

V. Anantha Nageswaran

Challenges and Opportunities for India

V. Anantha Nageswaran joined Markus' Academy for a conversation on "Building Strategic Leverage in the Emerging New World Order: Challenges and Opportunities for India." Nageswaran is the Chief Economic Adviser to the Government of India. A few highlights from the discussion.¹

A summary in four bullets:

- In the episode, Nageswaran presented his vision of India's growth strategy, included in India's [2025–2026 Economic Survey](#), which has been described as a [disruptive shift](#) in India's growth strategy
- The strategy is based on the idea of Investment in National Strength, with three pillars: (1) Intelligent import substitution, (2) Strategic resilience, and (3) Strategic indispensability
- National reforms in tax, labor, infrastructure, public procurement, state-level deregulation, and R&D support aim to lower input costs, crowd in private investment, and build a Mittelstand-style manufacturing ecosystem
- India remains an oasis of macro stability in a turbulent world, with sustainable non-inflationary growth, fiscal prudence, supply-side reforms and investments

[\[05:36\]](#) India's manufacturing future

- India's strategy of Investment in National Strength has three pillars:
 - Intelligent import substitution: building domestic competitive production
 - Strategic resilience: The ability to function if the world breaks down
 - Strategic indispensability: The world being unable to function without India
- The goal is to grow manufacturing's share of gross value added from 17% to 25% by 2047. There are **three reasons behind the manufacturing push**.
- First, essential goods (e.g. oil, metals) become strategic assets under fragmentation. We need to start thinking about **stockpiling** and vulnerability to beggar-thy-neighbor behavior
- Second, when trade, markets and supply chains become instruments of power, there are **strategic reasons to promote manufacturing** rather than just employment
- Third, manufacturing promotes currency strength. After Bretton Woods, countries with stable currencies have been those with robust manufacturing (e.g. Germany, Japan...)
- **Manufacturing is crucial to lowering a country's cost of capital**, eliminating the FX depreciation risk premium, and avoiding self-fulfilling currency crises
- China's experience illustrates that rising per capita income drives import demand; India's rising resource needs will have to be financed via exports and capital inflows
- Both of these are harder in a fractured system. After Trump's **tariffs**, **India saw capital outflows** to the U.S. and lower-tariff "China+1" countries (e.g. Vietnam), weakening the rupee

¹ Summary produced by Pablo Balsinde (PhD student, Stockholm School of Economics).

- Putting everything together, if essentials aren't secured domestically (or via buffers), shocks force higher imports and external financing needs: this pressure can turn into currency weakness and, over time, into an exchange-rate depreciation risk premium in the cost of capital

[20:51] Designing intelligent import substitution

- The key idea of **intelligent import substitution** is that domestic industries should be held to the standards of global competitiveness; this is the East Asian playbook ([Studwell, 2013](#))
- Intelligent import substitution is never permanent: (1) it focuses on areas where there is a natural advantage, (2) it makes protection conditional on productivity improvements, scale and eventual competitiveness, and (3) it **subjects domestic industries to ruthless internal competition**
- The Economic Survey suggests prioritising sectors based on a 2x2 matrix of urgency and feasibility. High urgency sectors are core, while in low urgency sectors, India can be more selective
- High-urgency and high-feasibility sectors (e.g. ag commodities and pharmaceutical ingredients) require **demand assurance and procurement policies**
- High-urgency and low-feasibility sectors (e.g. batteries, solar) justify public investment and mission-style programs
- Low urgency and high-feasibility sectors (e.g. industrial machinery and EVs) can be improved by gradual localization and clusters
- Low-urgency and low-feasibility sectors (e.g. electrolyzers, tunneling machines) receive ecosystem and talent support, but no aggressive import substitution

[31:17] A reform agenda for strategic resilience

- India's industrial policy reforms aim to **solve India's lack of scale** and create a manufacturing ecosystem analogous to Germany's Mittelstand. The solutions can be grouped into three:
 - (1) Ecosystem-first reforms
 - (2) Infrastructure and talent provision
 - (3) A bureaucratically reformed entrepreneurial state
- Ecosystem-first reforms emphasize **cluster-led growth**, concentrating industries in individual states to promote economies of scale
- They also focus on **input-cost reduction**. For example, India has recently eliminated its import duty "inversion," where intermediate goods used to have higher duties than final goods
- **Government capex has grown from ~1.7% to ~3.1% of GDP** over a decade
- India has achieved this while halving the deficit in the last five years, bringing ratings improvements
- The goal is to shift mindsets in bureaucracy from extraction to development and **risk-taking with resilience**, especially at lower levels of government. A precedent for this is the government's efforts to boost the software sector ([Mistree, 2019](#))
- Recent reforms since 2024 include:
 - Income-tax simplification and a revamped goods and services tax
 - A modern and unified labor code and a redesign of the rural employment scheme to improve job guarantees and reduce leakages

- An infrastructure procurement policy based on qualifications rather than the lowest cost
- New trade agreements
- Liberalising the insurance and nuclear sectors and increasing R&D funds
- A state-level deregulation initiative has seen high implementation rates. The principle has been experimentation and learning from others rather than harmonization

[45:49] Growth in strategic sectors and under global fragility

- India underperforms in global influence relative to its potential given size ([Lowy Asia Power Index](#))
- Potential growth, previously assessed at 6.5%, is now internally upgraded to about 7%. India remains an **oasis of macro stability** in a turbulent world, with sustainable non-inflationary growth, fiscal prudence, supply-side reforms and investments
- India is implementing public digital services (IDs, payments) while deploying an AI strategy (data center incentives, sectoral applications) to raise state capacity
- **Nuclear power policy** has been liberalised to diversify away from thermal power, allowing private and foreign investment and offering customs exemptions for nuclear equipment. The goal is to **raise nuclear's share to 7–10%**
- India's banking system is healthy; in the financial crisis, India did not suffer that much, and it did not need liquidity lines
- In the last few years, the **stock market has become more responsive to domestic flows** than to international capital. Nevertheless, the risk is that a more fragmented global financial market will make India's current account deficit harder to finance
- **Three scenarios** for the world economy in 2026:
 - A continuation of 'business as in 2025' with less security and more fragility (40–45%)
 - A disorderly multipolar breakdown (40–45%)
 - A systemic shock cascade (10–20%)

Timestamps:

[05:36] India's manufacturing future

[20:51] Designing intelligent import substitution

[31:17] A reform agenda for strategic resilience

[45:49] Growth in strategic sectors and under global fragility