The Hoover Institution's

Annual Survey of India 2026

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2. India’s Economy

Inside and Out

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INTRODUCTION

In 2023 India overtook China as the world’s most populous nation. In December of that year, the national government announced a goal of becoming a developed country (Viksit Bharat) by 2047, the centenary of India’s independence. This goal was accompanied by a comprehensive policy road map, albeit with very broad contours. But in essence, to achieve developed country status by 2047 India would have to grow at something like 8 percent a year for just over two decades. This is not impossible, but it does exceed the growth rate that India has been able to sustain for any appreciable length of time in the past.[1]

However, one can analyze India’s prospects for economic growth without tying the analysis to the achievement of a particular objective. This chapter provides a brief overview of what might be a realistic trajectory for India over the next decade. In doing so, it examines the government’s own road map, as well as several recent analyses of the Indian economy, along with a summary of the economy’s performance over the past year. However, rather than making the country’s overall economic prospects the only focus of the chapter, we offer two additional perspectives.

First, we look “inside” India, examining some of the country’s heterogeneity. It is a commonplace observation that India’s states, which have their own political importance, are similar in population size to many countries. Even a relatively small Indian state like Punjab has a population larger than that of Australia. Examining and understanding India’s internal economic heterogeneity can be useful for assessing its overall growth prospects. This is discussed in the third section of the chapter.

Second, given the turmoil in the world trading system that has been unleashed in 2025 and India’s unfortunate situation as a target of US tariff increases, we provide some context and analysis of India’s engagement with the global economy to understand the possible implications for growth. These implications may go beyond trade restrictions if, for example, foreign investment is affected, or increased uncertainty reduces investment of all kinds. What is happening “outside” India is the subject of the fourth section of the chapter.

The final section of the chapter brings together the previous three dimensions to offer a summary conclusion of what might be in store for India’s economy over the next decade and beyond, including different scenarios and the impacts of various contingencies.

A Chapter from The Hoover Institution’s Annual Survey of India 2026

INDIA'S GROWTH PROSPECTS

Scholarly assessments of India's growth experience have been numerous, offering varying uses of empirical techniques. Some of the best-known analyses contain a detailed description of the trajectory of the economy under different policy regimes, combined with analytical arguments relating performance to policy choices.[2] Other studies use growth accounting or econometric techniques to relate growth performance to proximate determinants of growth such as investment (or capital formation), the reallocation of resources, and productivity improvements.[3] Of course, how these proximate factors operate depends on the structure of the economy, which is shaped by policy choices, but quantifying drivers of past growth can point to where policy might matter.

The Economic Survey of India, an annual document of the Government of India that accompanies the Union Budget—the national government's detailed revenue and expenditure projections for the coming year—typically focuses on documenting the state of the economy, with a rich array of data. But it also includes conceptual discussions of growth drivers and policy directions. These discussions are informed by a range of empirical and analytical work on the economy's growth drivers, though such work is not typically commissioned specifically for the survey. The articulation of a growth strategy for a Viksit Bharat can be found in chapter 5 of the Economic Survey of India for 2023–24.[4] The chapter lists key areas of policy focus in a somewhat heterogeneous formulation:

- Generating productive employment
- Addressing skill gaps
- Improving agricultural-sector performance
- Improving health outcomes
- Tackling economic inequality
- Reducing regulatory burdens and financial constraints for small businesses
- Deepening the corporate bond market
- Managing a green transition
- Navigating economic competition with China

The first four items on this list have, in one way or another, been areas of concern for a long time. Their continued presence on the list highlights not only their importance but also the limited success that India has had in these dimensions, even as the nation has improved its economic growth performance in recent decades. This recent growth performance has led to a major dent in poverty but has also raised new concerns about inequality, the fifth item in the list. It is fair to say that the next two items, concerning the underlying conditions for the functioning of Indian business, have become prominent more recently, as the national government has become more "business friendly" in its quest for economic improvement.

The matter of a green transition for India—reducing emissions in multiple dimensions of economic activity in the face of climate change—has also emerged more recently, and its implications are economywide, so its policy focus is different. Policies related to business finance, agricultural-sector performance, and skilling will all require attention to the structural changes in the economy necessitated by a green transition.

The question of China and its influence on India's potential economic trajectory is also recent in its salience. It reflects the West's realization of the risks and vulnerabilities of supply chains heavily dependent on China, as well as China's own increased political and economic assertiveness. As the survey notes, "The dynamics of India-China economic relations continue to be extremely complex and intertwined" (161), and there is no simple case for India stepping in to replace China in global supply chains. Indeed, the survey characterizes the situation as the "Chinese conundrum."

From the perspective of strategies to address the above nine areas of policy focus, with the goal of promoting accelerated growth, the survey highlights the following strategic policies:

- Boosting private-sector investment
- Growing an Indian version of a Mittelstand
- Removing growth obstacles in agriculture
- Bridging the education-employment gap
- Building state capacity and capability

The first four of these strategic areas align broadly with several of the areas on the policy focus list, with the last item clearly providing an overarching objective for policymaking and implementation. For the first area, the survey highlights creating an enabling environment through streamlining regulations, improving financial intermediation, and providing access to know-how, as well as reducing skilling deficits. A more active type of policy, already in place, is the use of monetary rewards to firms for increasing production and employment, thereby also incentivizing investment. *Mittelstand* is a term for small and medium enterprises—often in engineering-type industries—in Germany (and to some extent Austria and Switzerland), that are innovative and globally competitive. This is a new kind of strategic conceptualization for India, and the policies to support such a development include improved access to credit, better transportation infrastructure, and attention to supply chain requirements for such firms.

Strategic policies for the agricultural sector are spelled out in great detail in the survey, and they involve a radical restructuring of the sector, making it much more market oriented. The strategy for agriculture is also tied closely to India's green transition since climate change poses enormous threats to traditional agriculture in India because of major impacts on weather patterns. In 2020 the central government attempted significant reforms in agriculture but failed to do so in a manner that had political buy-in from many farmers—indeed, mass protests by farmers forced the government to backtrack completely at the time. The survey offers a more rounded perspective on the policies needed to ameliorate future threats to agriculture and to catch up to India's changing needs in food security—which is contrasted with *nutritional security*, the latter being a broader and more appropriate goal.

In contrast to the case of agriculture, the discussion of strategies to bridge the education-employment gap offers little more than noting that India has relatively new national education policies and skilling policies aimed at increasing employability and that skilling requires industry engagement. In particular, given the paucity of progress in the skilling dimension, the strategic framework offered in the survey seems weak. A similar assessment of strategies for building state capacity may be appropriate. The survey offers a historical overview of attempts at administrative reform and a short discussion of breaking up the problem of capacity building into more manageable components but not enough in the way of a comprehensive strategy.

The latest Economic Survey, produced only six months after its predecessor, naturally echoes the earlier articulation of strategy in discussing India's "medium term" growth prospects.[5] The first half of the discussion actually focuses on the rapidly changing global economic order. It was written before the chaotic introduction of higher tariffs by the Trump administration but already documented trends toward restrictions on international trade. This discussion also considers the implications for India's green transition, particularly China's position in new technologies and critical raw materials.[6]

But the dominant focus of economic strategies for promoting growth is on deregulation, especially in areas that affect small- and medium-sized firms.[7] The broad framing of this approach is in terms of "economic freedom," with a narrower articulation in terms of "ease of doing business." Ultimately, what matters is a range of state and local laws and regulations that affect the allocation of labor, land, and capital. The challenges posed by this web of regulations have long been recognized. Both political economy factors and social welfare concerns about the unintended negative consequences of deregulation have slowed progress. As emphasized in the survey, much of the policy work will have to be done at the state level—arguably, differences in the extent to which states have implemented policies favoring business have mattered to economic growth in their jurisdictions. Although a plausible alternative case can be made that larger structural or political factors have been more important for growth so far, a counterargument is that future growth will depend more on the state-level legal and regulatory reforms that the national government is emphasizing.

The policy focus on the details of what one can call *industrial dynamics*, in a manner that extends beyond India's politically and economically dominant business conglomerates, is arguably a shift in how India's economic strategy has been envisioned.[8] For example, an impressive document by thirteen prominent economists titled "An Economic Strategy for India" covered some of the same ground as the Economic Survey, focusing on rationalizing many kinds of regulations, but did not quite come to grips with the complex obstacles involved.[9] A detailed sense of the set of policies needed is still emerging: They will involve urban infrastructure, access to educated labor, high-quality management, and institutional mechanisms for risk sharing, among other policy areas that go beyond deregulation.[10]

The focus on deregulation, and on economic growth as measured by GDP per capita, has been the subject of broader conceptual and policy debates, not just in India. Amartya Sen pioneered the concept of capabilities as a measure of development, and this was operationalized in the Human Development Index (HDI) introduced by the United Nations. The HDI averages measures of material well-being, health outcomes, and educational attainment to arrive at a broader indicator of human flourishing than just GDP per capita.[11] One way to categorize policies has been to distinguish between growth-oriented and redistribution-oriented policies, though this does not solve the problem of how the two types might interact. It seems reasonable to assert that the balance between the two goals has shifted over time in India, partly due to experience and partly ideology. Comparisons or assessments of levels and improvements in HDI are difficult to make reliably, but in general, India's progress in areas such as health and education seems to have lagged behind its economic growth, highlighting the continuing policy challenges the country faces in becoming "Viksit."[12]

A somewhat different approach to measuring economic progress is that of the World Happiness Report (WHR), which uses direct surveys of people's self-perceived levels of life satisfaction.[13] Unlike the HDI, the WHR method uses people's own life evaluations. However, the WHR then examines to what extent various other factors explain these evaluations. These include GDP per capita, as well as measures of social support, healthy life expectancy, freedom to make life choices, and reduced corruption. India's economic growth over time has not tended to be associated with an improved happiness score and ranking, offering indirect support for a broader conception of development. Of course, some of the factors that affect life satisfaction may not be amenable to simple policy interventions, but others are clearly related to aspects of governance that are very much subject to policy choices.

With the above caveats, one can offer some qualified optimism on India's growth prospects over the next few years, at least. The economy's performance over the last year, despite global shocks and uncertainties, is relatively encouraging. In the most recently reported quarter (July–September 2025), the economy grew at an annual rate of 8.2 percent. This strong number led economic forecasts for the entire fiscal year (April 2025–March 2026) to be revised upward, but they remain in the 7 percent range and therefore below the long-term goal. Investment and private consumption demands have also been growing at similar rates, and the national government implemented income tax policy changes in the 2025–26 Union Budget to stimulate domestic consumption. From this perspective, the Indian economy has been chugging along in the past year, much as it has since the recovery from COVID-19, or even in line with the past three postreform decades, but this is before the impacts of global shocks and subnational constraints have registered.

As noted, the Indian government has ambitious long-term growth targets, which may not be completely attainable, but there is potential to get much of the way toward the goal of Viksit Bharat. We have not discussed areas of policy such as macroeconomic stability, but India has a strong record in this dimension over many years, including the past twelve months. For example, inflation has been in check and interest rates stable, as have sovereign credit ratings. Fiscal policy has also been relatively well managed, with a continuing process of improving the efficiency of revenue collection and a slowly shrinking fiscal deficit. The quality of public expenditure has remained suboptimal, as a persistent structural issue in governance. Other factors also require attention for the longer term. Inequality remains a problem, increasingly so in some ways, including the capabilities and economic outcomes for individuals. Regional inequality is also a concern, both as a drag on aggregate growth and as a potential source of political instability. Noneconomic aspects of development, such as freedom of expression and social trust, are also areas where India arguably has some challenges if it seeks development in the broadest sense. The next section goes down to the state level to offer a more fine-grained perspective on India's economic progress.

INSIDE INDIA: STATE-LEVEL HETEROGENEITIES

India has a federal structure, albeit with powers tilted toward the central government. States have elected legislatures and revenue authorities and expenditure responsibilities assigned in the Constitution of India. Furthermore, the Rajya Sabha, in concept the Upper House of the national Parliament, has members elected by state legislative assemblies, giving states another channel of national political representation. In sum, India's states matter politically, and they influence economic policies in multiple ways. Often, business conditions depend on the policies of state and local governments.[14]

States are also large entities in terms of population size. Uttar Pradesh, India's most populous state, exceeds Brazil in that dimension. Some states and Union Territories have quite small populations, but even in those cases, their populations are comparable to smaller countries: Himachal Pradesh has a population greater than that of Paraguay, for example.[15] In order to give a sense of how different parts of India are doing, we report data for twenty of India's states, plus the National Capital Territory (NCT) of Delhi, which, like the states, also has an elected legislature.[16]

Table 2.1 presents per capita net state domestic product (NSDP) for the chosen entities, reported at five-year intervals from 1992 to 2022.[17] The figures are in constant 2011–12 prices, where we have applied state-by-state conversion factors to bring all the data to a common base year. Our goal is to highlight disparity among the states. One simple comparison is the ratio of the per

TABLE 2.1 PER CAPITA NSDP IN CONSTANT 2011–12 RUPEES (RANK IN PARENTHESES)

State	2022	2017	2012	2007	2002	1997	1992
Andhra Pradesh	126690 (11)	103177 (12)	68865 (12)	59445 (12)	40352 (10)	31134 (13)	25751 (12)
Assam	68813 (17)	57835 (17)	41609 (18)	34231 (18)	29767 (14)	28022 (14)	27176 (10)
Bihar	29909 (21)	26719 (21)	22201 (21)	15003 (21)	12870 (20)	10564 (20)	10329 (17)
Chhattisgarh	87838 (14)	68374 (15)	56777 (14)	46576 (13)	31392 (13)	31708 (12)	
Delhi	258941 (1)	252960 (1)	192220 (1)	144361 (1)	100405 (1)	93387 (1)	69976 (1)
Gujarat	181963 (2)	143604 (4)	96683 (7)	65646 (11)	41333 (9)	39125 (8)	30911 (8)
Haryana	173973 (4)	156200 (2)	111780 (2)	80868 (3)	56887 (2)	45978 (4)	40211 (3)
Himachal Pradesh	151124 (9)	129303 (10)	92672 (10)	71568 (7)	52635 (5)	41052 (7)	32871 (6)
Jharkhand	60938 (19)	52277 (19)	44176 (17)	34283 (17)	24808 (17)	27203 (15)	
Karnataka	175895 (3)	140747 (5)	94375 (8)	77389 (4)	53393 (4)	44514 (5)	35024 (5)
Kerala	152870 (8)	137181 (7)	103551 (5)	76603 (5)	52394 (6)	41276 (6)	32673 (7)
Madhya Pradesh	63379 (18)	54824 (18)	41142 (19)	29068 (19)	23099 (18)	23273 (18)	19360 (15)
Maharashtra	153664 (7)	137808 (6)	104008 (4)	81493 (2)	51682 (7)	46293 (3)	37205 (4)
Odisha	90172 (13)	71032 (14)	50769 (16)	42665 (15)	27450 (16)	26028 (17)	22649 (13)
Punjab	123874 (12)	110857 (11)	88915 (11)	73093 (6)	56878 (3)	52387 (2)	47070 (2)
Rajasthan	84935 (15)	73529 (13)	58441 (13)	42340 (16)	28992 (15)	32932 (11)	26322 (11)
Tamil Nadu	166590 (6)	133029 (8)	97257 (6)	67378 (9)	41958 (8)	38376 (9)	28349 (9)
Telangana	169354 (5)	131503 (9)	92732 (9)	66959 (10)			
Uttar Pradesh	47552 (20)	41771 (20)	32908 (20)	26426 (20)	21648 (19)	20927 (19)	19083 (16)
Uttarakhand	149547 (10)	148011 (3)	106359 (3)	67588 (8)	39919 (11)	33419 (10)	
West Bengal	74334 (16)	64007 (16)	53157 (15)	43418 (14)	32924 (12)	26862 (16)	20477 (14)
Min/Max (ex Del)	0.164	0.171	0.199	0.184	0.226	0.202	0.219

Source: Reserve Bank of India (RBI) Database on the Indian Economy, https://data.rbi.org.in/DBIE. Accessed October 1, 2025.

capita NSDP of the richest and poorest states in each year (bottom row of table 2.1). For this calculation, we exclude Delhi. Bihar is always the poorest state in this period, and the ratio goes down over time, indicating increased regional inequality.[18]

The richest state varies over the period, starting with Punjab and moving among Maharashtra, Haryana, and Gujarat in different years. One can observe the impact of India's growth in IT-related services in the ranking of Karnataka. It is less apparent in the case of Haryana, but that state can be contrasted with Punjab. Both had similar economic structures based on Green Revolution agriculture in 1992, but only Haryana developed as an IT services hub. Southern states such as Tamil Nadu and Kerala have also done relatively well. On the other hand, India's most populous state, Uttar Pradesh, has done relatively poorly. If one returns to the framing vision of a Viksit Bharat, then the poor economic performance of Uttar Pradesh and Bihar over the last three decades has to be a concern.[19]

Table 2.2 is similar in structure to table 2.1 but reports HDI levels and rankings. In many respects the HDI rankings are very similar to those of NSDP per capita. HDI tends to change more slowly, simply because its nonincome components are not as susceptible to large changes. The scaling of HDI between 0 and 1 also compresses the range. Kerala has always been a positive outlier in terms of literacy and, to some extent, life expectancy, so it has had a higher rank in HDI than in NSDP per capita. The stability of the other components of HDI means that Punjab's ranking has not deteriorated as much as its income ranking, although it could be argued that some of the deterioration in Punjab's position as a result of its relative stagnation—in areas such as environmental degradation and social problems—is not captured in the HDI. In some cases, such as for Karnataka and especially Gujarat, the uneven pattern of development within the state is reflected in lower HDI ranks versus income ranks. States like Kerala and Punjab, while they have internal disparities, are relatively homogeneous internally, while states like Karnataka and Maharashtra have extremely wealthy cities as well as very poor hinterlands.[20] While one should not generalize too much, it does seem that improvements in the HDI that are related to life expectancy and years of schooling do not correlate with income growth. This can be the result of the concentration of growth in a few urban centers, or it may be that such basic measures of health and education are not sufficient conditions for growth, even if they are intrinsically desirable.[21]

Tables 2.1 and 2.2 provide a snapshot of development outcomes for India's "major" states, plus the NCT. NSDP per capita and the HDI, which attempts to capture development more broadly, are positively correlated. This is unsurprising. Since each state's numbers are an average for that state, unevenness of development within a state can be masked, and the tables do not resolve issues of growth versus equity trade-offs, or the choice of development goals, as discussed in the introduction.

Since India's economic strategy has increasingly been business focused, it is helpful to relate state-level development outcomes to the business environment in the states. The World Bank introduced a cross-country Ease of Doing Business Index (EoDBI) in 2002. This incorporated a range of legal, regulatory, and structural factors that were deemed important for the business environment. India made significant progress in these rankings from 2014 to 2020, when the index was discontinued. A state-level index was produced from 2015 to 2019, and the results are summarized in table 2.3, again for the major states plus the NCT. It is striking that there is no evidence of a positive correlation between the EoDBI rankings and development outcomes. Plausibly, this is because factors that are not in the index matter more for outcomes (certainly this is the case for basic health and education). Also, since institutional

TABLE 2.2 HDI (RANK IN PARENTHESES)

State	2022	2017	2012	2007	2002	1997	1992
Andhra Pradesh	0.642 (13)	0.638 (12)	0.595 (11)	0.546 (14)	0.487 (15)	0.454 (12)	0.435 (11)
Assam	0.615 (16)	0.605 (16)	0.576 (13)	0.540 (15)	0.493 (14)	0.458 (11)	0.420 (12)
Bihar	0.577 (21)	0.567 (21)	0.527 (20)	0.481 (20)	0.437 (20)	0.413 (17)	0.387 (17)
Chhattisgarh	0.625 (15)	0.607 (15)	0.562 (14)	0.580 (10)	0.557 (7)		
Delhi	0.734 (2)	0.732 (2)	0.711 (2)	0.694 (2)	0.661 (1)	0.633 (1)	0.592 (1)
Gujarat	0.646 (12)	0.654 (11)	0.614 (10)	0.583 (9)	0.533 (11)	0.502 (8)	0.483 (7)
Haryana	0.696 (5)	0.694 (5)	0.648 (7)	0.603 (8)	0.553 (9)	0.518 (6)	0.479 (8)
Himachal Pradesh	0.715 (3)	0.712 (3)	0.67 (3)	0.653 (3)	0.598 (4)	0.549 (3)	0.493 (5)
Jharkhand	0.600 (20)	0.590 (20)	0.562 (14)	0.580 (10)	0.557 (7)		
Karnataka	0.673 (9)	0.670 (9)	0.617 (9)	0.577 (12)	0.524 (12)	0.488 (9)	0.455 (9)
Kerala	0.758 (1)	0.762 (1)	0.723 (1)	0.695 (1)	0.618 (3)	0.571 (2)	0.560 (2)
Madhya Pradesh	0.611 (17)	0.598 (17)	0.547 (18)	0.51 (18)	0.463 (18)	0.436 (14)	0.415 (13)
Maharashtra	0.695 (6)	0.687 (7)	0.657 (6)	0.615 (6)	0.563 (6)	0.532 (5)	0.507 (5)
Orissa	0.610 (18)	0.598 (17)	0.548 (17)	0.504 (19)	0.46 (19)	0.434 (16)	0.409 (15)
Punjab	0.698 (4)	0.705 (4)	0.670 (3)	0.626 (5)	0.580 (5)	0.549 (3)	0.510 (3)
Rajasthan	0.652 (11)	0.628 (14)	0.559 (16)	0.52 (16)	0.472 (16)	0.443 (13)	0.413 (14)
Tamil Nadu	0.692 (7)	0.693 (6)	0.662 (5)	0.615 (6)	0.552 (10)	0.513 (7)	0.484 (6)
Telangana	0.660 (10)	0.657 (10)					
Uttar Pradesh	0.609 (19)	0.591 (19)	0.541 (19)	0.512 (17)	0.466 (17)	0.436 (14)	0.405 (16)
Uttarakhand	0.681 (8)	0.673 (8)	0.629 (8)	0.648 (4)	0.623 (2)		
West Bengal	0.635 (14)	0.63 (13)	0.582 (12)	0.547 (13)	0.506 (13)	0.481 (10)	0.452 (10)

Source: Global Data Lab, globaldatalab.org. Accessed October 1, 2025.

TABLE 2.3 EASE OF DOING BUSINESS STATE RANKINGS

State	2015	2016	2017	2019
Andhra Pradesh	2	1	1	1
Assam	20	21	17	18
Bihar	19	16	18	19
Chhattisgarh	4	4	6	6
Delhi	15	19	21	12
Gujarat	1	3	5	10
Haryana	14	6	3	15
Himachal Pradesh	17	17	16	7
Jharkhand	3	7	4	5
Karnataka	9	13	8	16
Kerala	18	20	20	20
Madhya Pradesh	5	5	7	4
Maharashtra	8	10	13	13
Odisha	7	11	14	21
Punjab	16	12	19	17
Rajasthan	6	8	9	8
Tamil Nadu	12	18	15	14
Telangana	13	2	2	3
Uttarakhand	21	9	11	11
Uttar Pradesh	10	14	12	2
West Bengal	11	15	10	9

Source: RBI Database on the Indian Economy, https://data.rbi.org.in/DBIE.

changes take time to have an impact, the less well-performing states with high EoDBI rankings may catch up faster than those with low rankings. These particular data do not allow these conjectures to be tested. On the other hand, different measures of *investment climate* and *competitiveness* have found that subnational or firm-level performance is positively correlated with these alternative measures of business environment.[22]

The World Bank implemented a new Business-Ready index in 2024, and in the interim, India has experimented with different presentations of state rankings based on a large number of component indicators. A Business Reform Action Plan (BRAP) ranking for 2020, released in 2022, listed seven states as "Top Achievers": Andhra Pradesh, Gujarat, Haryana, Karnataka, Punjab, Tamil Nadu, and Telangana. Three other categories were below this one, but clearly the basis for the ranking was very different than the EoDBI.[23] In 2024 the BRAP ranking method had changed again, with three categories and only Kerala, Andhra Pradesh, and Gujarat in the "Top Performer" category.[24] The upshot of these exercises is not completely clear, and while they are meant to spur improved approaches to governance of the business sector, they have lacked sufficient stability and transparency to track any reliable connection between policies and outcomes at the state level.

OUTSIDE INDIA: INTERNATIONAL ECONOMIC ENGAGEMENT

The Indian economy after independence came to be marked by a plethora of controls, both for the domestic economy and with respect to international trade. In those early decades, trade in services was much less significant than it has become in recent years, and capital flows were very tightly controlled around the world. India's 1991 reforms saw considerable liberalization of restrictions on domestic and international economic activity, albeit unevenly. Empirical economic research has suggested that becoming more open to trade has helped the Indian economy grow, but suspicion of unfettered international economic engagement, partly a legacy of colonialism, has lingered. In March 2025, the US Trade Representative assessed India's tariffs to be the highest of all major economies.[25] This assessment, admittedly along with several other noneconomic factors, has contributed to India being singled out for harsh treatment as part of the Trump administration's tariff "wars."

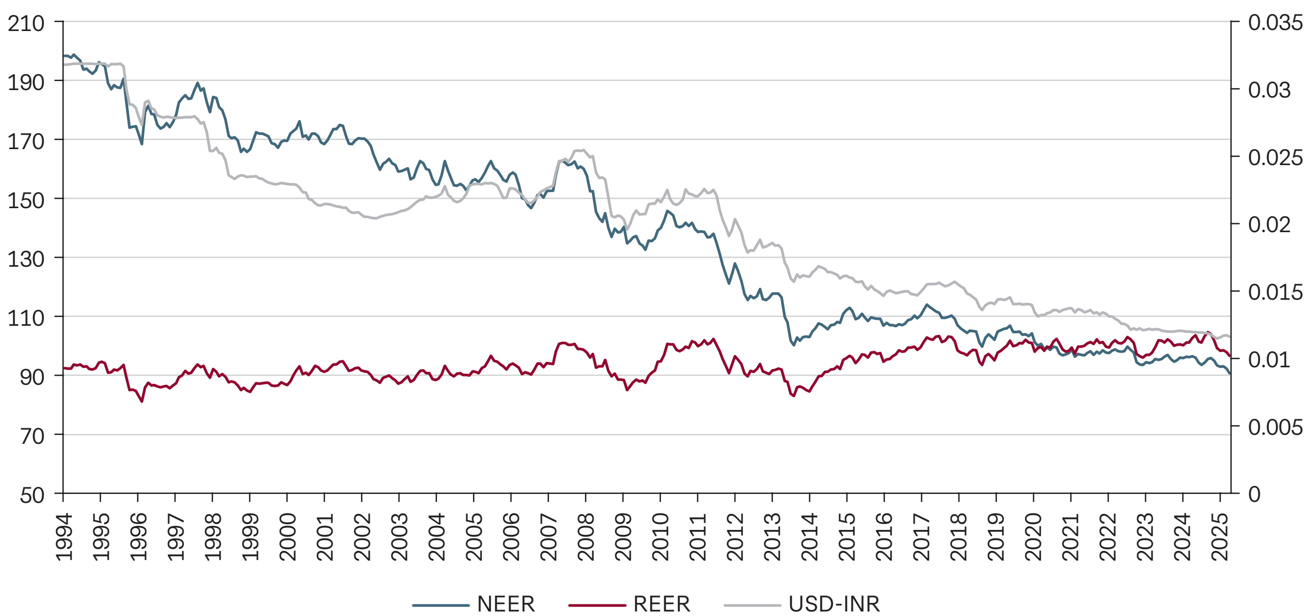
It must be recognized that India's current barriers to trade are nothing like the old regime, which effectively banned many imports, imposed quotas, or applied tariffs of hundreds of percent. That regime was supported by a fixed, overvalued exchange rate. As seen in figure 2.1, India's exchange rate, as represented by the nominal rupee-dollar rate, or the nominal effective exchange rate, which is a trade-weighted average of a basket of currency pairs, has depreciated steadily over the past three decades. However, the real effective exchange rate, which also takes into account relative inflation rates, has been steadier and at times has appreciated, potentially acting as a drag on exports. Along with tariffs that are still relatively high (though the tariff wars have changed that for the United States), India's exchange rate management may have contributed to export growth being slower than in China or many other Asian countries. Nevertheless, India's merchandise trade deficit has been mostly in the range of 2–3 percent of GDP, and, along with a small surplus in services, has meant relatively manageable current account deficits (which have to be financed by foreigners), as part of a story of relative macroeconomic stability since liberalization.

The Trump administration's turn against India on the trade front has been sharp, and to discuss its implications for India's future economic growth, we present data on India's pattern of merchandise trade. Table 2.4 reports imports and table 2.5 exports for India's top twenty trading partners in 2022. From the leftmost column of numbers in table 2.4, China's share of Indian imports was 13.98 percent, and it was India's largest source of foreign goods. However, in 1992 China accounted for only 0.40 percent of India's imports and ranked thirty-sixth among exporters to India. Similarly, from table 2.5 we see that the United States was by far the largest market for Indian exports in 2022, accounting for 17.72 percent of those exports. Since the figures in the tables are percentages, we cannot directly calculate India's trade balance with specific countries, but India did have a significant trade deficit with China and a trade surplus with the United States.[26]

Several aspects of tables 2.4 and 2.5 are noteworthy. First, trade is geographically relatively concentrated: The top twenty markets for India account for over three-quarters of exports, while the top twenty exporters to India account for a slightly lower proportion of its imports. Second, while the tables do not show the nature of goods being traded, the importance of oil is apparent in the list of countries from which India imports. This issue, of course, became politically salient in mid-2025, helping to derail India-US tariff negotiations. As of this writing, the problem has not been resolved. Third, while India's merchandise exports to the United States are only a very small percentage of India's GDP, the current tariff rate of 50 percent is enough to make most exports to the United States unviable, disrupt a significant amount of Indian manufacturing in some industries, and cause job losses that the Indian economy can ill afford. The national government has lowered its own tariffs on some raw materials for exporters, which would have been a welcome policy move even if not provoked by the crisis. Other policy responses are discussed in the conclusion and are part of a larger narrative of economic change in India. A final observation to make from the tables, relevant for policymakers at the current moment, is that patterns of trade can change over time but do so slowly—the US tariffs can potentially impose significant adjustment costs on India's economy.

An important gap in the discussion of trade based on tables 2.4 and 2.5, and in the approach of the Trump administration to trade policy, is the absence of services. India's services exports have been growing faster than goods exports, and the country's services trade surplus offsets much of its large merchandise trade deficit. However, much of India's services exports are in information technology (IT) and related areas. Therefore, they are more skill intensive and less employment intensive than the goods exports currently under threat. However, another policy change announced in September 2025 threatens

FIGURE 2.1 Nominal and real exchange rates



Note: Effective exchange rates calculated against a basket of sixty countries, 2020=100. NEER = Nominal Effective Exchange Rate; REER = Real Effective Exchange Rate; USD-INR = US Dollar against India's Rupee in the exchange rate.

Sources: Federal Reserve Economic Data, https://fred.stlouisfed.org/; Bank for International Settlements, https://data.bis.org/topics/EER. Accessed October 1, 2025.

TABLE 2.4 INDIA'S MAIN TRADING PARTNERS: PERCENT OF IMPORTS (RANK IN PARENTHESES)

Counterpart Country	2022	2017	2012	2007	2002	1997	1992
China, People's Republic of	13.98 (1)	16.24 (1)	10.69 (1)	10.58 (1)	6.2 (4)	2.52 (14)	0.40 (36)
United Arab Emirates	7.35 (2)	5.21 (3)	7.8 (2)	5.25 (4)	2.25 (15)	4.33 (9)	3.13 (8)
United States	7.06 (3)	5.43 (2)	5.13 (5)	8.01 (2)	9.84 (1)	9.07 (1)	9.74 (1)
Saudi Arabia	6.32 (4)	4.76 (4)	6.77 (3)	7.67 (3)	1.18 (22)	6.29 (3)	7.11 (3)
Russian Federation	5.47 (5)	1.64 (17)	0.97 (28)	1.05 (23)	1.38 (19)	1.63 (21)	0.86 (24)
Iraq	5.36 (6)	3.46 (8)	3.84 (6)	2.79 (12)		0.34 (39)	0.01 (92)
Indonesia	3.90 (7)	3.66 (6)	2.91 (10)	2 (18)	3.08 (13)	1.71 (18)	0.32 (44)
Singapore	3.32 (8)	1.63 (18)	1.55 (20)	3.2 (10)	3.34 (10)	2.85 (12)	2.97 (9)
Korea, Republic of	2.83 (9)	3.64 (7)	2.75 (12)	2.45 (16)	3.4 (9)	2.38 (15)	1.77 (17)
Australia	2.69 (10)	3.23 (9)	2.78 (11)	3.27 (8)	3.17 (12)	3.53 (10)	3.56 (7)
Hong Kong	2.66 (11)	2.48 (12)	1.53 (21)	1.13 (22)	2.17 (16)	0.78 (28)	0.73 (26)
Qatar	2.40 (12)	1.83 (16)	3.3 (8)	1.01 (24)	0.26 (44)	0.27 (42)	0.44 (33)
Switzerland	2.23 (13)	4.61 (5)	6.24 (4)	4.14 (6)	5.87 (5)	5.53 (7)	1.38 (21)
Japan	2.15 (14)	2.36 (13)	2.53 (15)	2.52 (13)	4.56 (8)	5.27 (8)	6.48 (4)
Germany	1.90 (15)	2.89 (10)	2.99 (9)	3.98 (7)	5.5 (6)	6.37 (2)	8.22 (2)
Malaysia	1.85 (16)	2.01 (14)	2.07 (18)	2.5 (14)	3.29 (11)	2.84 (13)	2.3 (13)
Kuwait	1.80 (17)	1.38 (21)	3.64 (7)	3.11 (11)	0.36 (38)	5.69 (6)	4.16 (6)
Thailand	1.54 (18)	1.46 (20)	1.11 (24)	0.93 (26)	0.93 (26)	0.55 (30)	0.29 (46)
South Africa	1.53 (19)	1.55 (19)	1.76 (19)	1.43 (21)	4.6 (7)	1.11 (24)	
Belgium	1.34 (20)	1.34 (22)	2.1 (17)	1.84 (19)	8.28 (2)	6.27 (4)	

Source: International Monetary Fund, https://data.imf.org/en/Data-Explorer. Accessed October 1, 2025.

the current equilibrium. This is the introduction of a $100,000 application fee for the H-1B visas that are heavily used in the IT sector, with 70 percent of this category going to Indian nationals. In principle, firms could shift projects to India rather than bring workers from there, but this will entail considerable adjustment costs and may only go so far.

As noted earlier in the chapter, the government is conscious of the need to maintain an investment-to-GDP ratio high enough to support 8 percent growth. The Economic Survey is optimistic about household savings, as institutions for financial intermediation continue to develop. Remittances and deposits by Non-Resident Indians (NRIs) are also viewed favorably in the survey. Ultimately, there is an emphasis on improving the efficiency of investment and caution about foreign capital to help fund India's investment and growth, although some statements encourage Foreign Direct Investment (FDI).[27]

TABLE 2.5 INDIA'S MAIN TRADING PARTNERS: PERCENT OF EXPORTS (RANK IN PARENTHESES)

Counterpart country	2022	2017	2012	2007	2002	1997	1992
United States	17.72 (1)	15.55 (1)	12.18 (2)	13.19 (1)	20.44 (1)	19.47 (1)	18.37 (1)
United Arab Emirates	6.92 (2)	10.14 (2)	12.3 (1)	9.58 (2)	6.18 (2)	4.73 (6)	2.49 (9)
Netherlands	4.07 (3)	1.83 (14)	3.37 (6)	2.98 (8)	1.99 (13)	2.36 (11)	2.17 (13)
China, People's Republic of	3.34 (4)	4.23 (4)	5.02 (3)	6.63 (3)	3.41 (7)	2 (14)	0.49 (29)
Bangladesh	3.09 (5)	2.46 (9)	1.69 (15)	1.69 (15)	2.25 (11)	2.33 (12)	1.84 (14)
Singapore	2.62 (6)	3.91 (5)	4.94 (4)	4.58 (4)	2.6 (10)	2.39 (10)	2.68 (7)
United Kingdom	2.48 (7)	3.05 (6)	2.78 (8)	4.18 (5)	4.78 (4)	6.12 (2)	6.93 (4)
Germany	2.31 (8)	2.78 (7)	2.44 (9)	3.14 (7)	4.02 (5)	5.53 (4)	7.50 (3)
Saudi Arabia	2.23 (9)	1.76 (15)	2.9 (7)	2.23 (12)	1.81 (14)	1.91 (15)	2.24 (12)
Türkiye, Republic of	2.21 (10)	1.66 (17)	1.24 (23)	1.07 (25)	0.66 (33)	0.67 (28)	0.48 (30)
Indonesia	2.18 (11)	1.27 (24)	2.04 (12)	1.38 (21)	1.49 (18)	1.37 (19)	0.75 (25)
Hong Kong	2.16 (12)	5.07 (3)	4.09 (5)	3.84 (6)	5.06 (3)	5.53 (5)	3.75 (5)
Belgium	2.15 (13)	2.1 (10)	1.89 (13)	2.62 (9)	3.16 (8)	3.42 (7)	
Brazil	2.14 (14)	0.97 (29)	2.06 (11)	1.46 (19)	0.82 (30)	0.41 (39)	0.09 (63)
Nepal	1.89 (15)	1.88 (12)	1.03 (26)	0.89 (30)	0.63 (34)	0.49 (35)	0.38 (36)
Italy	1.88 (16)	1.9 (11)	1.45 (17)	2.49 (10)	2.62 (9)	3.09 (8)	3.41 (6)
Australia	1.82 (17)	1.31 (22)	0.9 (31)	0.71 (33)	0.96 (26)	1.23 (21)	1.21 (17)
South Africa	1.82 (18)	1.38 (21)	1.67 (16)	1.66 (16)	0.89 (28)	1.08 (24)	
France	1.78 (19)	1.7 (16)	1.71 (14)	1.63 (17)	2.09 (12)	2.17 (13)	2.55 (8)
Korea, Republic of	1.66 (20)	1.48 (20)	1.39 (19)	1.8 (13)	1.19 (22)	1.39 (18)	1.02 (22)

Source: International Monetary Fund, https://data.imf.org/en/Data-Explorer. Accessed October 1, 2025.

A welcoming approach to FDI is more recent than other economic reforms, and for much of the 1990s, net FDI in India was well below 1 percent of GDP. It increased thereafter, staying consistently close to 2 percent of GDP, though the absolute amount and percentage have both fallen in the past three years. In contrast, China attracted much more FDI when it launched its growth acceleration in the 1990s, with rates around 4 percent of GDP. Figure 2.2 compares the two countries' FDI trajectories.

Data for the destination of this FDI is not complete, but skilled services and IT dominate, followed by trade and telecommunications, with manufacturing industries attracting relatively less investment. This pattern may be reinforced by the changes in the H-1B visa program. Returning to the theme of the previous section, FDI is also geographically concentrated—Maharashtra, Karnataka, Gujarat, and Delhi account for 80 percent of FDI.[28] FDI may therefore be another contributing factor to widening internal disparities within India.

FIGURE 2.2 FDI net inflows

Source: World Bank, https://data.worldbank.org.

CONCLUSION

India's liberalizing economic reforms of 1991 were triggered by dwindling foreign exchange reserves, although domestic fiscal deficits and inflation were also macroeconomic problems at the time. It is a measure of how far India's economy has come that macroeconomic stability is almost taken for granted. Liberalization has not been the only dimension of reform. Institutions of economic governance have been redesigned and strengthened in several dimensions, including monetary and fiscal management. In the last two decades, India has weathered the global financial crisis, the turmoil associated with changes in US monetary policy, and the severe disruptions of the COVID pandemic.

Somewhat fortuitously, in the 1990s the emergence of the internet and a global demand for IT-related and IT-enabled services provided India with a cushion against further balance of payments difficulties, as well as enhancing national self-confidence and the country's external reputation. The evidence suggests that India's greater engagement with the global economy, along with changes in domestic policy, contributed to its growth acceleration from the 1990s onward. This growth acceleration also helped bring down poverty.[29]

Despite this evidence, India's approach to trade openness has been somewhat conflicted. As noted earlier in the chapter, its tariffs have remained relatively high by recent global standards, though those standards have been upended by the Trump administration. An ideology of self-reliance was prominent in the national leadership's discourse, even before the current trade policy disruptions: A goal of Atmanirbhar Bharat, literally, "Self-Reliant India," was articulated during the COVID pandemic, when global supply chains were disrupted.[30] The economic component of this broader ideology was domestic self-sufficiency, with a lower reliance on international trade.[31] A complementary policy approach that resurrects a version of “infant industry” support has accompanied that rhetoric. The Economic Survey’s attention to India’s opportunities in a shifting environment of global production networks and its stress on encouraging FDI are not guaranteed to translate into enabling policies, though that is likelier than in the past.

The Trump tariff war on India has triggered some reductions in import duties for exporters’ raw materials, along with some cases of subsidies and attempts to support exporters in shifting to markets other than the United States. Fortuitously, India was already working on a simplification of the structure of its Goods and Services Tax (GST), which will reduce tax rates in ways that can stimulate domestic consumption as well as provide some relief to small businesses.[32] At this stage it is too early to tell how India’s economic engagement with the rest of the world will change: Rapid piecemeal attempts to develop new trade relationships seem likely, but a full embrace of international openness would be surprising.

As we have argued, one characteristic of India’s growth in recent decades has been its relative narrowness in terms of how the benefits have been distributed. Those with initial advantages in human capital, wealth, or social networks have been best placed to benefit from a more market-oriented economy, especially when specialized skills are demanded by advanced country firms. Growth has been regionally unbalanced as well, and these dimensions of narrowness have contributed to a slower reduction in poverty than might otherwise have been the case.

Returning to the strategic vision of the recent Economic Surveys, as outlined earlier in this chapter, increasing inequality is highlighted, but the main response in those documents has been to stress the success of existing welfare policies. Such policies are an important part of India’s democratic politics and have important benefits, but they do little to address the sources of structural inequalities in India’s economy. The surveys also pay a great deal of attention to reforming agriculture, which is a low productivity sector on the whole. Increasing agricultural productivity is important, of course, but India lacks the land and water resources to achieve scale economies or create much employment in this sector. Already, people who leave agriculture or related rural occupations tend to shift to low-productivity work in India’s urban informal sector, especially in services.

The point is that India must create more higher-productivity jobs than it is currently doing, or has ever managed to do, in both manufacturing and services. Agriculture cannot be a leading sector in this quest. The economic strategy sketched out in recent Economic Surveys recognizes the need to facilitate and support the operations of India’s businesses, especially smaller firms, as a way of creating more jobs. It also recognizes the need to overcome pervasive skill gaps in India’s workforce. Arguably, however, this is where the greatest weakness in India’s economic strategy emerges. The assessment of India’s performance in education and skilling does not really come to grips with the reasons for the shortcomings in this arena from primary to tertiary education and all kinds of vocational or on-the-job training. A recent note from Morgan Stanley argues that India will need to grow at 12 percent a year to deal with its unemployment and underemployment problem, although the model and assumptions behind this headline-grabbing claim are not clear.[33] Since India’s growth has had a low employment elasticity compared to countries that have pursued labor-intensive manufacturing (especially when export oriented) more vigorously, one can argue that changing the nature of growth is as important as increasing the growth rate—and may be more feasible.

One well-known obstacle to closing skilling and training gaps is the poor incentive structures in public institutions for the provision of education and training (much like in healthcare). On the other hand, private institutions that focus on quality have difficulty expanding, often for lack of adequate human resources. A natural solution would be to import educational and training services, but the national government has been most resistant to openness in this area, seemingly for ideological reasons. Interestingly, the Economic Survey's discussion of FDI focuses on its role in achieving needed investment rates but has less to say about the knowledge transfers associated with many kinds of FDI. The treatment of innovation has a similar blind spot with respect to the importance of access to frontier knowledge. There are references to knowledge transfer in specific cases such as emulating the Mittelstand, but there is no strategic vision of the kind that seems to have driven China to acquire frontier knowledge in every way it could, across the globe, in its quest to be at the forefront of the critical knowledge frontier itself. However, the surveys do give this issue some attention in the case of artificial intelligence (AI), in which India is an attractive destination for FDI. But even aside from technologies such as AI, which potentially build on India's past successes in software and software services, if India is to pursue a green transition, as discussed in some detail in the strategic outline, a whole range of innovations and corresponding new skills will be required, for which openness will be vital.

Some of the barriers to India becoming more outward oriented are ideological. The actions of the Trump administration play into and reinforce such ways of thinking. But some barriers are by-products of what takes place inside India, through the political economy of its federal structure. India is extremely heterogeneous, and many aspects of its federal structure were designed to preserve political unity, sometimes at the expense of benefiting from internal diversity and competition. Centralized economic policies can still stifle these benefits, and political success at the national level is not always driven by economic performance in key states. Paradoxically, the current national government seeks to push states to reform in areas such as agriculture or regulation of business but may resist allowing them too much freedom to strike out on their own, say, to attract FDI. The national government is also constrained by the power of state-level politicians and interest groups. These complexities of what happens inside India, with these multilevel political dynamics shaping economic policies and outcomes, also feed into how India engages with the world outside its borders.

NOTES

I am grateful to Drishan Banerjee for excellent research assistance and helpful comments. The sole responsibility for errors, omissions, and other shortcomings is mine.

1. Projections of growth over a long period of time are fraught with difficulty, as is the exercise of pinning down the meaning of terms like *developed* and the relevant cross-country comparisons. Working with the World Bank's reported data on GDP per capita across countries based on purchasing power parity (PPP), which is available at data.worldbank.org, along with explanations on methods and sources, one can estimate that if India's per capita GDP were to grow at 7 percent a year from 2023 to 2047, it would reach the current level of Japan. India's current population growth rate is 0.88 percent per year, and if one assumes this rate persists, the rate of growth of GDP would have to be close to 8 percent. This exercise is complicated by the fact that PPP changes as relative incomes change. A per capita GDP growth rate of 5 percent, which is clearly more attainable, though not easy to achieve, would bring India to the current level of Chile by 2047. For an overview of India's past economic performance and policies, see Nirvikar Singh, "India's Economy: An Assessment," in *The Hoover Institution's Survey of India*, ed. Šumit Ganguly and Dinsha Mistree (Hoover Institution, 2025), 37–52.

2. See, in particular, Arvind Panagariya, *India: The Emerging Giant* (Oxford University Press, 2008); Jagdish Bhagwati and Arvind Panagariya, eds., *Reforms and Economic Transformation in India (Studies in Indian Economic Policies)* (Oxford University Press, 2012); and Jagdish Bhagwati and Arvind Panagariya, *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries* (Perseus Books Group, 2014).

3. Gains from reallocation typically focus on labor. Investment can include private-sector investment in equipment and machinery, as well as investment (public

or private) in infrastructure. Another important factor that has been analyzed in terms of its contributions to growth is *human capital*, which depends on education and skilling. Productivity improvements are typically measured as a residual but are associated with improved allocation efficiency as well as innovation. The latter is conceptually related to spending on research and development. Among many empirical analyses, some that are particularly relevant are Kunal Sen, "Why Did the Elephant Start to Trot? India's Growth Acceleration Re-Examined," *Economic and Political Weekly*, 2007, 37–47; Barry Bosworth and Susan M. Collins, "India's Growth Slowdown: End of an Era?," *India Review* 14, no. 1 (2015): 8–25; Era Dabla-Norris and Kalpana Kochhar, "India: In Search of the Drivers of the Next Wave of Growth," *India Review* 14, no. 1 (2015): 153–73; Rakesh Mohan and Muneesh Kapur, "Getting India back to the Growth Turnpike: What Will It Take?," *India Review* 14, no. 1 (2015): 128–52; and Kunal Sen, Sabyasachi Kar, and Jagadish Prasad Sahu, "The Stroll, the Trot, and the Sprint of the Elephant," in *Deals and Development: The Political Dynamics of Growth Episodes* (Oxford University Press, 2017), 250–84.

4. See V. Anantha Nageswaran et al., *Economic Survey of India, 2023–24* (Office of Chief Economic Adviser, Department of Economic Affairs, Ministry of Finance, Government of India, July 2024). Because of the national elections in 2024, only an interim report on the economy was provided in February, and the full Economic Survey appeared in July 2024.

5. See Nageswaran et al., *Economic Survey of India, 2024–25*.

6. Questions of India's economic engagement with the rest of the world are taken up in the next section of this chapter.

7. The argument is that regulatory burdens are proportionately greatest for such firms. To some extent, the goal of making it possible for such firms—or at least the more productive ones in this category—to thrive is ultimately to help achieve a higher investment rate. The survey mentions a rate of 35 percent, which has been achieved briefly in the past but subsequently declined. This rate is tied to a growth rate goal of 8 percent for a decade: This rate was used as a benchmark target in our introduction.

8. See, for example, Nirvikar Singh, "Fixing India's Industrial Dynamics by Policy Action and Reform," Financial Express, January 10, 2019, https://www.financialexpress.com/opinion/fixing-indias-industrial-dynamics-by-policy-action-and-reform/1439047.

9. Abhijit Banerjee, Pranjul Bhandari, Sajjid Chinoy, Maitreesh Ghatak, Gita Gopinath, Amartya Lahiri, Neelkanth Mishra, Prachi Mishra, Karthik Muralidharan, Rohini Pande, Eswar Prasad, Raghuram Rajan, and E. Somanathan, "An Economic Strategy for India," unpublished, https://uchicago.app.box.com/s/f47rz9hwbw9z7lu41f7hnunwxsj58xhp.

10. See, for example, Ejaz Ghani, William R. Kerr, and Stephen O'Connell, "Spatial Determinants of Entrepreneurship in India," in *Entrepreneurship in a Regional Context* (Routledge, 2017), 133–51; Nicholas Bloom, Christos Genakos, Raffaella Sadun, and John Van Reenen, "Management Practices Across Firms and Countries," *Academy of Management Perspectives* 26, no. 1 (2012): 12–33; Ufuk Akcigit, Harun Alp, and Michael Peters, "Lack of Selection and Limits to Delegation: Firm Dynamics in Developing Countries," *American Economic Review* 111, no. 1 (2021): 231–75.

11. The capabilities approach can be traced to Amartya Sen, *Commodities and Capabilities* (North Holland, 1985). The history and precise definition of the HDI can be found in Elizabeth A. Stanton, "The Human Development Index: A History," Working Paper 127, University of Massachusetts, Amherst, 2007. For the debate over goals and policy priorities in the Indian context, see Jagdish Bhagwati and Arvind Panagariya, *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries* (Public Affairs, 2014); and Jean Drèze and Amartya K. Sen, *An Uncertain Glory: India and Its Contradictions* (Princeton University Press, 2013).

12. For example, see "India Ranks 119th in UNDP's Human Development Report 2010," *Business Standard*, January 21, 2013, https://www.business-standard.com/article/economy-policy/india-ranks-119th-in-undp-s-human-development-report-2010-110110400198_1.html. The government has also been assiduously tracking a large number of measures of progress that constitute components of the Sustainable Development Goals (SDGs) of the United Nations. While there is improvement in all the broad areas that come under the SDGs, the areas of health, education, and gender equality are perceived as having made the least progress: see NITI Aayog, *SDG India Index, 2023–24* (Government of India, 2024). The subtitle of the document is "Towards Viksit Bharat, Sustainable Progress, Inclusive Growth," and one of the goals of such exercises, according to the operational head of NITI Aayog, is to foster "healthy competition among States and UTs" in pursuing development agendas.

13. See John F. Helliwell, Richard Layard, Jeffrey D. Sachs, Jan-Emmanuel De Neve, Lara B. Aknin, and Shun Wang, *World Happiness Report 2025* (Wellbeing Research Centre, 2025).

14. Local governments in India are relatively weak, with states often determining, or at least heavily influencing, the governance of even the largest cities. As an example of how states matter, the Economic Survey, 2023–24, notes (p. 166): "Going forward, for the Mittelstand to expand, *deregulation is a vital policy contribution*. That is why the revival or creation of institutional mechanisms for dialogue with states on required policy changes is

essential. Much of the action has to happen at the level of sub-national (state and local) governments."

15. Union Territories, as their name suggests, have less autonomy than states and are typically governed by appointees of the central government.

16. We omit all the smaller states, most of which happen to be in the northeast of India and are distinctive in several ways. We also omit Jammu and Kashmir because of its distinctive features, even though its population is larger than the two least populous states in our tables (Himachal Pradesh and Uttarakhand).

17. One complication is that some states were split during this period, and our data reports figures for states in existence in a particular year, or data retroactively adjusted for such splits.

18. There is a large literature that analyzes increases in regional inequality in more detailed ways, and these studies generally support a conclusion of increasing regional inequality over these three decades. See Nirvikar Singh, *India's Economy: An Assessment* (2025), as well as Biswa Swarup Misra, Muhsin Kar, Saban Nazlioglu, and Cagin Karul, "Income Convergence of Indian States in the Post-Reform Period: Evidence from Panel Stationarity Tests with Smooth Structural Breaks," *Journal of the Asia Pacific Economy* 29, no. 1 (2024): 424–41.

19. In the case of the United States, the entire southern region was much poorer than the North and Midwest for many decades, until structural changes that began in the 1960s. In that case, social and political changes helped to make a difference. In contrast, the geographical features of Appalachia are more challenging barriers to catch-up growth. India's "Hindi heartland" does not have such geographic impediments.

20. The next level of administrative unit below the state is the district. The national government has been trying to focus on about one hundred of the least developed districts in India. An excellent example of analysis at the district level for a single state is M. Govinda Rao, "Economic Growth and Development of Karnataka" (paper presented at India Policy Forum, New Delhi, June 2025), https://ncaer.org/event/india-policy-forum-2025.

21. Recall the earlier discussion of factors such as higher education, management quality, and local infrastructure influencing the creation and growth of firms.

22. A *State Competitiveness Report*, which was produced by the Institute for Competitiveness from 2009 to 2017, used an index that ranked states quite similarly to their per capita NSDP. The firm-level analysis was carried out only once, by David Dollar, Giuseppe Iarossi, and Taye Mengistae, "Investment Climate and Economic Performance: Some Firm Level Evidence from India" (Working Paper 143, Center for Research on Economic Development and Policy Reform, 2002). A state-level analysis found that fiscal policies (e.g., tax incentives) and political stability were important determinants of investment flows to states. Ritadhi Chakravarti, "An Empirical Analysis of Investment Determinants in Indian States: 1998–2006," *Michigan Journal of Business* 2, no. 2 (2009): 9–53. A highly cited analysis put strong blame on labor regulations for hindering economic outcomes, in comparisons across states, but this has been challenged as flawed. Timothy Besley and Robin Burgess, "Can Labor Regulation Hinder Economic Performance? Evidence from India," *Quarterly Journal of Economics* 119, no. 1 (2004): 91–134.

23. Ministry of Commerce and Industry, Government of India, "Assessment of States/UTs Based on Implementation of Business Reforms Action Plan for the Year 2020 Declared," press release, June 30, 2022, https://www.pib.gov.in/PressReleasePage.aspx?PRID=1838178#.

24. "Efforts Pay Off: Kerala Ranked No. 1 in Ease of Doing Business Reforms," *New Indian Express*, September 6, 2024, https://www.newindianexpress.com/states/kerala/2024/Sep/06/efforts-pay-off-kerala-ranked-no1-in-ease-of-doing-business-reforms.

25. Office of the United States Trade Representative, *2025 National Trade Estimate Report on Foreign Trade Barriers*, March 31, 2025, 196.

26. As we know from economic theory and logic, bilateral trade balances are not very relevant in a world of multilateral trade, something completely ignored by the current US administration. However, past instances of political salience of large bilateral deficits, sometimes even in specific goods such as automobiles, have occurred.

27. In particular, the latest Economic Survey states, "One, we must pull out all the stops wooing FDI and making itself more attractive for foreign investors. India has been doing so" (109).

28. This data is taken from *FDI Factsheets*, published by the Department for Promotion of Industry and Internal Trade (DPIIT) in the Ministry of Commerce: see https://dpiit.gov.in/publications/fdi-statistics. Since Mumbai, the financial capital, is in Maharashtra, this figure may overestimate the geographic concentration of FDI, but even so, FDI favors regions and sectors of India that are already doing the best. See also Renjith Ramachandran, Subash Sasidharan, and Nadia Doytch, "Foreign Direct Investment and Industrial Agglomeration: Evidence from India," *Economic Systems* 44, no. 4 (2020): 100777.

29. For example, see Petia Topalova and Amit Khandelwal, "Trade Liberalization and Firm Productivity: The Case of India," *Review of Economics and Statistics* 93, no. 3 (2011): 995–1009; Devashish Mitra, "Trade Liberalization and Poverty Reduction," *IZA World of Labor*, June 2016; and Bishwanath Goldar, Isha Chawla, and Smruti Ranjan Behera, "Trade Liberalization and Productivity of Indian Manufacturing Firms," *Indian Growth and Development Review* 13, no. 1 (2020): 73–98.

30. Earlier, in the colonial era, this ideology meant boycotts of foreign goods, while postindependence government policies sought to create and grow modern domestic industries through trade protection. A focus on self-reliance also led to a suspicion of, and restrictions on, foreign investment in India.

31. When it emphasizes self-reliance, the current ruling party is expressing a broader ideology of favoring "indigenous" Indian ideas and cultural norms.

32. The proposal is to reduce tax rates as part of a simplification of structure that reduces the number of rates. This course of action has been made more attractive and more urgent by the US tariff war on India.

33. See, for example, "Avg. Growth Rate of 12 Percent Must to Tackle Unemployment in India," *Times of India*, October 1, 2025, https://timesofindia.indiatimes.com/india/avg-gdp-growth-rate-of-12-must-to-tackle-unemployment-in-india/articleshow/124244547.cms.