The International Monetary Fund recently slashed India’s expected economic growth rate for the year down to 6.1 percent. This follows similar moves from other organizations. More than five months into its second term, the Modi government has not offered much insight on its reform priorities to ensure long-term growth, beyond a helpful corporate tax rate cut and some other small steps. But India’s growth rate is more a product of India’s 29 chief ministers—and too few are asking about their plans to get India back on a high-growth trajectory.

The Modi government started its first term with a range of economic reforms in the initial years. While the Goods and Services Tax and the Insolvency and Bankruptcy Code got most of the attention, there were other significant reforms such as the new Hydrocarbon Exploration Licensing Policy (HELP), an effective end to new cases of retrospective taxation, dozens of moves to remove foreign investment restrictions, and a program to measure the business environment of states- the Business Reforms Action Plan (BRAP). Paired with Prime Minister Modi’s oft-stated commitment to governance and personal courtship of investment, India’s foreign direction investment (FDI) numbers quickly spiked and domestic growth rebounded.

While FDI remains solid, domestic growth is fading fast. Beyond the depressed growth predictions, consumer sentiments are dampened, and major industrial groups have announced reduced production targets. But is a “return to growth” Modi’s puzzle to solve? Definitely not, at least not alone.

Most of the areas where economic reforms are most pressing are primarily controlled by India’s state leaders. So instead of focusing solely on a “Modi Plan” for growth, we should also be pressing for the “Fadnavis Plan,” the “Yeddyurappa Plan,” the “Nath Plan,” and the “Adityanath Plan” for an economic resurgence. But precious little attention is paid to the role India’s state leaders must play in facilitating growth.

State governments have primary control over many potential levers for growth. These include:

- The issuance of most industrial licenses;
- Control over various inspections that can cripple productivity when abused;
- Pricing and availability of electric power;
- Pricing and availability of clean water and effluent disposal;
- Building most infrastructure;
- Land clearances for industrial development;
- Labor regulation;
- Policy continuity.

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Twenty-Nine Solutions to India’s Slowdown

RICHARD M. ROSSOW

KEY DATA

+11%  
U.S.-India Goods Trade, 12-Month Comparison, Per U.S. Census Bureau

+24%  
Foreign Direct Investment, 12-Month Comparison, Per RBI

$11 bn  
FII Assets Net Flows, Last 12 Months, Per NSDL
States can be leaders in sparking growth by taking significant steps to expand access to quality infrastructure, cut unnecessary licenses, make land acquisition a transparent and straightforward process, and more. But states clearly do not feel the pressure or urgency to take important steps to revive the economy, and often lack the will and administrative capacity to ensure effective regulations—even when enacted on paper—are carried out in practice.

The Modi government still has a crucial role to play in setting in motion reforms that will help India’s long-term growth. One step from the central government has an impact across India. But as CRISIL reported in its “States of Growth” report earlier this year, differential growth rates between states can be enormous. For Fiscal Year 2018 (FY18), states’ growth rates varied between 4.65 percent in Jharkhand to 11.3 percent in Bihar. Andhra Pradesh, Telangana, and Gujarat all ranked near the top of the BRAP in 2017-18, and were among the four fastest-growing states in FY18. The link is not perfect; Jharkhand ranked fourth in the BRAP study yet grew less than 5 percent in FY18. Still, the link between reform-oriented states and growth appears strong. Similarly, states that create discord among investors can delay projects and investments. Andhra Pradesh has India’s seventh-largest state economy and is going through such a cycle after a change in government in May. In the last five months the new government has threatened to revoke recent power purchase agreements, pulled back from ongoing investments in the new capital of Amaravati, and de-facto nationalized the alcohol sales industry.

During a period of global economic disarray, investors seek safe havens with stable, pro-growth policies. When thinking of India, most of the world focuses exclusively on the central government. But that is only a part of the Indian economic landscape. Collectively, India’s 29 state leaders have a much more profound influence on the practicalities of doing business in the country. When we look for new reform ideas to spark growth in India, states must step up and become part of the solution.