivity.

Internet penetration: In 1980, internet connectivity was virtually non-existent. By 2022, over 5.3 billion people, or 66 per cent of the global population, had access to the internet, revolutionising communication, trade, and innovation.

These statistics illustrate the profound changes globalisation has brought, driving economic integration and altering the global economic landscape. But, the next two decades are more likely to be about economic fragmentation.

5.10 Aiyar *et al.* (2023)³ define 'geo-economic fragmentation' as a policy-driven reversal of global economic integration often guided by strategic considerations. This process encompasses different channels, including trade, capital, and migration

³ Aiyar, S, J Chen, C Ebeke, R Garcia-Saltos, T Gudmundsson, A Ilyina, A Kangur, S Rodriguez, M Ruta, T Schulze, J Trevino, T Kunaratskul and G Soderberg (2023), "Goeconomic Fragmentation and the Future of Multilateralism", IMF Staff Discussion Note SDN/2023/01, <https://tinyurl.com/ym4jdfy8>.

flows.⁴ Despite the benefits of integration, hyper-globalisation has also brought about associated complacencies. People have been left behind as industries have changed amid global competition. Rising geopolitical tensions and the breakout of war have further intensified these underlying fissures in the global economy.

5.11 In a re-enactment of the cold war era, countries are once again getting grouped into two blocs and phrases like friend-shoring have come to play centre-stage in global policymaking. Tensions over trade, technology standards, and security have been growing for many years, undermining growth and trust in the current global economic system. Therefore, fragmentation - economic, social and cultural - is a direct consequence of the imposition of a 'one-size-fits-all' emission, as well as social and labour standards by western nations. These developments have growth implications.

Growth implications of geo-economic fragmentation

5.12 The consequences and costs of GEF are propagated via all the channels whereby countries engage with each other economically. Trade is the main channel through which fragmentation is reshaping the global economy. The capacity of trade to incentivise within-industry reallocation and generate productivity gains is getting increasingly stifled. This is most evident in the increase in the trade-restrictive measures imposed by countries. As per figures released by the World Trade Organization (WTO) as part of the WTO Director-General's annual overview of global trade developments, there is a sharp rise in the coverage of trade-restrictive measures by WTO members between mid-October 2023 and mid-October 2024, compared to the last Trade Monitoring Report in November 2023 [Chart V.2].

5.13 As per estimates, the value of trade covered by the 169 new trade-restrictive measures introduced between October 2023 and October 2024 is USD 887.7 billion, which is half a trillion dollars more than the value of trade covered by restrictions introduced in the preceding year, which stood at USD 337.1 billion.⁵ IMF⁶ observes that trade fragmentation is much more costly this time because, unlike the start of the cold war when goods trade to GDP was 16 per cent, now that ratio is 45 per cent. Less trade implies less knowledge diffusion, a key benefit of integration, which could also be reduced by fragmentation of cross-border direct investment. One way to visualise trade restrictiveness is to quantify the trade coverage of new import-restrictive measures, apart from the number of restrictive measures presented earlier (Chart V.2)⁷.

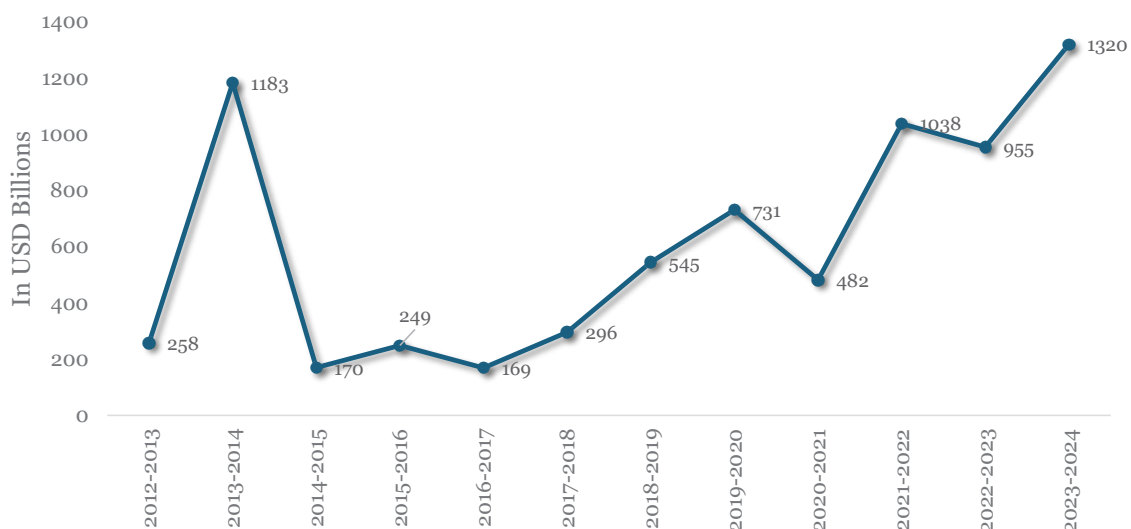
⁴ Ibid Note 3.

⁵ World Trade Organisation Annual Report by the Director General, 2024, <https://tinyurl.com/5n6k4wb4>.

⁶ 'Geopolitics and its Impact on Global Trade and the Dollar', Talk delivered by Gita Gopinath (IMF FDMD) in the Series on the Future of the International Monetary System (IMS) at Stanford Institute for Economic Policy Research, May 7, 2024, <https://tinyurl.com/2ma3wkjw>.

⁷ Ibid Note 5.

**Chart V.2: Trade coverage of new import-restrictive measures
(USD Billion, not cumulative)**



Source: WTO Trade Monitoring Report presented to Trade Policy Review Body (TPRB); December 2024

5.14 The impact of GEF is seen in global FDI flows, which are increasingly concentrated among geopolitically aligned countries, particularly in strategic sectors. This relocation of FDI increases the vulnerability of several emerging markets and developing economies. The output losses associated with this FDI relocation emerging from friend-shoring and re-shoring are especially severe for emerging markets and developing economies. They face heightened restrictions from advanced economies, which are their major sources of FDI.⁸

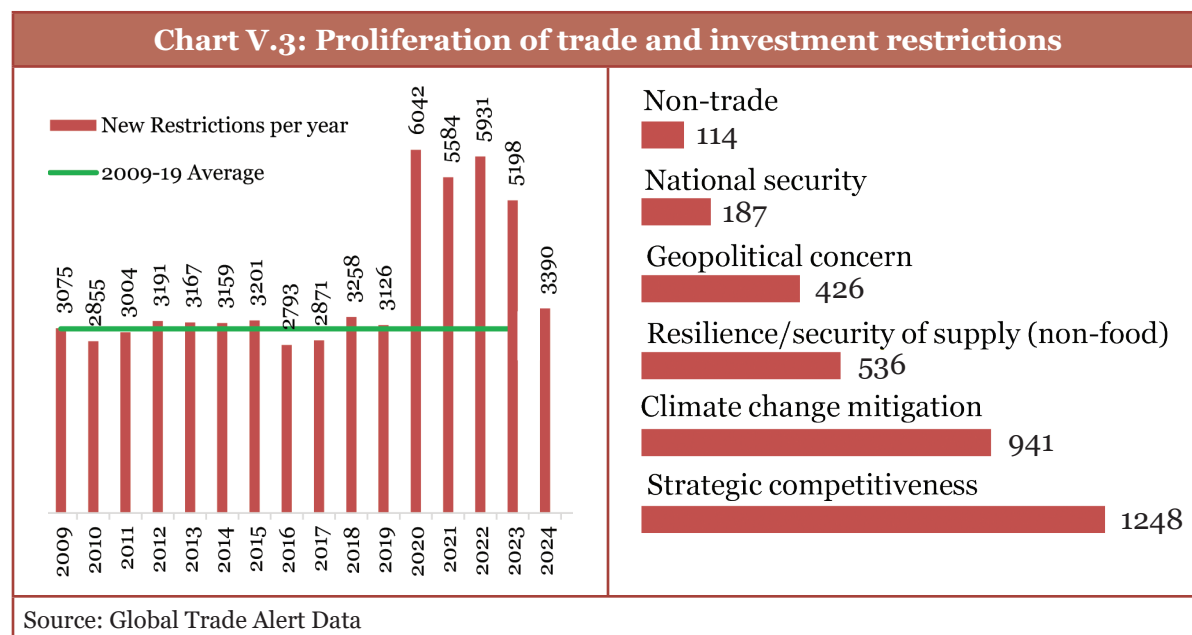
5.15 Depending on the modelling assumptions, it is estimated that the cost to global output from trade fragmentation could range from 0.2 per cent (in a limited fragmentation/low-cost adjustment scenario) up to 7 per cent of the GDP (in a high fragmentation/high-cost adjustment scenario). When we add likely technological decoupling to the mix, the output loss is predicted to be as high as 8-12 per cent of GDP in select countries. The overarching impact of such a denouement would mean that as the global economy slows down, global capital tends to look for economies with sustainable growth.

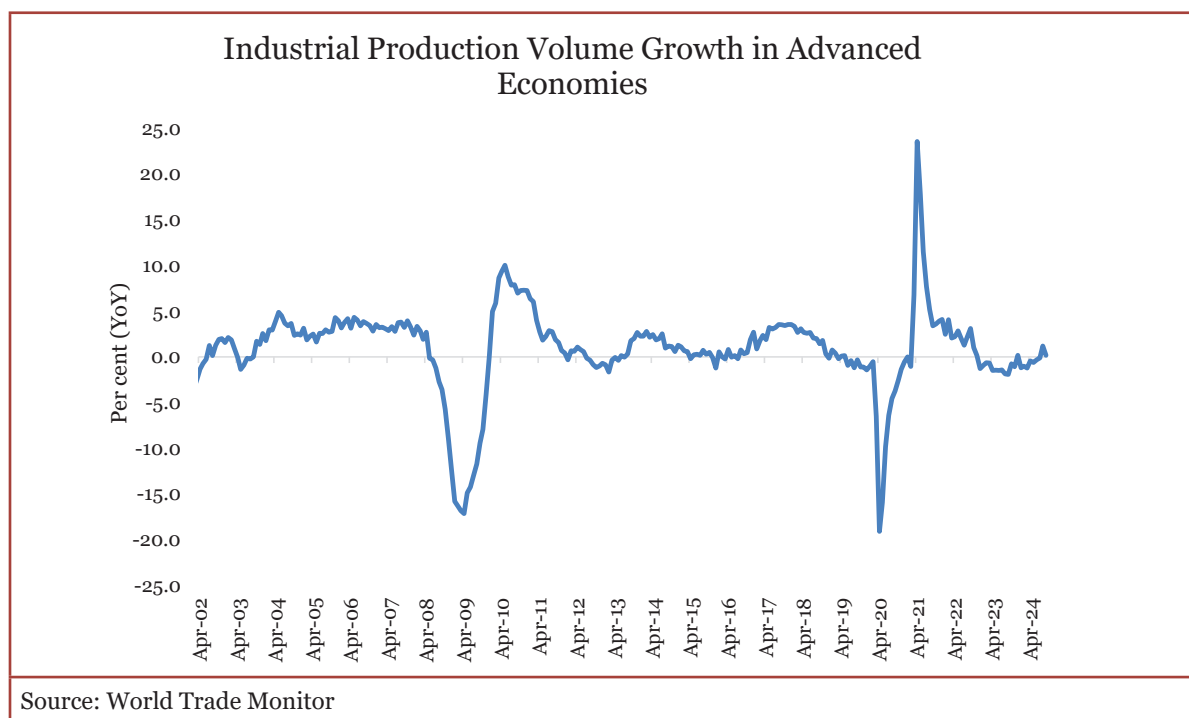
THE ELEPHANT AND THE DRAGON IN THE ROOM

5.16 Fundamental shifts in global economic engagement are underway with the proliferation of trade and investment restrictions. Between 2020 and 2024, over

⁸ International Monetary Fund. Research Dept. (2023). "Chapter 4 Geoeconomic Fragmentation and Foreign Direct Investment". In World Economic Outlook, April 2023: A Rocky Recovery, <https://tinyurl.com/5n7etwfw>.

24000 new restrictions related to trade and investments have gone into place globally [Chart V.3]. The impact of this shift in global structural forces is reflected in global trade growth, which has slowed down significantly, and signs of secular stagnation in the global economy are beginning to emerge [Chart V.4]. The Preface to this document also devoted considerable space to the unfavourable global backdrop for India's growth prospects.



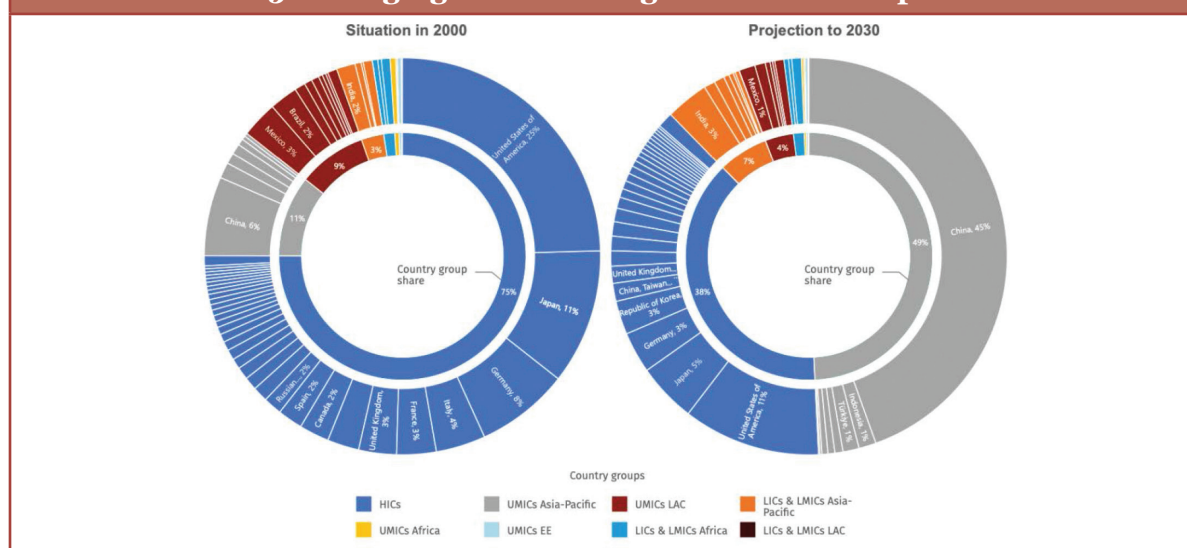


5.17 The global economy is at a significant juncture where long-held principles and practices are being re-evaluated and, in some cases, losing their relevance. Adding to this shift is China's prominent role in global supply chains, which continues to reshape the economic landscape. As a result, many countries now operate in an environment markedly different from what they were accustomed to, with traditional rules being reconsidered and uncertainty surrounding what might replace them.

5.18 China is a dominant force in the global manufacturing and energy transition ecosystems. It has gained a strategic advantage leveraging its competitiveness and economic policy to access and control key resources recognised today as critical for global supply chains. *"In the year 2000, the United States and its allies in Asia, Europe, and Latin America accounted for the overwhelming majority of global industrial production, with China at just 6 per cent even after two decades of rapid growth. Just thirty years later, UNIDO projects that China will account for 45 per cent of all global manufacturing, singlehandedly matching or outmatching the US and its allies. This is a level of manufacturing dominance by a single country seen only twice before in world history — by the UK at the start of the Industrial Revolution and by the US just after World War 2. It means that in an extended war of production, there is no guarantee that the entire world united could defeat China alone"* (Chart V.5).^{9,10}

⁹ UNIDO National Account Database; <https://stat.unido.org/data/table?dataset=national-accounts>.

¹⁰ Noah Smith, 'Manufacturing is a war now', 4th December 2024, <https://tinyurl.com/bdhdzrma>.

Chart V.5: Changing structure of global industrial production

Source: UNIDO elaboration based on UNIDO National Accounts Database

Note: UNIDO Projections to 2030 are based on historical average annual growth rates (between 2010 and 2019) and applied to the latest available observations (2024) up to 2030. LICs = Low-income countries; LMICs = Lower middle-income countries; UMICs = Upper middle-income countries; HICs = High-income countries; EE = Eastern Europe; LAC = Latin America and the Caribbean

5.19 The effects of the rise of China as a manufacturing colossus are seen in automobile (especially electric vehicles) manufacturing, mining and refining capacity for critical minerals (Copper, Lithium, Nickel, Cobalt, Graphite, etc.) and in clean energy equipment, etc. China's rise in the global auto market has disrupted the long-term incumbents in economies like Germany and Japan, and it dominates the global distribution of critical minerals and other economic resources, creating potential dependencies for posterity. China's resurgence was foretold in 1904 by British geographer and diplomat Halford Mackinder.¹¹ Courtesy of these developments, the world's modus operandi of outsourcing manufacturing to China pursued vigorously in the globalisation era is poised for a reset.

CLIMATE TRANSITION, CHINA AND GEOPOLITICS

5.20 Climate is a global public good. It impacts everyone, everywhere, in ways that are still being examined and understood. Edward N. Lorenz famously wondered in a 1972 paper, '*Does the Flap of a Butterfly's Wings in Brazil Set Off a Tornado in Texas*'¹²? This perhaps holds now more than ever.

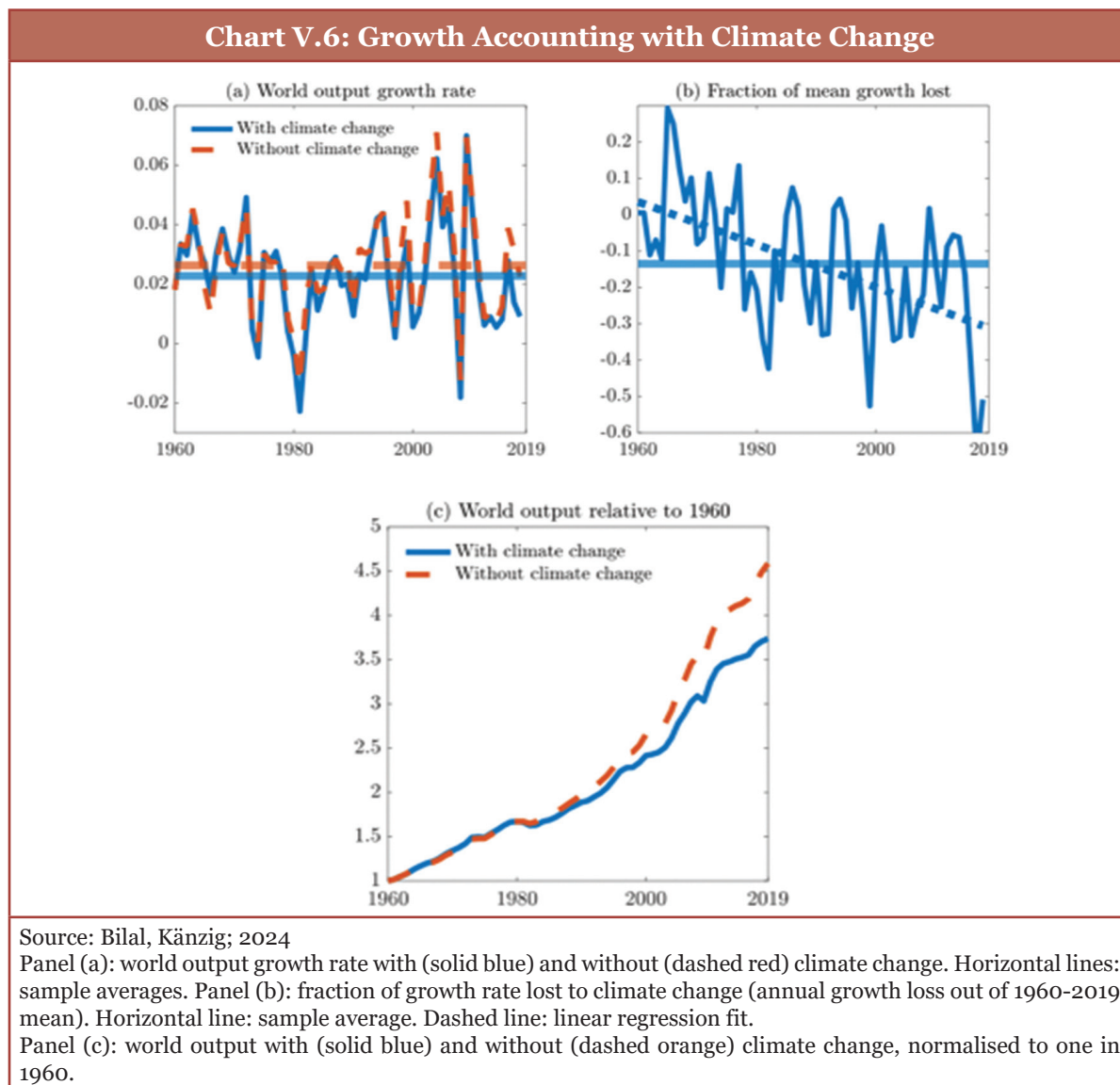
5.21 The economic impact of climate change is well documented. The direct cost of climate change has received significant academic attention.¹³ Studies have quantified

¹¹ Bloomberg column, 'The man who predicted today's world over a century ago', 2025, <https://tinyurl.com/4xdmk8nm>.

¹² Predictability: Does the Flap of a Butterfly's Wings in Brazil Set Off a Tornado in Texas? (Lorenz, 1972).

¹³ Bilal, A., & Känzig, D. R. (2024). The Macroeconomic Impact of Climate Change: Global vs. Local Temperature (No. w32450). National Bureau of Economic Research, <https://tinyurl.com/bddr29yt>.

that a 1 Deg. Celsius warming reduces global GDP by 12 per cent, and global temperature strongly correlates with extreme climatic events. The output growth rate modelled with and without climate change from 1960 to 2019 is shown in Chart V.6 (Bilal, Känzig; 2024).¹⁴

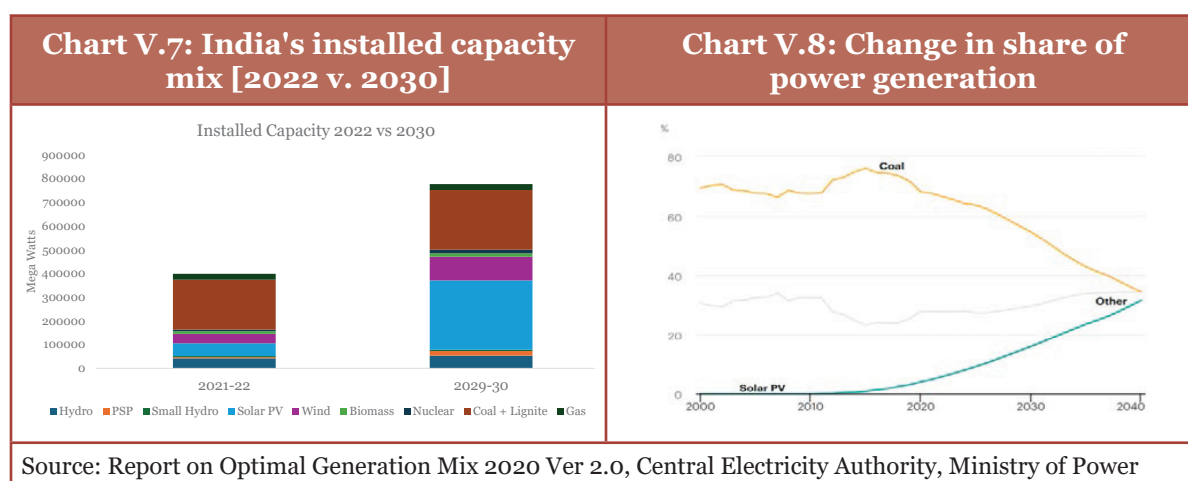


5.22 China, the United States, the EU, and other G7 economies produce more than 50 per cent of global greenhouse gas emissions. All have target dates of 2050 to reach net-zero emissions. These economies depend heavily on each other in the trade of environmental goods and technologies central to developing renewable energy and reducing emissions. Hence, trade conflicts between these economies will pose significant risks to the green energy transition, imposing huge costs on the global economy.

5.23 As for India, the five nectar elements distil our commitment to climate action (Panchamrit).¹⁵ This would significantly impact how India produces, procures and meets its energy requirements, and the shift would necessitate a change in our energy mix. A projection of the installed capacity in 2030 [as compared to 2020]¹⁶ shows that the share of renewable energy, especially solar and wind, in the installed capacity is likely to increase substantially. In contrast, the share of Coal and Lignite is likely to fall sharply [Charts V.7, 8].

5.24 As the world navigates the challenges of climate change, the road to energy transition runs through China.

5.25 Over the last decade, global solar photovoltaic cell (PV) manufacturing capacity has increasingly moved from Europe, Japan and the United States to China, which has invested more than USD 50 billion in new PV supply capacity – ten times more than Europe.¹⁷ The dominance of China in the environmental goods sector deserves serious consideration. China's share of solar panels (polysilicon, ingots, wafers, cells, and modules) exceeds 80 per cent in all the manufacturing stages. Interestingly, this is more than double China's share of global PV demand. China's contribution to the manufacture of various solar PV components from 2010 to 2021 is captured as under (Charts V.9, 10). In addition, the country is home to the world's top 10 suppliers of solar PV manufacturing equipment.¹⁸ While this has been a major contributing factor in bringing down the costs of solar PV equipment worldwide, the level of geographical concentration in global supply chains also creates supply disruption risks that must be kept in mind.

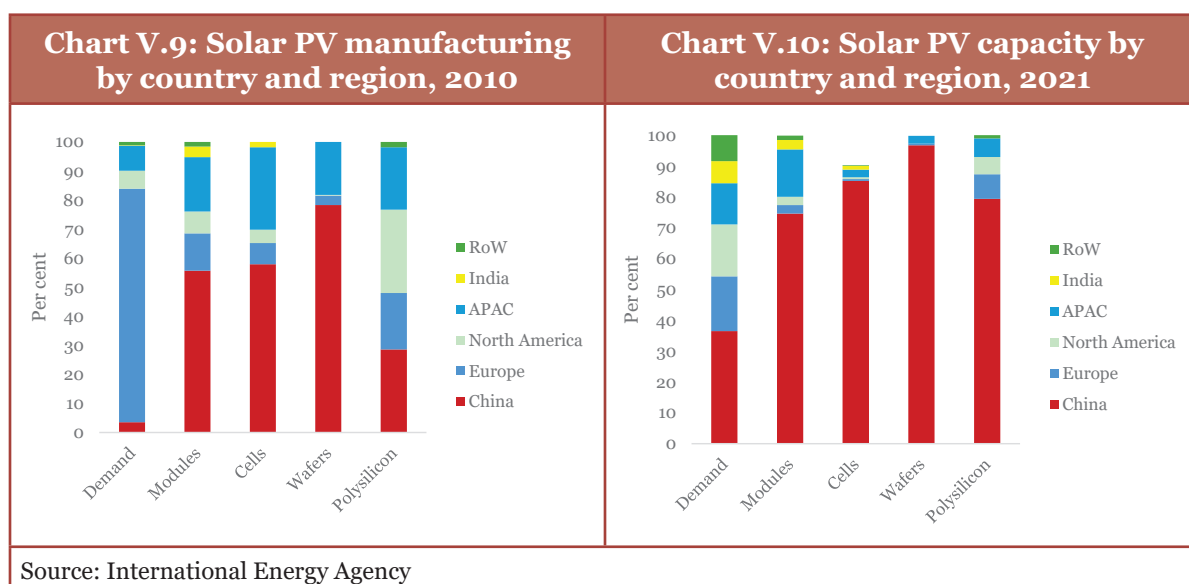


15 PIB Press release by Ministry of Environment, Forest and Climate Change dated 03 February, 2022, <https://tinyurl.com/39sxxub5>.

16 Report on Optimal Generation Mix 2020 Ver 2.0, Central Electricity Authority, Ministry of Power, <https://tinyurl.com/3bbuyypwe>.

17 International Energy Agency; Special Report on Solar PV Global Supply Chains (2022), <https://tinyurl.com/yz7nsa83>.

18 Ibid Note 17.



5.26 About 60 per cent of the world's wind installed capacity is sourced from China. China also houses nearly 80 per cent of the world's battery manufacturing capacity, pivotal to the energy transition.¹⁹ In 2022 alone, China allocated USD 546 billion towards various investments in solar and wind energy, electric vehicles, and battery technologies vis-à-vis US and EU investments in these sectors, which amounted to USD 321 billion in the same year.²⁰

5.27 On the solar front, China controls the supply of primary materials, manufacturing, installed capacity, and recycling capacity and produces at least 80 per cent of the main components of PVs.²¹ China's vertical integration across the entire electric vehicle (EV) supply chain, from mining to EV manufacturing, has enabled it to retain its global dominance in this sector. It is also pertinent to note that about 70 per cent of the world's rare earth minerals, which are critical resources for high-storage batteries, are processed by Chinese companies²² (See Box V.1)

Box V.1: Supply Chain Considerations for Electric Vehicles

Mitigating road transport emissions, which comprise nearly 75 per cent of the emissions from the transportation sector,²³ is critical to India achieving its Net Zero goals by 2070. Electric mobility is an important element in India's path to Net Zero. India has made impressive strides

¹⁹ <https://tinyurl.com/2sf8fu6d>.

²⁰ <https://tinyurl.com/mryusnud>.

²¹ Chadly, A., Moawad, K., Salah, K., Omar, M., & Mayyas, A. (2024). State of global solar energy market: Overview, China's role, Challenges, and Opportunities. Sustainable Horizons, 11, 100108, <https://tinyurl.com/3rtee8d9>.

²² Goldman Sachs, 2023, 'Resource realism: The geopolitics of critical mineral supply chains', <https://tinyurl.com/3rv7ren6>.

²³ Ritchie, H., & Roser, M. (2024a): "Cars, planes, trains: where do CO₂ emissions from transport come from?" Our World in Data. <https://ourworldindata.org/co2-emissions-from-transport>

in promoting the domestic manufacture of Electric Vehicles (EV). However, to sustain the growth momentum, there are some important considerations to keep in mind. For instance, manufacturing an Electric Vehicle, relative to a conventional car, requires nearly 6 times more minerals to produce²⁴, most of which are utilised in producing the EV battery. This is an important consideration as many minerals crucial to EV manufacturing are scarcely available or processed in India while simultaneously being concentrated in very few countries. The Ministry of Mines has analysed the 33 critical minerals vital to India's economic security and found that 24 are currently at high risk of supply disruptions²⁵.

China commands a significant share of critical mineral processing and production globally. Across key commodities such as Nickel, Cobalt, and Lithium, China alone is responsible for processing 65 per cent, 68 per cent and 60 per cent of the global output, respectively²⁶. Similarly, in the case of Rare Earth Minerals, China contributes to 63 per cent of global mining and 90 per cent of global processing output. Moreover, lithium-ion batteries will dominate other technologies for quite some time, and their demand is expected to grow at a CAGR of 23 per cent by 2030²⁷. The lack of viable alternative battery technologies reinforces China's dominant position in Lithium-ion batteries.

The pursuit of India's vision to decarbonise road transportation has been accompanied by impressive strides in the promotion of domestic manufacturing facilitated by schemes such as FAME India, the Production Linked Incentive (PLI) Scheme for Auto Components, and the Scheme for Promotion of Manufacturing of Electric Passenger Cars in India (SPMEPCI) among others. These schemes demonstrate the Government of India's awareness of the need to build domestic supply chains. These are good foundations. Future policies will have to broaden their scope of coverage in a manner that adapts to the growing needs of the EV industry. As demand for EVs is expected to grow, dependence on imported components such as DC motors, e-motor magnets, and other electrical parts will likely rise²⁸. Leading EV manufacturers have noted an increasing proportion of Chinese imports in their total material expenditures, reflecting a significant dependence on China for certain resources and technical knowhow.²⁹

Initiatives such as the PLI Scheme for Advanced Chemistry Cell Manufacturing and the setting up of Khanji Bidesh India Limited (KABIL) have been undertaken to deal with such risks. Going forward, policies for electric vehicles must focus on de-risking supply chains by promoting a more self-reliant ecosystem powered by increased R&D in advanced battery technologies, such as Sodium-ion and Solid-State Batteries. Securing intellectual property in this domain can prove invaluable. Additionally, facilitating investment in battery recycling

24 IEA. (2021): "Minerals used in electric cars compared to conventional cars – Charts – Data & Statistics", International Energy Agency, <https://tinyurl.com/maj5r9zu>.

25 Ministry of Mines. (2023): "Critical Minerals of India", Report of the Committee on Identification of Critical Minerals, Government of India.

26 Ibid Note 22.

27 Navigating the EV Battery Ecosystem. Bain & Company, <https://tinyurl.com/yc86x5sn>.

28 India Electric Vehicle Report 2023. Bain & Company.

29 <https://www.outlookbusiness.com/explainers/india-incs-ev-play-continues-to-face-the-chinese-dilemma>.

infrastructure can yield greater long-term gains for the Indian automotive sector. In the interim, PLI Schemes can also reward the making of EV cells (Lithium-ion cells), as most manufacturing and value addition happens up to the cell-making stage. Furthermore, India must aim to establish technology transfer agreements with other nations that are also seeking to diversify their supply chains. Partnerships with other aspiring nations can help distribute the high costs of securing a comparative advantage in the global market.

5.28 Expanding the public transportation network is another avenue of reducing dependence on overseas supply chains that E-Mobility entails and will entail for quite some time to come. Indian cities are making heavy investments – and rightly so – in metro rail networks and expanding their coverage. In Brazil and China, more than 50 per cent of urban residents enjoy convenient access to mass transit. However, in India, only 37 per cent of urban residents have easy access to public transportation. To replicate the success of other nations, India must focus on developing integrated transport systems that efficiently connect buses, metro rails, and other modes of transit. Investing in making public transportation more efficient, reliable, comfortable, accessible, and safe will also be a significant step towards achieving Net Zero goals while reducing our dependence on imports. Moreover, a robust public transportation system will also help reduce traffic congestion, promote energy efficiency, and ensure that the benefits of clean mobility are accessible to all socioeconomic groups, unlike private e-mobility solutions, fostering a more resilient and equitable energy transition.

5.29 It may be emphasised that India has made significant strides in promoting renewable energy and boosting domestic manufacturing of renewable energy equipment through initiatives such as the Production-Linked Incentive (PLI) scheme. The PLI scheme aims to enhance India's manufacturing capabilities in key sectors, including solar panels, wind turbines, and battery storage, by offering incentives to domestic manufacturers. The domestic manufacturing efforts under the PLI scheme are expected to significantly support India's renewable energy targets by reducing costs, improving energy security, and boosting employment. Domestic capacities are being built. For now, India sources 75 per cent of lithium-ion batteries from China, and it has near negligible production capacity for key components like polysilicon, ingots, and wafers.

5.30 In a hypothetical scenario, the IMF shows that where the trade of critical minerals between blocs is disrupted, investment in renewable energy and EVs could be lower by

as much as 30 per cent by 2030 compared to an unfragmented world.³⁰ The nature and threat of GEF are augmented by the fact that basic institutional structures that safeguarded the principles of multilateralism also find themselves at a crossroads. With this global backdrop, we turn to how India could achieve its growth and development goals.

IMPLICATIONS FOR INDIA'S GROWTH PROSPECTS

5.31 Viksit Bharat@2047 envisions India as a developed nation by 2047, the centenary of our independence.³¹ This would entail sustained economic growth of close to 8 per cent every year for at least a decade. To achieve this growth, the investment rate must rise to approximately 35 per cent of GDP, up from the current 31 per cent. Additionally, it will be essential to develop the manufacturing sector further and invest in emerging technologies such as AI, robotics, and biotechnology. India will also need to create 78.5 lakh new non-farm jobs annually till 2030,³² achieve 100 per cent literacy, develop the quality of our education institutions, and develop high-quality, future-ready infrastructure at scale and speed.

5.32 India has carried out a series of structural reforms in the last decade. From the Goods and Services Tax (GST), which has been verily described as India's EU moment, to the Insolvency and Bankruptcy Code (IBC), which established a framework for dealing with corporate renewal, to the RERA (Real Estate Regulation Act), which helped clean up the real estate sector and rapid roll-out of digital infrastructure - the India Stack (UID, UPI, DBT). The introduction of GST in July 2017 marked a significant shift in India's indirect tax structure, aiming to create a unified, streamlined taxation system across the country.

5.33 The implementation of GST generated a host of positive externalities through enhancement in ease of doing business, giving impetus to digitalisation, fostering economic integration via the creation of a single market, and adding to the buoyancy of revenue generation and collection. Similarly, IBC has led to faster resolution of non-performing assets (NPAs) in banks and created a more efficient bankruptcy process, boosting investor confidence and India's Digital Public Infrastructure (DPI) has emerged as a game-changer in the country's journey towards a more inclusive and efficient economy. By leveraging digital tools and platforms, DPI has not only enhanced the accessibility of services but also brought transformative benefits across various sectors.

30 IMF Blog, 2023, 'Goeconomic fragmentation threatens food security and clean energy transition', <https://tinyurl.com/57s7z7rt>.

31 PIB Press release by the Ministry of Youth Affairs and Sports dated 21 November 2024, <https://tinyurl.com/mrxf5bc5>.

32 PIB Press release by the Ministry of Finance dated 22 July 2024, <https://tinyurl.com/46nx4fr9>.

5.34 Besides the above, India recognises the critical role of micro, small, and medium enterprises (MSMEs) in driving economic growth, employment generation, and innovation. The government has implemented several policies and initiatives over the last decade to support and promote the growth of MSMEs. These efforts focused on improving access to finance, enhancing technological capabilities, providing market linkages, and addressing structural challenges MSMEs face. However, while these initiatives have made significant strides in promoting MSMEs, some challenges in the regulatory environment remain. Regulatory compliance burden holds back formalisation and labour productivity, limits employment growth, chokes innovation and depresses growth.

5.35 There is an observed tendency for firms in India to remain small. By staying small, firms lose access to institutional capital, skilled talent, and technology infusion and often function outside formal supply chains. This creates a parallel informal economy and contributes to low labour productivity. The logic for staying small often is to remain under the regulatory radar and steer clear of the rules and labour and safety laws. Ironically, the biggest casualties are employment generation and labour welfare, which most regulations were originally designed to encourage and protect, respectively.

5.36 Much has been done in this space through policy action to incentivise firms to grow. Part of the solution lies in digitisation, decriminalisation and divestment of functions. Measures such as the PAN 2.0 project focusing on paperless processes while establishing PAN as a common identifier for all digital systems of specified government agencies are steps in the right direction.³³ Similarly, the Jan Vishwas Act 2023 decriminalised 183 provisions in 42 central Acts administered by 19 ministries/departments.³⁴ The Joint Parliamentary Committee reviewed the Jan Vishwas Bill and subsequently recommended extending the exercise to further Acts, ensuring the continuous modernisation of India's regulatory framework – Jan Vishwas 2.0.³⁵ Thus, it is true that much has been done, and it is also true that much remains to be done for at least two reasons. One is our size; two, as the economy grows, hitherto unseen and non-binding constraints emerge and become binding. Hence, there is a constant need to evolve.

5.37 Chapter 5 of the Economic Survey of FY24 identified various structural reforms and strategies across sectors to focus on from a medium-term perspective. These included suggestions regarding creating an enabling policy and regulatory environment for the upgradation of capacity and know-how of component manufacturers, increasing the availability of trained human resources, addressing resource bottlenecks and regulatory impediments to accelerate India's gross fixed capital formation, strategy for growth and

33 PIB Press release by the Ministry of Finance dated 26 November 2024, <https://tinyurl.com/yz7y7jba>.

34 PIB Press release by the Ministry of Commerce and Industry dated 02 August 2023, <https://tinyurl.com/ukhabyzz>.

35 PIB Press release by the Ministry of Commerce and Industry dated 28 September August 2024, <https://tinyurl.com/mpnbvp6m>.

expansion of India's Mittelstand and helping it to expand via deregulation and policy actions at the level of states and local governments; undertaking reforms that help remove the growth impediments in the agriculture sector; a strategy to leverage the rapidly growing pool of global green capital from sovereign wealth funds, global pensions, private equity, and infrastructure funds for securing green transition finance; working towards bridging the education-employment gap and enabling the New Education Policy to realise its objective and potential; and building state capacity and capability.

5.38 To succeed with these structural reforms, a fundamental pre-requisite is to accelerate and amplify the deregulation agenda already underway in the last ten years and work towards giving people back their agency and enhancing the economic freedoms of individuals and organisations. The Preface again has underscored the importance of this eloquently.

5.39 Amidst this new and emerging global reality, the best way to succeed with these structural reforms is to start relying on the internal engines and domestic levers of growth, focusing on a central element – the economic freedom of individuals and organisations to pursue legitimate economic activity. Unburdened by licensing, inspection and compliance requirements, the people and small enterprises of India, with their high aspirations and intrinsic inventiveness, will find answers to the pressing challenges of growth, employment and development. Accelerating and amplifying the deregulation agenda already underway in the last ten years is the need of the hour. Also, every state in the country can learn from the best practices of other states in different areas so that all progress in unison. The next section shows the way forward.

REINVIGORATING THE INTERNAL ENGINES OF GROWTH - ENHANCING ECONOMIC FREEDOM THROUGH DEREGULATION

5.40 As outlined in the sections above, the global economy is now transitioning to a phase where the traditional, fundamental policy levers that were once effective may no longer be applicable or even relevant. Across the world, the focus of policymaking globally has shifted inwards. The promise of shared benefits from a globalised world with open trade, free flow of capital and technology, and sanctity for rules of the game may be behind us. It is as unwelcome and unfortunate as it is real.

5.41 To be clear, we do not suggest India closes itself to the world. On the contrary, the current tendencies in the rest of the world necessitate that India redoubles its efforts to boost exports and attract investment. One way to do this is to benchmark ourselves to the rest of the world rather than our past. However, given the uncertain global environment and fraught geopolitics, expectations of the external sector's contribution to our economic growth must be realistic. Therefore, we need to intensify our efforts on the domestic front.

5.42 To achieve a sustained rise in living standards, the Indian economy will need to grow by around 8 per cent in real terms every year for at least a decade. Achieving this growth will require an increase in the investment rate to around 35 per cent of GDP from the current level of around 31 per cent. It is deemed desirable, in general, for the investment rate to rise so that a higher GDP growth rate is achieved. That has been the experience of East Asian economies, starting with Japan post-WWII and ending with China in the last four decades.

5.43 The context has changed dramatically, as elaborated in the previous sections. Therefore, as discussed in Chapter 3, the amount of investment that can be supported by external savings supplementing domestic savings must be reassessed. It means that raising the efficiency of investment matters more for economic growth than raising the investment rate. The investment efficiency rate is improved by reducing the time taken for investment to generate output and by generating more output per unit of investment.

5.44 Unleashing the potential of domestic-led growth in India via enhancement of investment and economic efficiency will entail a combination of efforts, viz., assessing the actual/true cost of regulation, undertaking systematic deregulation to reduce/remove the same by liberalising standards and controls and designing policy prescriptions that reduce the cost and burden of undertaking an economic activity, for citizens and businesses alike. India must pursue economic growth by undertaking policy actions that enhance economic freedom, i.e. citizens' unhindered ability to pursue legitimate economic and entrepreneurial aspirations.

Deregulation and economic freedom: A catalyst for growth

5.45 Deregulation is more critical for MSME growth than large enterprises. Compliance costs in terms of time and financial resources are non-trivial for MSMEs. Large enterprises usually find a way around compliance. Management and financial bandwidth are limited for smaller enterprises. Therefore, deregulation is a policy agenda for small businesses. Over the past decade, India's policy focus has demonstrated an awareness of this approach, recognising the importance and urgency of deregulation while establishing a framework for comprehensive process and governance reforms. The first phase of these reforms focused on reducing the compliance burden, streamlining and digitising systems, processes and information and providing incentives for specific sectors. The union government has undertaken deregulation by implementing process and governance reforms, simplifying taxation laws, rationalising labour regulations, and decriminalising business laws. For example, the union government brought to Parliament reforms to our forest regulations that stood in the way of enterprises doing something as simple as building a passageway from their property to the main road.³⁶

³⁶ Forest Conservation (Amendment) Act, 2023 (No. 15 of 2023).

5.46 On their part, states have also participated in deregulation by reducing compliance burdens and simplifying and digitising processes. States have tried to reduce the cost of regulations by engaging with businesses to identify pain points. For example, Haryana and Tamil Nadu amended their building regulations 12 times in the past decade to make it easier to build.³⁷ Similarly, Punjab conducted grievance redressal sessions with industries and liberalised several building, labour, and fire regulations.³⁸ In the same vein, Andhra Pradesh, Karnataka and Haryana have relaxed the prohibitions on employing women in night shifts for Information-Technology-Enabled-Services (ITES) industries by instituting conditional exemptions, and Uttar Pradesh has relaxed building regulations for hotels.³⁹

5.47 The assessment of states as per the Business Reform Action Plan (BRAP) formulated by the Department for Promotion of Industry and Internal Trade confirms the above hypothesis and shows that deregulation helps spur industrialisation. Chart VII.21 in the Industry Chapter of this Economic Survey shows a positive correlation between the ease of doing business in states and the level of industrial activity, suggesting the need for deregulation and enterprise-friendly reforms in aspiring and emerging states. These findings are aligned with international experiences that countries have had while undertaking deregulation, such as an increase in consumer welfare, facilitating competition and innovation in industry and an overall positive effect on economic growth (Winston, 1993).⁴⁰

5.48 Such efforts have laid the foundation for states to embark on the next round of reforms now, the need for which is urgent and the scope for which is immense. Many states have set targets of becoming billion to trillion-dollar economies over the next two decades. However, current regulations act as binding constraints on growth by increasing the cost of market entry, force-fitting inefficient models for operations, and prolonging industrial sickness. Regulations hurt businesses' ability to start and grow over time. For example, factory regulations make it cheaper for a business to run two 150-worker factories than one 300-worker factory,⁴¹ discouraging economies of scale. Regulations also hurt workers by discouraging job creation, limiting wages, and encouraging informal employment. For example, Indian workers cannot formally work overtime because the law requires employers to pay at least twice the regular wage.

37 Anand, B.; Roy, S. & Kaur, S. (2024, April 17). "Trends in amendments to building regulations. <https://prosperiti.substack.com/p/24-trends-in-amendments-to-building>.

38 Business today, 2023, 'Sarkar Sanatkar Milni: Industrialists appreciate Punjab CM's initiative in Jalandhar', <https://tinyurl.com/3h4m9uc5>.

39 Conditions for women's employment at night in Haryana: <https://tinyurl.com/msemuxke>.
Conditions to employ women at night in Karnataka: <https://tinyurl.com/yc3fmrur>.
Uttar Pradesh amends building regulations for hotels: <https://tinyurl.com/uus6bjm4>.

40 Winston, C. (1993). Economic Deregulation: Days of Reckoning for Microeconomists. *Journal of Economic Literature*, 31(3), 1263–1289. <http://www.jstor.org/stable/2728241>.

41 Chapter V, Factories Act, 1948 (No. 63 of 1948).

Indian workers accept informal employment to receive overtime pay.

5.49 Regulations increase the cost of all operational decisions in firms. For example, factory owners must dedicate time and resources to obtain the Change of Land Use license and ensure compliance with zoning regulations. Factory owners must also invest in transportation, additional land, construction of rooms for rest and canteens, and paperwork to employ women on night shifts. Current regulations also discourage innovation and creative destruction. Similarly, Indians cannot undertake apprenticeships while undergoing formal education due to working hour limits on apprentices.

5.50 In many cases, current regulations are gold-plated, i.e. they are set with an inflated assumption of regulatory capacity and the capacity of regulated entities to comply. There is some scope for making many of the current regulations less restrictive, in line with comparable standards recommended by international bodies and adopted by other countries.

5.51 Given their economic capacity, Indian firms cannot adhere to applicable regulations without jeopardising growth opportunities and hurting investments and job creation. For instance, if there is a surge in orders during specific months in the year, exporting firms should have the flexibility to deploy more labour hours and lower them during lean seasons. This flexibility is needed. Indian regulations force employers to redirect resources away from potential growth and employment opportunities to meet compliance requirements. For example, an Indian factory owner with a 5,000-square-metre plot can be required to forgo up to 69 per cent of their plot to comply with building standards. This tract of lost land can cost up to ₹ 1.58 crore and could have been used to create up to 509 additional jobs.⁴²

5.52 In sum, the faster economic growth that India needs is only possible if the union and state governments continue to implement reforms that allow small and medium enterprises to operate efficiently and compete cost-effectively. Regulations must be rationalised to ensure that the regulation is the minimum necessary to achieve its objectives and the maximum feasible given the limited managerial and other resources at the disposal of small and medium enterprises. The focus of reforms and economic policy must now be on systematic deregulation.

5.53 States can undertake systematic deregulation by systematically reviewing regulations for their cost-effectiveness by following a three-step process:

Identifying areas for deregulation: Ease of Doing Business (EoDB) 2.0 should be a state government-led initiative focused on fixing the root causes behind the unease of doing business. States are rule-making bodies and not just implementing agencies. States have exclusive jurisdiction to regulate List II subjects like land, buildings, water, and local trade and commerce. States can regulate concurrently with the union government on List III subjects like labour welfare, electricity, and mechanical vehicles.⁴³ States can systematically deregulate laws on all these subjects by amending the primary law. Where the union government sets the primary law, states also have the option to deregulate by amending subordinate regulations. States should consider these options while identifying opportunities for deregulation. States may consider the following areas of regulations as a starting point to identify reform opportunities:

Table V.1: List of areas of regulation and provisions affecting businesses

Area	Examples of regulations
Legal Status and admin	Municipal laws, citizen charters, accountability in public service delivery
Land	Land revenue, land reform, town and country planning, land ceiling
Building and Construction	Town and country planning, building bye-laws, fire safety laws
Labour	Rules under Union Codes, factories, contract labour, shops laws
Utilities	Water, electricity, building bye-laws, municipal laws
Transport	Motor vehicles laws, motor transport workers laws, carriage of goods
Logistics	Warehousing and logistics policies, building bye-laws
Buying and Selling	Agricultural Produce and Livestock Market Committee laws
Environment	Laws for prevention and control of pollution of water, air
Sector Specific	Excise, food safety, legal metrology

In each of these areas of regulation, the state issues mandates, including permits, standards, price and quantity controls, fees and taxes, compliances, inspections, and penalties. Each substantive mandate increases the cost, time, and uncertainty of starting and operating a business, discouraging intensive economic activity and

⁴³ Seventh Schedule, Constitution of India, 1950.

the growth of enterprises. Liberalising standards and controls, revising licensing norms, modifying regulatory thresholds, blunting barriers to enterprise growth, and instituting procedural safeguards are some examples of reform actions needed. Thereafter, states must implement line-by-line corrections to regulations to allow greater freedom in decision-making.

Thoughtfully comparing the regulations with other states and countries:

States should learn from inter-state and inter-country comparisons of regulations to identify opportunities for growth-inducing reforms. States can learn from each other's recent deregulation experiences and creative solutions deployed towards common problems. Learning from the example of other states that have deregulated could save discovery time. For example, until the early noughties, all states prohibited women from working night shifts. Over the years, states like Andhra Pradesh, Karnataka, and Haryana began deregulating women's opportunities by moving to a permissions-based system and then to a conditions-based system.⁴⁴ Some states have completely deregulated women's participation in the IT industry. Such initiatives and experiences hold important lessons for all states.

Moreover, international experiences with regulation also hold some important lessons. On many issues, other countries (and states within other countries) have moved from a more controlling position to a more deregulated context. In the Asian neighbourhood alone, there are many context-appropriate examples of deploying less onerous regulations without jeopardising citizen welfare. For example, Japan allows mixed-used development in densely populated urban areas, and Korea allows weekly working hour limits to be averaged over 6 months.⁴⁵ Farther afield, there may be even more useful lessons. For example, some parts of the United States have adopted an "as-of-right development" stance, reducing the number of pre-construction approval steps.⁴⁶ The rise of competitive federalism in India allows states to apply such international experiences in simplifying and reducing regulatory burdens to draw investments. However, some caution must be exercised in emulating what may be seen as best practices. Instead of only looking for 'best practices', states should identify the 'minimum necessary, maximum feasible' option for regulation.

44 Karnataka: Karnataka Shops and Commercial Establishments (Amendment) Act, 2002 (No. 14 of 2002) Haryana: Notification No. 6/35/2002-1Lab.

Andhra Pradesh: G.O.Ms.No.16, LET&F (Lab.II) Deptt., dt:30.05.2002.

45 Japan: City Planning Act, Act No. 100.

South Korea: Labour Standards Act, Act No. 11270.

46 United States: Massachusetts General Laws c. 40A.

Estimating the cost of each of these regulations on individual enterprises:

Every regulation imposes monetary, opportunity, and state capacity costs. Most regulations require businesses to spend some money to ensure and demonstrate compliance. This monetary cost is often coupled with foregone entrepreneurial opportunities. In addition, every mandate requires the ability to check and enforce compliance. States must systematically account for the unit-level impact of every regulation before they are passed. For example, Indian states require factories with a 10,000 square metre plot to forgo between 1,164 to 3,522 square metres of land for setbacks. As a result, setback regulations cost Indian factories the productive value of land valued up to ₹97.5 lakh and the opportunity to create up to 521 jobs.⁴⁷ This is not to argue that setbacks are to be done away with but to make the case that regulation must reckon with the deadweight loss and the opportunity cost of every such imposition.

States must also anticipate the unintended consequences of regulations. States often set regulations to achieve some welfare objective without recognising how the regulations may affect businesses in the long term. For example, many states classify strips of land beside public roads as 'protected forests'. States classified these 'strip forests' in the first two decades after independence to increase protections for tree cover in populated areas. Over the years, this simple classification has resulted in businesses spending over 250 days obtaining approval for simple passageway access. These costs are disproportionate to the benefit of protecting tree cover in populated areas and were entirely unintended. Such standards set unrealistic expectations given the binding constraint under which the Indian State operates – the still-evolving state capacity. Often, these standards mimic those set in high-state capacity nations without commensurate functionalities. For example, today, only 644 working inspectors are available to oversee compliance in 3,21,578 factories,⁴⁸ with each overseeing around 500 factories. Under low-state capacity administrative systems, unrealistic expectations can lead to "premature load-bearing".⁴⁹ In the future, States may consider the following list of approaches [See Table 2] as a guide to designing reform options for each regulation:

47 Anand, B.; Roy, S.; Kaur, S. (2024). 'State of Regulation: Building standards reforms for jobs and growth'.

48 Directorate General of Factory Advice Service and Labour Institutes (DGFASLI) (2022). 'Standard Reference Note'.

49 Andrews, Matt; Pritchett, Lant; Woolcock, Michael. (2017, January). 'Premature load bearing: Doing too much too soon'. Building State Capability: Evidence, Analysis, Action (Oxford, 2017; online edn, Oxford Academic, 16 Feb. 2017), <https://tinyurl.com/53we9579>.

Table V.2: List of potential approaches for reforming laws affecting businesses

Approach to reform	Description	Status
Reduce compliance burden	Reduce administrative costs incurred by businesses to demonstrate adherence to laws.	Already pursued in Phase 1 of EoDB
Streamline systems, processes and information	Modify processes for business-government interactions to remove redundancies, simplify process flow, and increase transparency and accountability of government services.	
Digitise systems, processes and information	Establish digital means of interacting with businesses to improve efficiency.	
Provide incentives	Extend special benefits to key sectors or clusters of businesses.	
Liberalise standards and controls	Minimise controls that distort markets, adopt a 'minimum necessary, maximum feasible' approach to setting regulations	This may be pursued in Phase 2 of EoDB
Set legal safeguards for enforcement	Ensure adherence to due process norms to encourage a facts-based resolution of disputes	
Reduce tariffs and fees	Minimise or remove mandated charges inflating utility costs	
Use risk-based regulation	Tailor legal norms to the risk profile of businesses, involve third parties in enforcement	

5.54 States have undertaken four of these eight approaches in the first phase of EoDB reforms. In the next phase, they must break new ground on liberalising standards and controls, setting legal safeguards for enforcement, reducing tariffs and fees, and applying risk-based regulation.

- **Liberalising standards and controls:** States can reduce the cost of compliance by liberalising standards and controls on Indian businesses. Indian regulations require firms to invest time and money and forgo growth opportunities to ensure compliance. These regulations must be examined to ensure they impose the lowest

cost necessary to achieve their social objectives. Specific examples in this regard have been outlined in Box V.2.

- **Setting legal safeguards for penalties and enforcement:** States can enforce many regulations through punitive actions like civil penalties and cancellation of licences. These punitive actions can limit businesses' ability to operate within legal limits. States can improve the investment climate by increasing the accuracy and transparency of such punitive action. See specific examples in Box V.2.
- **Reducing tariffs and fees:** States impose direct costs on the operation and growth of Indian businesses by imposing tariffs and taxes. While these regulations support public spending, these regulations can also reduce the competitiveness of Indian businesses. States can encourage sustained growth by rationalising tariffs and fees in line with standards from other jurisdictions, sub-national or international. See specific examples in Box V.2.
- **Applying risk-based regulation:** States impose similar regulations on businesses that pose differing risks of some socially undesirable consequence, viz. fire, pollution and building collapse. This often results in low- and medium-risk businesses bearing an inordinately high cost of compliance. Under such general regulations, state departments also struggle to scrutinise riskier businesses adequately. By adopting risk-based regulation, state departments can optimise public resources to generate social benefits like fire safety and environmental protection. Under risk-based regulations, low- and medium-risk businesses would also face lower compliance costs without substantial public safety and health reductions.

Box V.2: Making a case for EoDB 2.0

A. Liberalising standards and controls

Removing prohibitions on women from working in factory processes: Indian states prohibit women from many factory processes. India's ten most populous states collectively impose 139 prohibitions on women from participating in specific factory processes. Governments impose these prohibitions given the dangerous nature of the processes. However, inter-state comparison and scientific literature indicate that these prohibitions are enforced without evidence of special health risks to women workers. For example, some states allow women to participate in abrasive blasting (used to clean metal surfaces), but others prohibit women from participating in the same process. Similarly, women are prohibited from participating in any process to manufacture lead or its compounds. However, scientific literature indicates that lead is not likely to pose special health risks to women. These prohibitions exclude women from high-paying jobs, making the prohibitions counterproductive.

Rationalise parking norms to reduce land loss in industrial and commercial plots: Commercial buildings in many Indian states must build more floors to get the same floor space as some frontier states and countries. This makes Indian commercial

buildings artificially slender, wastes valuable commercial land, and increases the cost of construction. This happens due to restrictive setbacks and ground coverage regulations that force commercial buildings to have a higher slenderness ratio than in other countries. Therefore, an entrepreneur must build more floors to have the same built-up area if the ground floor were available, incurring a higher construction cost. Many state governments have designated 'tourism and hospitality' and 'information technology' as thrust sectors. States should increase the productivity of commercial land used by hotels and offices to provide impetus to these industries.

B. Setting legal safeguards for penalties and enforcement

Adding safeguards to reduce chances of arbitrary administrative action:

States enforce compliances without being bound by standards that ensure proper use of punitive powers. As per administrative law norms, states should only impose punitive measures after ensuring that the accused person is:

1. Issued a show-cause notice with adequate facts about the alleged violation,
2. Allowed an opportunity to represent their side of the argument,
3. Issued a reasoned order detailing the reasons for the final decision by states and
4. Allowed appeals against decisions.

However, Indian regulations do not require states to adhere to these procedural safeguards while pursuing punitive action. For example, many states do not require

departments to issue detailed show-cause notices, allow representations by the accused person, or issue reasoned decisions before sealing or demolishing buildings. Without these safeguards, states are more likely to make inaccurate or bad-faith decisions about the use of buildings in Indian cities. Guaranteeing procedural safeguards by law can reduce the legal risk of investments and job creation, encouraging rapid growth.

C. Reducing tariffs and fees

Reducing electricity tariff markup for industrial users: States impose a high markup on the sale of electricity to industries. This high markup discourages industries from formally operating and growing over time. Across states, industrial users can pay a 10–25% markup over the cost of electricity supply. Other countries impose lower rates for electricity use. For example, Vietnam sets the electricity sale price at a 10% lower rate than the cost of generating electricity. Such differences in energy costs reduce the global competitiveness of Indian factories, discouraging growth.

D. Applying risk-based regulation:

Increasing the role of private parties in building approvals and inspections:

Indian states give private parties limited opportunities to participate in enforcement processes for building safety. This limits the ability of Indian states to enforce regulations and encourage compliance. Indian states only allow private parties to participate in the approval of the initial building plan. However, all subsequent approvals and inspections are conducted by government officers. Given the paucity of officers, state departments cannot enforce building regulations in growing cities without augmenting state capacity with private parties.

Other countries have had positive experiences involving third parties in enforcement processes for building safety. For example, Australia and Canada adopted the 'Public-Private Partnership' (PPP) model to enforce building safety regulations. Close to seventy per cent of applicants chose to obtain licences from private parties due to their speed of service, availability and specialisation. The PPP model also engendered competition between public and private agencies, encouraging greater enforcement and improved safety outcomes.

Increasing the validity of fire NOC for low- and moderate-risk buildings:

States set a low validity period for fire NOCs. The low validity periods discourage applicants from obtaining NOCs. In most states, industries are only issued a Fire NOC for one to three years. Industrial owners must repeatedly submit similar information to renew NOCs. In many states, applicants are required to answer many questions about the building and plot's structure and the instalments to obtain a Fire NOC every two years. Even if applicants apply for NOCs, some state departments do not have sufficient administrative strength to decide on all applications. By raising the validity period, state departments can reduce their administrative burden and reduce compliance costs for applicants without jeopardising fire safety.

Renewed paradigm for medium-term growth

5.55 Complementing the efforts of the Centre, States must pursue systematic deregulation as a policy priority so that economic freedom of factors of production is augmented. Factor market regulations, i.e. laws that affect the use of land, labour and building, are the right place to begin since these regulations affect decision-making in all enterprises. States can begin the deregulation exercise by identifying regulations that affect decision-making in enterprises. Next, states can compare their regulations on these issues with those in other states and countries. Finally, after identifying alternatives, states must examine the economic impact of their current regulation on a single sample enterprise. States need not undertake a complex analysis of all economic effects. Instead, states may undertake a data-informed exercise of mapping how much resources, time, and risk a single enterprise must devote to compliance.

5.56 The call for enhancing economic freedom through deregulation has renewed momentum in today's rapidly evolving global economy. Over-regulation stifles innovation and economic dynamism. In many instances, regulations, while intended to protect consumers, workers, and the environment, can unintentionally create barriers to entry, reduce competition, and slow the pace of innovation. By reducing excessive regulatory burdens, governments can help businesses become more efficient, reduce costs, and unlock new growth opportunities. Strategic and systematic deregulation can catalyze growth, innovation, and competitiveness.

5.57 Systematic deregulation is as critical, if not more, as investments in infrastructure and incentives to encourage innovation and create a viable Mittelstand, i.e. India's SME sector. The focus on Mittelstand has played a pivotal role in the economic success of countries like Germany, Switzerland, Japan, and Singapore. These nations have leveraged the strength of their Mittelstand to drive innovation, foster high-quality manufacturing, and create a robust export economy. With deregulation, India's Mittelstand can help the states weather economic shocks, enable India to realise its manufacturing aspirations, attract long-term investments, and encourage growth. Such growth would be sustainable and 'employment-sensitive', i.e., enhancing workers' long-term welfare.

5.58 Even as large companies invariably tend to prioritise capital-intensive growth over labour-intensive growth, small and medium enterprises are likely to have a better balance between the two, encouraging employment generation. That is a compelling reason to ensure that the state does not hinder their growth. States have an opportunity to undertake regulatory reforms that fundamentally change the nature of interaction between governments and small and medium businesses. States can encourage a facilitative and collaborative relationship by adopting regulations sensitive to businesses' economic capacity and minimising opportunity costs.

5.59 Countries worldwide have instituted programs for a sustained focus on deregulation. For example, the United States has created the Office of Management and Budget. This office examines all proposed legislation in the Federal Government based on cost-effectiveness. The incoming administration in the US has set a great store of deregulation by setting up a new Department of Government Efficiency. In an op-ed in the Economist, the Argentinian President argued for economic prudence and reduced regulatory burdens⁵⁰. Similarly, the United Kingdom Parliament has adopted the Better Regulation Framework. As part of this framework, the Parliament enacts all new legislation in adherence to the 'one-in, two-out' principle', requiring every pound of new regulatory burden on businesses to be offset by identifying and removing two pounds of existing burdens from other areas of the regulation⁵¹. New Zealand has established a Ministry of Regulation to examine laws and propose repeals and amendments to improve compliance experience. Indian states must examine these global experiences and carry key lessons relevant to their contexts.

5.60 The need to find growth avenues in an export-challenged, environment-challenged, energy-challenged, and emissions-challenged world means we need to act on deregulation with a greater sense of urgency. The focus on domestic growth levers is not an option but a compulsion. Without deregulation, other policy initiatives will not

⁵⁰ XX Milei, Javier (2024, November 20). 'Argentina: the making of an economic miracle?' <https://tinyurl.com/yeybxa85>.

⁵¹ Department for Business Innovation and Skills (2014). 'The Ninth Statement on New Regulation'.

deliver on their desired goals. The right balance of regulation and freedom can unleash the creative and productive capacities of India's small and medium entrepreneurs, leading to innovation, greater competition, and overall prosperity. By empowering small businesses, enhancing economic freedom, and ensuring a level playing field, governments can help create an environment where growth and innovation are not only possible but inevitable. India's growth aspirations require nothing less.

5.61 The areas suggested for deregulation in this chapter are merely illustrative. But, there are multiple benefits and likely unintended beneficial consequences once they are set in motion. Concerted actions by states towards deregulation will lift sentiment, enhance faith and trust in governance, and even improve compliance as the relationship between the governing and the governed turns into a partnership. Second, once some regulations are repealed or simplified, the remaining ones become progressively easier. It is like peeling an onion. Once one layer is removed, the other layers come into view and become easier to peel off. Third, it may set off a 'butterfly effect', referred to in a different context earlier in this chapter. The butterfly effect means that small actions can have large consequences. Small acts of deregulation may set off big waves of entrepreneurship, investment, innovation and growth.
