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DAILY EDITORIAL ANALYSIS

TOPIC

INDIA'S INVESTMENT-LED GROWTH: A ROADMAP TO VIKSIT BHARAT

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Context

- **NITI Aayog Vice-Chairman** Ashok Kumar Lahiri recently said India needs to significantly improve its investment rate to maintain its growth momentum.
- The launch of the **Investment Friendliness Index (IFI)** is a major step in helping states to build an investment-friendly ecosystem.

Why Higher Investment Matters?

- India is the **fastest growing major economy in the world**, with **average** real GDP growth of **6.1% in FY1992-FY2025.**
  - Investment is a major driver of economic growth, increasing productive capacity, creating jobs and generating demand.
- It **needs** to maintain an average annual real GDP growth of **7.8% over the next two decades** to become a high-income economy by 2047 (**World Bank)**.
- India's growth has been **more than 50% investment driven, demonstrating** the centrality of investment in growth since the 1991 economic reforms.

Significance of Public Investment

- **Stimulates Economic Activity and Demand:** Investment by its very nature creates demand through employment, incomes and consumption.
  - Infrastructure projects have multiplier effects across sectors through procurement and construction and allied industries.
- **Crowding in Private Investment:** Better infrastructure, policy certainty and ease of doing business motivate domestic and foreign investors to opt for productive investments.
- **Boosts long-term productivity:** Investments in transport, logistics, energy, digital infrastructure and human capital reduce production costs and boost competitiveness.
- **Encourages Balanced Regional Development:** Public investment in backward areas decreases regional inequalities by improving connectivity, industrialisation and access to public services.
- **Supports Job Creation:** Construction, manufacturing and logistics are infrastructure-heavy sectors that create skilled and unskilled job opportunities.
- **Boosts India's Competitiveness on the Global Stage:** Strong infrastructure and governance make India a more attractive destination for global manufacturing and investment.

Related Issues and Concerns

- **Low Investment Rate:** India's investment rate is still in the region of **around 25% of GDP**, which is **far below the levels reached by East Asian economies** in their high growth periods.
  - But it is **far from China's** during its high-growth phase when it spent **nearly 50% of GDP.**
- **Disparities at the State Level:** Infrastructure quality, regulatory efficiency, governance capacity and policy implementation vary widely across states.
- **Private investment slowdown:** Private capital expenditure continues to be under pressure from global uncertainty, weak demand and risk aversion.
- **Constraints on Infrastructure Financing:** Big infrastructure projects require enormous long-term financing, while fiscal constraints limit public spending.
- **Regulatory and Procedural Bottlenecks:** Project execution is affected by issues such as land acquisition, delays in contract enforcement, environmental clearances and compliance burdens.
- **Global Economic Headwinds:** Protectionism, geopolitical tensions and supply chain disruptions are creating uncertainties for investment flows.

Key Efforts and Initiatives

- **Investment Friendliness Index (2025):** Developed by NITI Aayog to assess the investment ecosystem of states and promote data-driven policy reforms.

Investment Friendliness Index (IFI)

- It is **launched by NITI Aayog** to assess the investment attractiveness of 28 States and 8 Union Territories.
- It aims to assist states in identifying their investment ecosystem strengths and gaps, enhance policy interventions, and attract more domestic and foreign investments.
- It is **not a ranking competition**, but a diagnostic tool to promote cooperative and competitive federalism by states adopting best practices.
- Assessment Framework: States are rated on a 100-point scale based on a combination of primary surveys of investors and secondary data.
- **Eight Pillars of Assessment:** Infrastructure; Business Climate; Resources; Government Policy; Regulatory Ease; Institutional Environment; Financial Health; and Environmental Resilience
- **Classification of States:** Large States, Hilly & North-Eastern States and City States & Union Territories;
- **Overall Top Performers (2025):** Gujarat; Maharashtra; Tamil Nadu; Goa; and Odisha;
- **Category-wise Leaders:**
    - **Large States:** Gujarat, Maharashtra, Tamil Nadu
    - **Hilly & North-Eastern States:** Uttarakhand, Assam, Himachal Pradesh
    - **City States & UTs:** Goa, Delhi, Chandigarh
- It supports initiatives like PM Gati Shakti, National Logistics Policy and Production Linked Incentive (PLI) schemes.

- **National Infrastructure Pipeline (NIP):** Long term infrastructure investment programme to develop transport, energy, urban and social infrastructure.
- **PM Gati Shakti National Master Plan:** Digital platform based on GIS for infrastructure planning across ministries for improved multimodal connectivity.
- **National Monetisation Pipeline (NMP):** Unlocks value of existing brownfield public assets to fund creation of new infrastructure.
- **Production Linked Incentive (PLI) Scheme:** It offers performance-linked incentives to promote investment in manufacturing in strategic sectors.
- **Ease of Doing Business Reforms:** The reforms related to digital approvals, labour reforms, faceless tax administration and single window systems are targeted at improving the investment climate.
- **Asset Creation through Capital Expenditure:** The Union Government has always accorded the highest priority to capital expenditure in the recent Budgets to boost infrastructure-led growth.

Way Forward

- Boost the rate of investment through continued public capital expenditure and greater private sector involvement.
- Improve the quality and efficiency of public expenditure through timely implementation of projects and better use of assets.
- Strengthen cooperative federalism by allowing states to adopt best practices identified through the Investment Friendliness Index.
- Increase investor confidence by simplifying regulation, providing policy stability and improving contract enforcement.
- Scale up financing of infrastructure through development finance institutions, municipal bonds and public-private partnership.

- Concentrate on green infrastructure, digital public infrastructure and innovation-led investments to encourage sustainable and inclusive growth.
- Investments should be focused on lagging states and aspirational districts to promote balanced regional development.

Daily Mains Practice Question

[Q] Examine the role of public investment in accelerating economic growth in India. Discuss the major challenges in enhancing investment and suggest measures to strengthen India's investment ecosystem.

Source: New Indian Express