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India's Economy: Overview and Issues for Congress

India's economy—its current performance and potential— attracts significant U.S. commercial attention. Since 2000, U.S. Administrations and Congresses have sought to deepen U.S. economic ties with India, based on shared interests between the United States and India, including regarding China. During the Biden Administration, such motivations appear to have become acute, and the partners have pursued new joint activities, including the Indo-Pacific Economic Framework for Prosperity (IPEF) and the initiative for Critical and Emerging Technologies (iCET). Still, the partners continue to have frictions on various trade and economic issues, with efforts to address these issues also a longtime focal point of U.S. engagement with India.

Congress may assess India's economy and its implications for U.S.-India trade relations. Should it do so, Congress may examine issues such as whether India can attain the economic aspirations set by Indian Prime Minister Narendra Modi and whether India can be an alternative to the People's Republic of China (PRC, or China) for supply chain diversification and foreign direct investment (FDI). Congress might consider how to respond to changes in India's economy to advance U.S. trade and economic interests.

History of Economic Reforms

In the first three decades after India's independence in 1947, its economy grew slowly. India sought self-sufficiency, operating an import-substitution model and focusing on state-led capital investments. It established an industrial licensing system, limited imports and FDI, and maintained high average tariffs relative to other industrializing countries. Poverty levels also were high, with India a recipient of considerable foreign aid.

With some trade liberalization and government spending, India's gross domestic product (GDP) grew in the 1980s; at the same time, India experienced a worsening economic situation that came to a head in 1991. India faced depleted foreign exchange reserves (covering less than a month of imports), precipitated by rising import costs, and other, arguably longer-running issues, including mounting foreign debt. In 1991, with a balance-of-payments crisis grappling the country and the dissolution of the Soviet Union (formerly a key economic benefactor), India launched key market-opening economic reforms during the government of Prime Minister PV Narasimha Rao and Finance Minister Manmohan Singh (later also Prime Minister, 2004-2014). India reduced tariffs, devalued its currency to make its exports more attractive, and dismantled import-blocking licensing restrictions. It also began privatizing some sectors and removed some domestic investment limits. India joined the World Trade Organization (WTO) in 1995.

Since the 1990s, India's economic performance has generally improved. In some years, India has averaged rates

of annual GDP growth above 6%-7%, and it has at times been the world's fastest growing major economy. India has emerged as a destination not only for major foreign firms for back-office and information technology (IT) services, but also for research and development. Various trade and investment restrictions remain (see below). Poverty also remains significant; by one estimate, nearly 12% of the population was in poverty in 2021, based on a poverty line of \$2.15 per day, at 2017 purchasing power parity. (Data in this and the below sections are from the International Monetary Fund, the World Bank, and the United Nations.)

Current Economic Performance

India overtook the United Kingdom to rank as the world's fifth-largest economy (\$3.4 trillion in nominal GDP) in 2022, and it overtook China to become the world's most populous country in 2023. India's middle class—estimates of which are difficult to make but could comprise one in three Indians, per one analysis—has generally been a driver of the country's domestic consumption-led economic growth; the middle class was hit hard by the COVID-19 pandemic. India's real GDP, after contracting by 5.8% in 2020, grew by 9.1% in 2021 and 7.2% in 2022, bolstered by government support, domestic demand, and a COVID-19 vaccine roll-out. India's real GDP is projected to have grown by 6.3% in 2023, with the increase in consumption, infrastructure spending, and the establishment of new businesses driving expectations. Headwinds remain, such as those posed by geopolitical risks and inflationary pressures. Economic circumstances vary sub-nationally (see **text box**).

India State-Level Economic Activity

India's federal system is composed of 28 states and eight union territories that have their own sub-national economies and investment climates, and that shape India's overall economic performance. The liberalization of India's economy after 1991 coincided with more decentralized economic policy-making and states assuming a greater role, such as on public services. Economic circumstances vary widely across India's states by growth, demography, urbanization, natural resources, and state-level policies. Modi has advanced a notion of "competitive federalism" to drive sub-national progress (e.g., cities bidding for project funding under the digitally focused Smart Cities initiative).

India's five largest states, based on state-level real GDP data, are as follows:

Maharashtra has a strong services economy and houses Mumbai, India's financial capital.

Gujarat is significant in agricultural and industrial production, including pharmaceuticals.

Tamil Nadu is a major industrial base that also houses Chennai, an IT hub.

Uttar Pradesh has a significant agricultural economy and is India's most populous state.

Karnataka houses Bengaluru ("the Silicon Valley of India"), the center of India's IT sectors and start-up ecosystem.

Source: GDP data for 2021-2022 from Reserve Bank of India, *Handbook of Statistics on Indian States 2022-2023*.

Services (e.g., IT and communications and digital subsectors) are a key part of India's economy (see **Table 1**).

Agriculture is the top jobs provider, but its share of the economy has declined—a common shift as countries advance in economic development. Some analysts assess India's manufacturing sector as underperforming, yet the sector has notable activity (e.g., pharmaceuticals, chemicals, textiles, and autos).

India has demographics that tend to be favorable for growth, with a relatively young and sizeable working-age population, while it also faces unemployment challenges. While official data are not available, a credible estimate of India's unemployment rate was 9.2% as of November 2023. Some analysts have questioned whether India can create enough formal jobs to absorb the millions of new workers seeking to join the labor force each year and attain a “demographic dividend.” Various private sector projections on India's outlook to reach its economic aspirations (see below) point to a need for changes such as to reform land and labor laws and further reforms to ease doing business.

Table I. India's Economy: Selected Sectors

Economic Sector	Share of Value-Added to GDP (2022)	Share of Employment (2021)
Agriculture	16.7%	44.0%
Services	48.4%	30.7%
Industry	25.7%	25.3%

Source: CRS, based on World Bank data.

Notes: For value-added, shares do not sum to the whole due to the exclusion of consumption of financial intermediary services indirectly measured. Industry includes manufacturing, mining, and construction.

Economic Priorities and Activities

Prime Minister Modi entered office in 2014 emphasizing market-opening economic reforms. He aspires for India to become the world's third-largest economy, which some international financial institutions and ratings firms estimate may happen by the end of the decade. The Modi government has undertaken a number of measures and policy initiatives to further open India's economy and attract FDI, including as part of its efforts to boost domestic manufacturing and employment, enhance infrastructure, attract supply chains, and support climate and other goals.

In 2016, India modified its bankruptcy law to allow for easier resolution of failed businesses. The government has been contemplating additional changes to the law to further streamline proceedings. Also in 2016, India undertook “demonetization,” removing 86% of currency by value from circulation; some observers saw this as a largely unsuccessful effort to address tax evasion and corruption, and as harmful to India's poor (e.g., those in the informal sector who relied on cash transactions). In 2017, India established a national sales tax system that some view positively as streamlining complex state-level tax schemes. State-owned enterprises (SOEs) remain a feature of India's economy, but the government has focused on privatizing loss-making SOEs (e.g., public sector banks) and also has sought to reduce its shares of certain companies.

India has rolled out various Production Linked Incentives (PLIs), such as tax rebates and license clearances, to incentivize domestic and foreign investment to boost manufacturing and exports. The PLIs target various sectors (e.g., pharmaceuticals, medical devices, autos, steel, telecom, electronics, food, textiles, solar modules, batteries, and drones). Some experts question whether the PLIs are sufficient to attract additional investment.

India's government has opened some politically sensitive sectors to increased FDI levels (e.g., defense, insurance, and telecommunications). It also has moved to ease some local sourcing requirements for foreign, single-brand retailers and allowed them to launch e-commerce platforms before opening physical stores in-country. Other investment barriers remain, including aspects of India's trade policies (see State Department, *2023 Investment Climate Statement*).

India has stepped up efforts to attract FDI, following vulnerabilities the COVID-19 pandemic and intensified U.S.-China and India-China trade frictions revealed in global supply chains. The Modi government aims to position India as a viable alternative or additional destination for companies seeking to diversify their supply chains and manufacturing beyond China. India has targeted sectors such as semiconductors and critical minerals.

The development and bolstering of infrastructure, both physical and digital, is a key focus of New Delhi's 2023/24 budget. Modi also has focused on improving daily quality of life, with reforms centered on boosting electrification, public transportation, waste treatment, and digitization of services. Observers debate the extent to which such measures have boosted the standard of living.

Overall, the record on economic reforms is mixed. While engaging in market-opening reforms, India has also raised tariffs, adopted data localization requirements, and pursued other market-limiting measures such as some agricultural export restrictions and import regulations for laptops. The U.S. government and some U.S. companies describe aspects of India's trade policies as restrictive and/or discriminatory against foreign firms (see Office of the U.S. Trade Representative, *2023 National Trade Estimate Report on Foreign Trade Barriers*). Some moves by India of concern to the U.S. government and some in industry may be a bid by India to promote “self-reliance” and to address its concerns about PRC investments (e.g., in India's tech sector) and India's reliance on imports from China (e.g., a key supplier of consumer electronics).

Issues for Congress

Questions facing Congress over India's economy include:

- To what extent is India a reliable economic partner? As some firms pursue “China+1” strategies and some governments work to de-risk from dependencies on China, what is the outlook for India to be an alternative for supply chains, investment, and manufacturing? What challenges and opportunities do U.S. firms face in diversifying their operations to India?
- What are implications for U.S. trade policy of India's sub-national economic policies and business climates?
- Is India poised to be an economic leader on the world stage? What further economic reforms by India and U.S. economic engagement with India (e.g., through IPEF) could support India's economic aspirations? What role could Congress play in overseeing and approving such efforts?

See CRS In Focus IF10384, *U.S.-India Trade Relations*, and CRS Report R47597, *India-U.S. Relations: Issues for Congress*.

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