India's Economic Transformation: Key Drivers of Growth by 2030

India is on the cusp of a significant economic transformation. By 2030, the landscape will be drastically different, driven by increased **formalization, urbanization, industrialization, financialization**, improved governance, and enhanced skills development. These changes will lead to higher productivity, better job opportunities, and overall economic growth. Here’s how each of these trends will shape India's future.

Increased Formalization of Enterprises

In 2020, India’s greatest productivity challenge stemmed from its 63 million enterprises, of which 12 million operate without a formal office, another 12 million operate from home, and only 12 million are registered for GST. Merely 1 million enterprises contribute to social security, 1 million are incorporated as companies, and only 19,500 have a paid-up capital exceeding ₹10 crore. For decades post-1947, India remained a nation of corporate dwarfs due to excessive regulatory obstacles in critical markets such as land, labour, and capital. However, significant changes are now underway, and the corporate landscape of India in 2030 will look vastly different. The Indian economy can afford to reduce its vast number of enterprises in favour of higher productivity taking a cue from the U.S. economy which is eight times larger but has only 25 million enterprises. The current rate of 50% self-employment among the Indian labour force is not a sign of entrepreneurial prowess but rather of self-exploitation, as small-scale industries have proven to be highly inefficient and self-limiting.

By 2030, we should see an increase in formal wage employment, recognizing that not all individuals are suited to be entrepreneurs and that not all forms of entrepreneurship are sustainable. There will be a significant rise in the number of companies, leading to better access to talent, capital, and technology, thereby breaking the cycle of low productivity and wage stagnation. The size of firms will also expand—currently, only 3% of Indian apparel manufacturing firms employ more than 500 workers, compared to 30% in China. Additionally, more workers will receive social security benefits, with the percentage of the labour force covered by these benefits expected to rise from 25% to 50%. We will also see a dramatic increase in corporate taxpayers, as the number of GST-registered enterprises, which has already grown by 50% under the current regime, is projected to cover 75% of all enterprises.

Enhanced Urbanization

Historically, political efforts focus on bringing jobs to people rather than relocating people to jobs. However, development does not work this way. Despite 70 million inter-state migrants, India has yet to witness anything on the scale of China's New Year, where 250 million people travel to their hometowns for a four-day weekend. India remains rooted in its 600,000 villages, 200,000 of which have populations of less than 500 people. Additionally, the nation has only 52 cities with populations exceeding one million, compared to China's 375. This disparity in urbanization has created a significant gap between real and nominal wages. For instance, a young job seeker in Gwalior covets the wages in Delhi and Mumbai that are two to four times higher than what is offered locally. This urbanization divide will only grow more pronounced over the next two decades, as five states in southern and western India—Gujarat, Maharashtra, Tamil Nadu, Karnataka, and Andhra Pradesh—are projected to account for 50% of the country's GDP growth while contributing only 5% to population growth.

However, change is imminent. By 2030, urbanization policies will evolve beyond merely increasing population density in our 52 cities, leading to the creation of 250 cities with populations exceeding one million. Governance will increasingly shift from centralization in Delhi to greater autonomy for state capitals and cities, acknowledging that the influence of 30 Chief Ministers surpasses that of one Prime Minister, and 100 Mayors are more impactful than 30 Chief Ministers. India's well-planned cities like Chandigarh and Lutyens Delhi, which are economically stagnant, will give way to the vibrant yet chaotic urban centres like Gurgaon near Delhi, Gachibowli near Hyderabad, Magarpatta near Pune, and Whitefield near Bangalore. Urbanization is inevitable; the challenge lies in achieving better urbanization.

Increased Industrialization

As of 2024, India's economic growth is hampered by the imbalance between its labour force distribution—12% in manufacturing and 45% in agriculture, the latter contributing only about 18% of GDP. China emerged as the world's manufacturing hub due to its robust infrastructure, low labour costs, and high foreign investment. However, Chinese wages have now risen to 20% of U.S. wages, up from 5% a decade ago.

While technology and automation have reduced the labour intensity of manufacturing, India's current 12% workforce participation in manufacturing is too low. By 2030, this figure is expected to increase to 20%. This shift will be initially driven by domestic consumption under the "Make-in-India" initiative, which could eventually position these factories as export hubs. An anticipated positive outcome of this industrial growth will be a reduction in agricultural employment to below 10% by 2030, a clear reflection of Nobel Laureate Arthur Lewis's insight that the best way to assist farmers is to reduce their numbers. Furthermore, the populist-driven trade wars and disruptions caused by the COVID-19 pandemic may diminish China's dominance in global supply chains opening opportunities for Indian manufacturers.

Enhanced Financialization

In 1969, India's Lok Sabha was informed that bank nationalization aimed to ensure credit access for the self-employed, small businesses, and farmers. Unfortunately, these groups did not benefit significantly from credit expansion. Decades later, India's economy continues to grapple with a low credit-to-GDP ratio of 50%, compared to 100% in OECD countries, though China's 300% ratio is likely unsustainable. While credit growth surged from ₹18 trillion to ₹54 trillion between 2008 and 2014, this rapid expansion also resulted in over ₹14 trillion in bad loans.

Reforms in India's indirect tax regime (GST), identity verification system (Aadhaar), and distressed asset management (Insolvency and Bankruptcy Code) have established a foundation for sustainable financialization. By 2030, India is expected to achieve a credit-to-GDP ratio of 100%. The number of banks, which has remained between 90 and 100 since 1947, will increase, and there will be greater diversity in financial institutions' business models, delivery mechanisms, purposes, and structures. India will also maintain its lead in digital payments; for instance, Google recently requested the U.S. Federal Reserve to adopt India's digital ecosystem. Current digital mobile payments, which stand at one billion transactions per month, are projected to reach one billion transactions per day by 2025, with even higher volumes by 2030.

Improved Governance

Jawaharlal Nehru once remarked that the Indian Civil Services were "neither Indian nor Civil nor a Service." Creating a conducive environment for private formal job creation requires addressing the 69,000 compliance requirements and 6,600 filings that currently burden employers. This hostility toward private enterprises stems from a bureaucratic mindset characterized by rigid rules, overreliance on punitive measures, lack of domain specialization, and a failure to view wealth creators as national assets.

Listed public sector undertakings (PSUs) have destroyed $150 billion in value over the past decade, reinforcing the Gujarati proverb, "Jahan raja vyapaari, wahan praja bhikhari" (where the ruler engages in business, the populace becomes beggars). The goal is less government and more effective governance, which will be achieved by 2030 through structural reforms in six areas of civil service human capital—organizational structure, staffing, training, performance management, compensation, and culture.

Structural changes will reduce the number of central ministries (currently 55, compared to Japan’s nine, the U.S.’s 14, and the U.K.’s 21) and reshape the organizational hierarchy into a more efficient model. Staffing reforms will address the gap between sanctioned and actual workforce strength, introduce cognitive diversity, and promote competition through 20% lateral entry. Training should be restructured to align with demand rather than supply, improve selection and evaluation processes, and integrate training outcomes with performance management. Performance management will adopt a forced distribution curve, ensuring that only 20% of employees are rated as outstanding, 60% as good, and 20% as poor, aligning with the principle that 98% of employees cannot be outstanding. Additionally, early retirement should be mandated for civil servants who do not meet promotion criteria by age 50.

Compensation reforms will shift to a cost-to-government model, monetizing benefits, freezing salaries at lower levels, and increasing them at higher levels. Cultural reforms will focus on eradicating corruption and fostering differentiation in performance appraisals. Leaders must address graft among subordinates and revise processes that enable corruption. They must also differentiate between high and low performers, allocate top positions based on merit rather than seniority, and end automatic promotions that create a surplus of "promotable but not postable" officers.

Differentiation must instil the fear of failure and hope for advancement. The Indian state, with over 20 million employees, has too many who describe problems and too few that solve them. As Karl Marx said, “Philosophers have interpreted the world in various ways; the point, however, is to change it.” Implementing civil service reform by 2025 will ensure that by 2030, the stereotype that “India does not change for better options but only when left with no option” will no longer hold true.

Greater Skill Development

While India’s post-1947 creation of IITs was commendable, it led to the neglect of primary education and skills development. Over the years, this error has been exacerbated by inefficiencies in government schools, apprenticeship programs, and higher education regulations. Compounding these issues are shifts in the education landscape, where lifelong learning, soft skills, curiosity, and a growth mindset (as defined by Stanford psychologist Carol Dweck) are becoming increasingly vital. The challenges and opportunities brought about by AI and machine learning further amplify the need for upskilling.

India currently has 150 million workers in agriculture and 100 million in manufacturing, while its 250 million youth (aged 14–25) constitute the world's largest population of working-age individuals. However, India lacks the "demographic dividend" commonly attributed to its large youth population. This is due to inadequate primary education and limited skills training. By 2030, a renewed focus on primary education, skill development, and lifelong learning will shift the focus from traditional qualifications to competencies. The emphasis will be on the supply of trained individuals over the demand for degrees, and more individuals will engage in continuous upskilling throughout their careers.

Conclusion: Shaping India’s Economic Future

India's economic landscape by 2030 will be defined by these six key trends. The journey toward **increased formalization, urbanization, industrialization, financialization, improved governance, and enhanced skill development** will require concerted efforts from both the public and private sectors. The steps taken today will determine India's position as a global economic powerhouse in the coming decade.