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EDITORIAL ANALYSIS

South Asia's Engine — World Bank's Growth Forecast, Industrial Policy, and India's Structural Risks

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INTERVIEW ANGLE

"The World Bank projects India's GDP at 7.6% for FY26 — fastest among major economies — but moderates to 6.6% for FY27 due to Middle East energy risks. The SAEU's 'Working with Industrial Policy' theme raises the question: is India's PLI-driven industrial policy the right instrument for sustainable high-growth?"

THE CORE ARGUMENT

The World Bank's South Asia Economic Update (April 2026) confirms India's growth leadership at 7.6% for FY26 — even as it signals a moderation to 6.6% in FY27 due to Middle East energy price pressures. The editorial uses the report's theme — *Working with Industrial Policy* — to argue that India's PLI-driven industrial policy is necessary but needs to evolve: from demand-side subsidy (PLI disbursements) to supply-side structural reform (labour markets, infrastructure quality, technology absorption). The growth number is encouraging; the structural vulnerabilities beneath it deserve equal attention.

INDIA'S 7.6% — WHY IT IS REAL, NOT INFLATED

Growth Drivers

DRIVER	CONTRIBUTION
Private consumption	Strong; rural recovery + urban spending
Government capex	₹11.1 lakh crore in FY25 Budget; infrastructure multiplier
Services exports	IT/ITES + GCC (Global Capability Centres) growth
GST formalisation	Higher tax buoyancy → fiscal space
Financial sector	Credit growth healthy; NPA at decade-lows

Why the World Bank Figure (7.6%) Differs from IMF (6.4%)

Both use different methodologies and FY25 base year assumptions. World Bank uses a higher FY25 actual growth estimate, giving India a higher FY26 carry-forward. The 6.6-7.6% range reflects genuine uncertainty, not measurement error.

THE FY27 MODERATION — WHY?

Middle East as the Key Risk

India imports **~85% of its crude oil** — predominantly from the Middle East (Gulf states + Iraq + UAE). The ongoing Middle East conflict risks:

- Higher crude prices → inflation pass-through to retail
- Freight cost increases → import bill expansion
- Remittance risk — ~9 million Indian workers in Gulf states

A $10/barrel increase in crude adds ~0.4% to India's CPI and ~$15-20 billion to the import bill.

The Goldilock End — Compounding Headwinds

As The Hindu editorial (April 24) argued: India's Goldilocks moment is ending. Multiple headwinds are compounding simultaneously — rupee depreciation, US tariff escalation, private investment gap, and now Middle East energy risks. The World Bank's FY27 moderation reflects this convergence.

THE INDUSTRIAL POLICY THEME — INDIA'S PLI MOMENT

The SAEU's focus on *Working with Industrial Policy* validates what India has been doing since 2020: the **Production Linked Incentive (PLI) scheme**, which offers output-linked incentives across 14 sectors (electronics, mobile phones, pharma, solar PV, batteries, textiles, specialty steel, auto, food processing, telecom, white goods, drones, advanced chemistry cells, semiconductors).

PLI: What Has Worked

SECTOR	SUCCESS
Mobile phones	Apple (Foxconn, Tata) manufacturing in India; India now exporting iPhones
Bulk drugs (APIs)	Domestic API capacity expanded; reduced China dependence
Solar PV cells	New capacity coming online; reducing import dependence

PLI: What Needs to Evolve

LIMITATION	DETAIL
Demand-side incentive only	PLI pays for output; does not fix input costs (power, logistics, labour flexibility)
Favours large firms	SMEs struggle to meet PLI investment thresholds
Job creation gap	Capital-intensive manufacturing (electronics assembly) creates fewer jobs than expected
Technology absorption	PLI may subsidise assembly without building genuine domestic tech capability

WHAT INDIA NEEDS BEYOND PLI

1. **Labour market flexibility**: 4 Labour Codes passed but not implemented in most states — deters large-scale formal manufacturing investment
2. **Infrastructure quality**: Logistics costs ~14% of GDP (vs 8-9% in China); power reliability remains uneven in industrial clusters
3. **R&D investment**: India spends ~0.7% of GDP on R&D (China: 2.4%; South Korea: 4.9%) — PLI subsidises production, not innovation
4. **Land acquisition**: Industrial land acquisition remains contested; SEZ framework needs revival

UPSC ANGLE

PAPER	ANGLE
GS3 — Economy	PLI scheme; industrial policy; GDP methodology
GS3 — Economy	Middle East energy risk; crude oil dependence; inflation
GS2 — IR	World Bank; South Asia; India as regional growth engine

Mains Keywords: PLI scheme, industrial policy, World Bank SAEU, Goldilocks, Middle East energy risk, private investment, capex multiplier

Probable Question: "India's industrial policy through PLI has achieved partial success but requires deeper structural reforms to sustain 7%+ growth. Examine." (GS3 Mains)

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