

Realizing India's Potential Navigating Low- & Middle-income Traps

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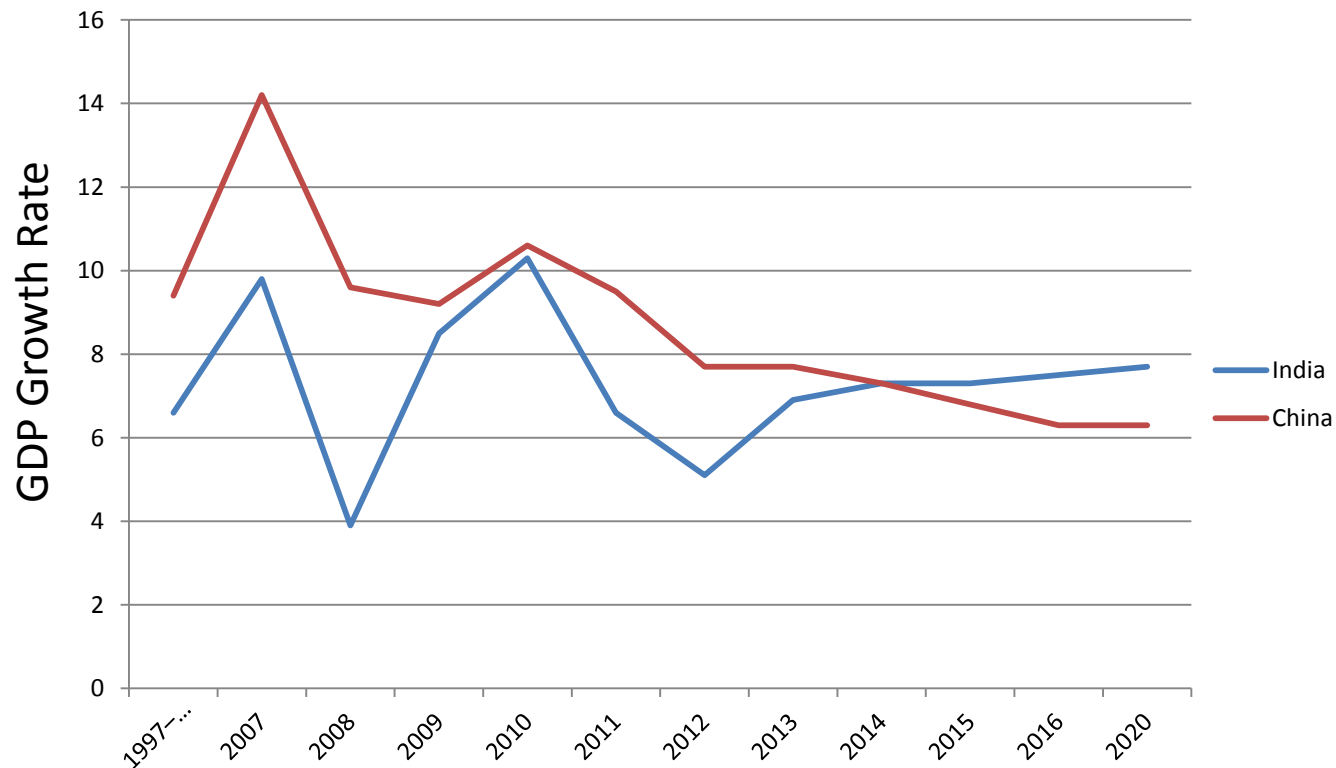
Tokyo, October 30, 2015

Background

- Spectacular economic growth in 2000's, today again among fastest growing large economies
- Reduction in poverty & growth of middle class
- A destination of choice for FPI and FDI
- Erstwhile 12th Five-Year Plan (2012-17), “faster, sustainable, more inclusive growth”
- Substantially changed political environment after UPA Govt., refocus on growth, jobs, skills

Potential of the Indian Economy

- *Currently the world's fastest growing economy*

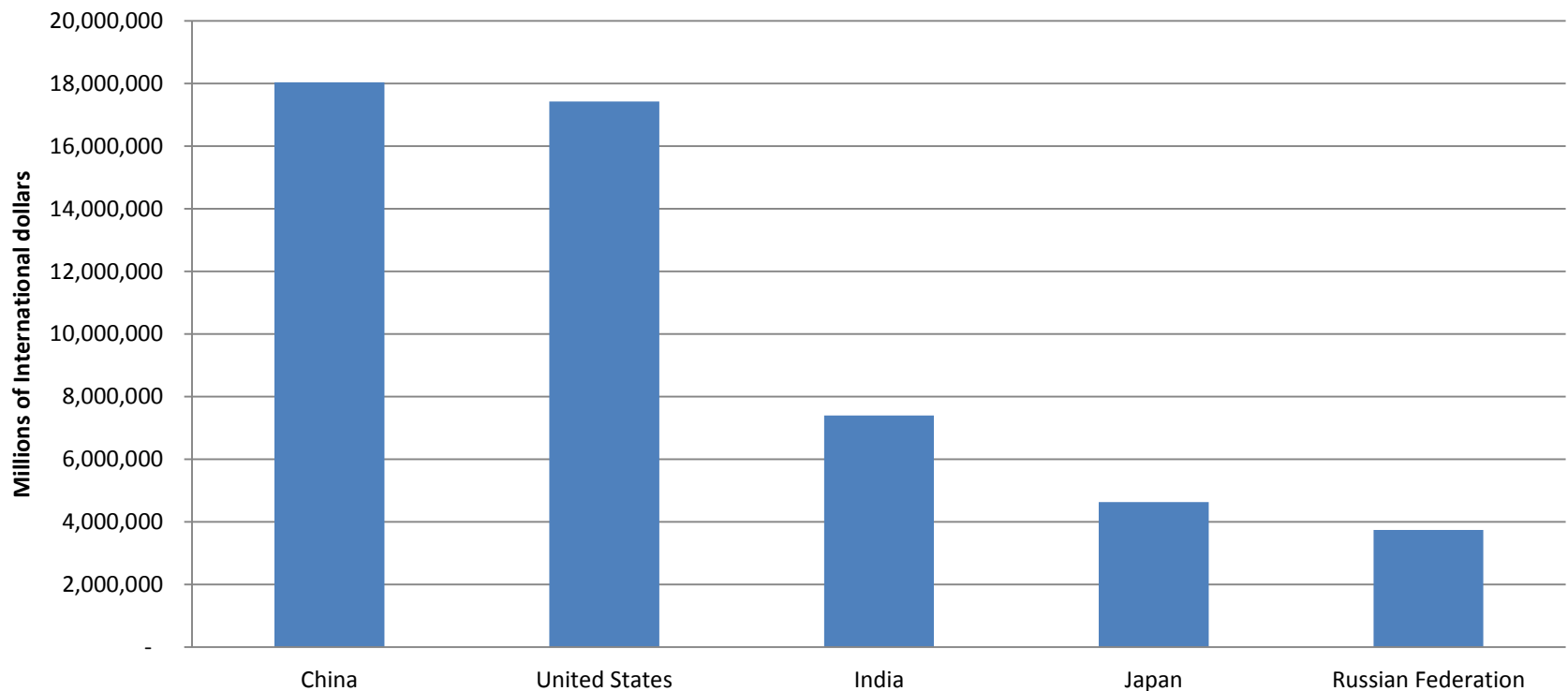


Source: World Development Indicators & IMF World Economic Outlook , Oct. 2015.

Potential of Indian Economy

The world's third largest economy in PPP terms

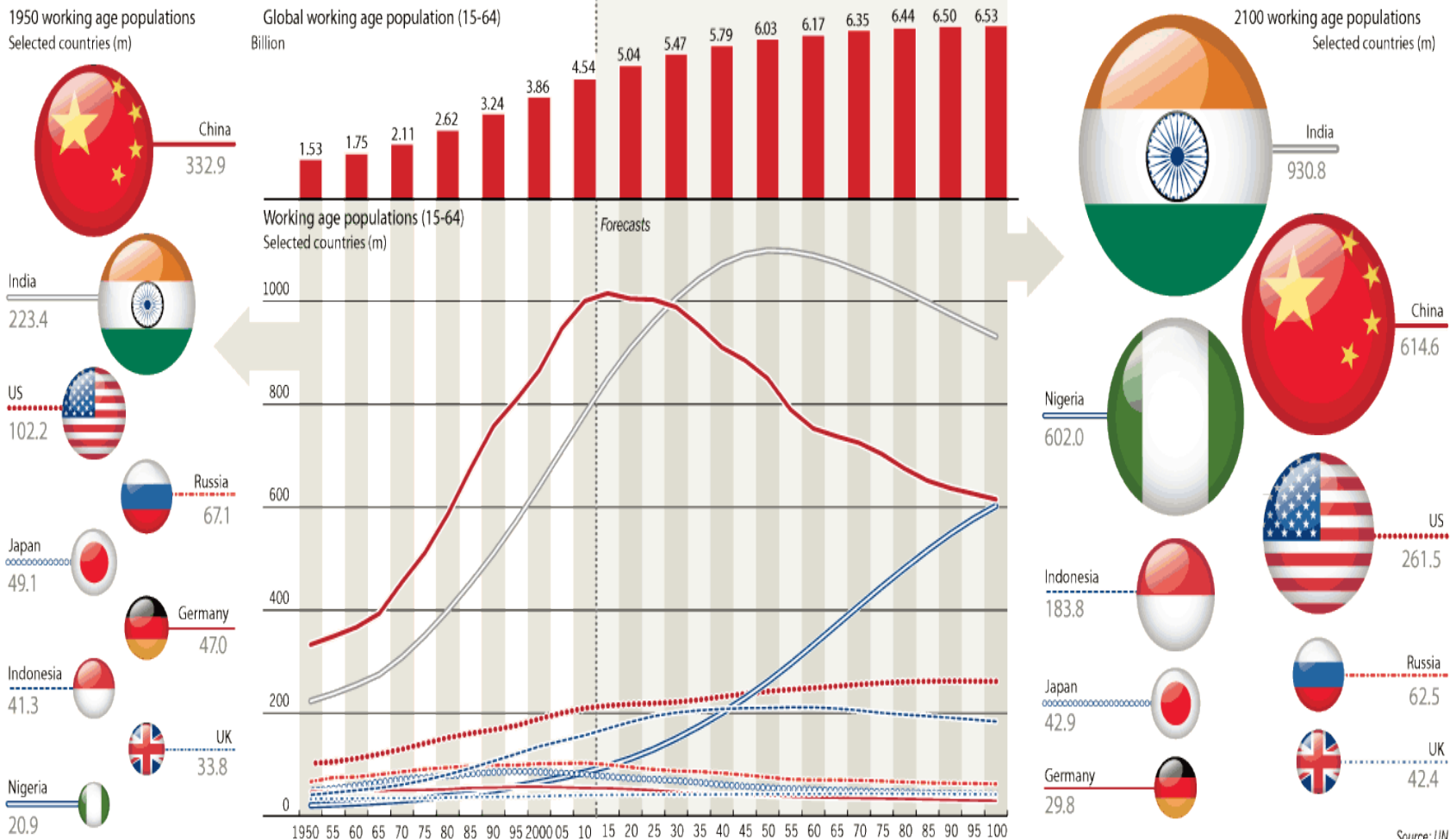
Gross Domestic Product 2014, PPP



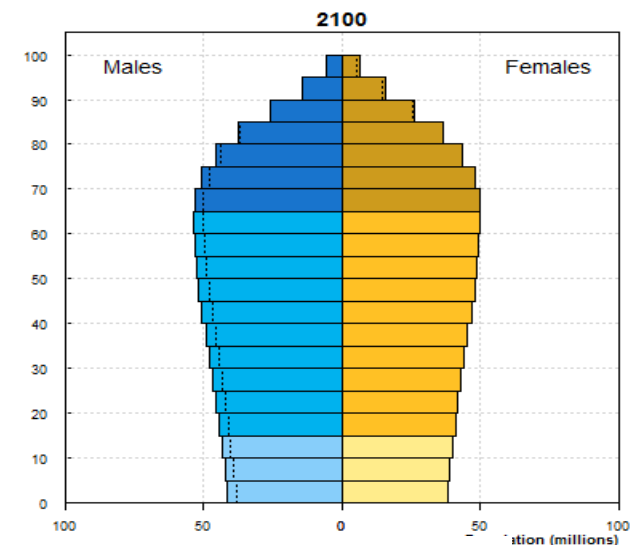
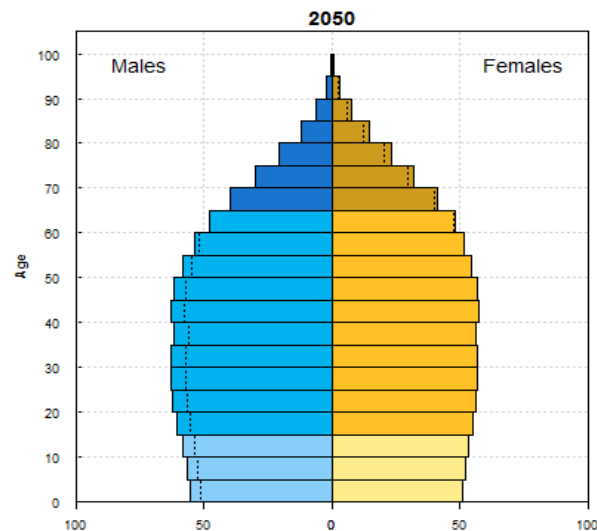
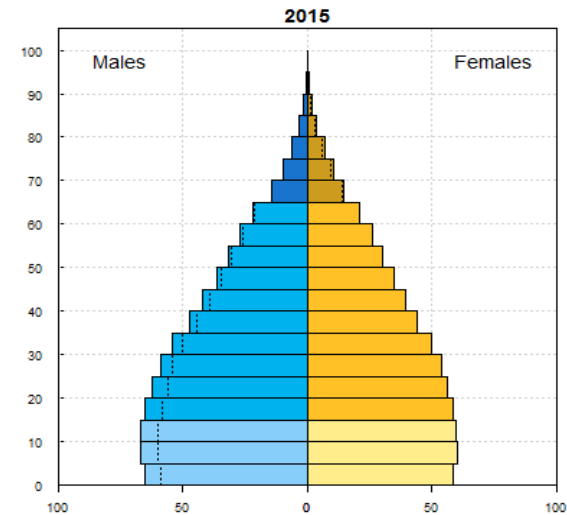
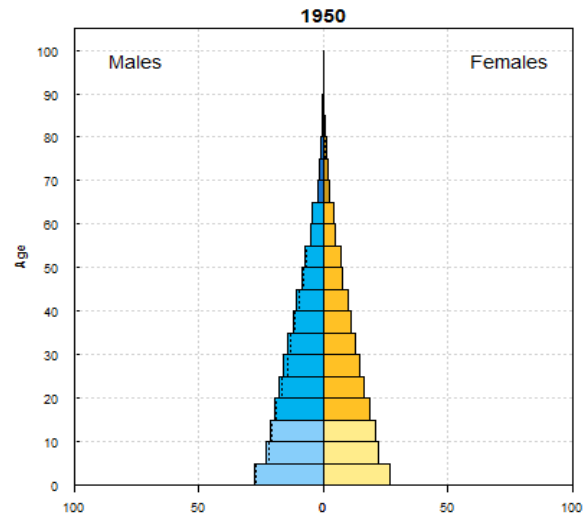
Source: World Development Indicators

The world's largest young economy

Population growth and the labour market



Transition in India's Population Bulge

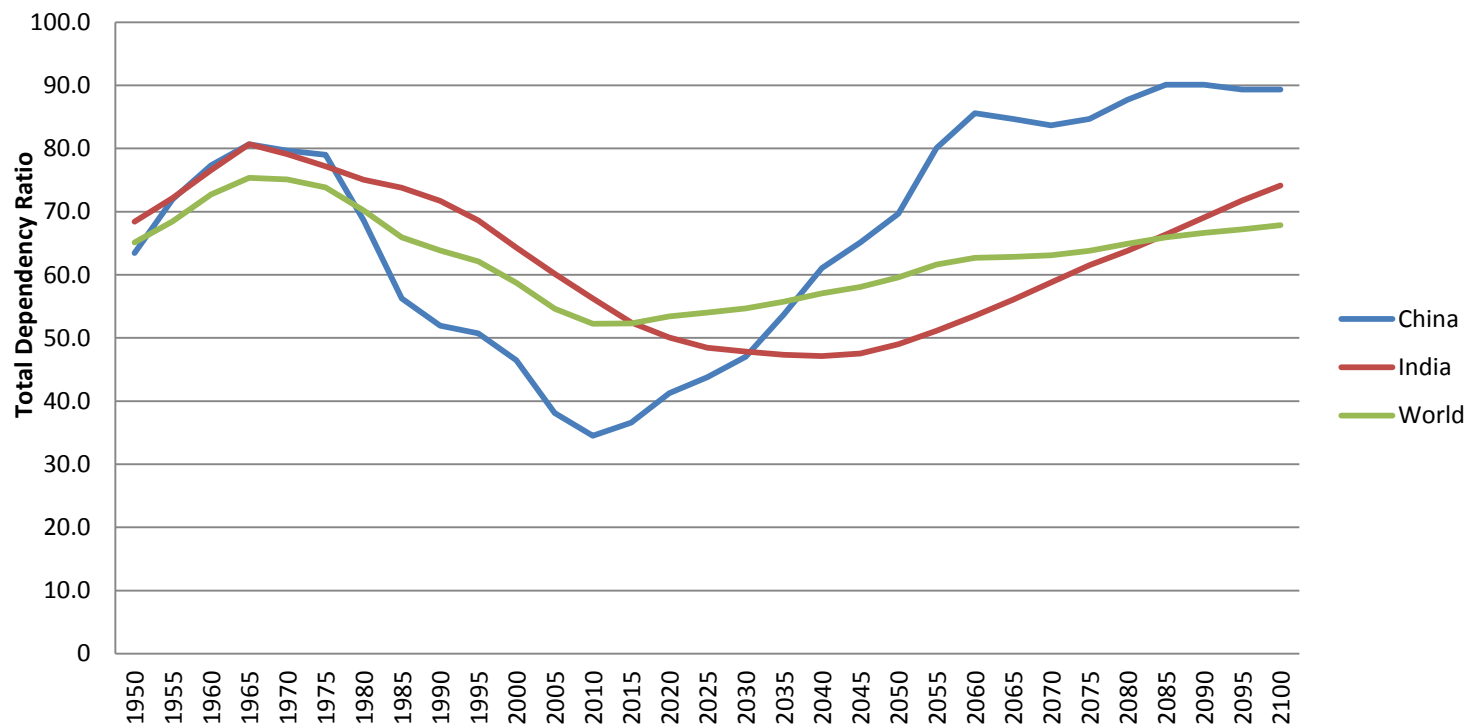


Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision.

Potential of the Indian Economy

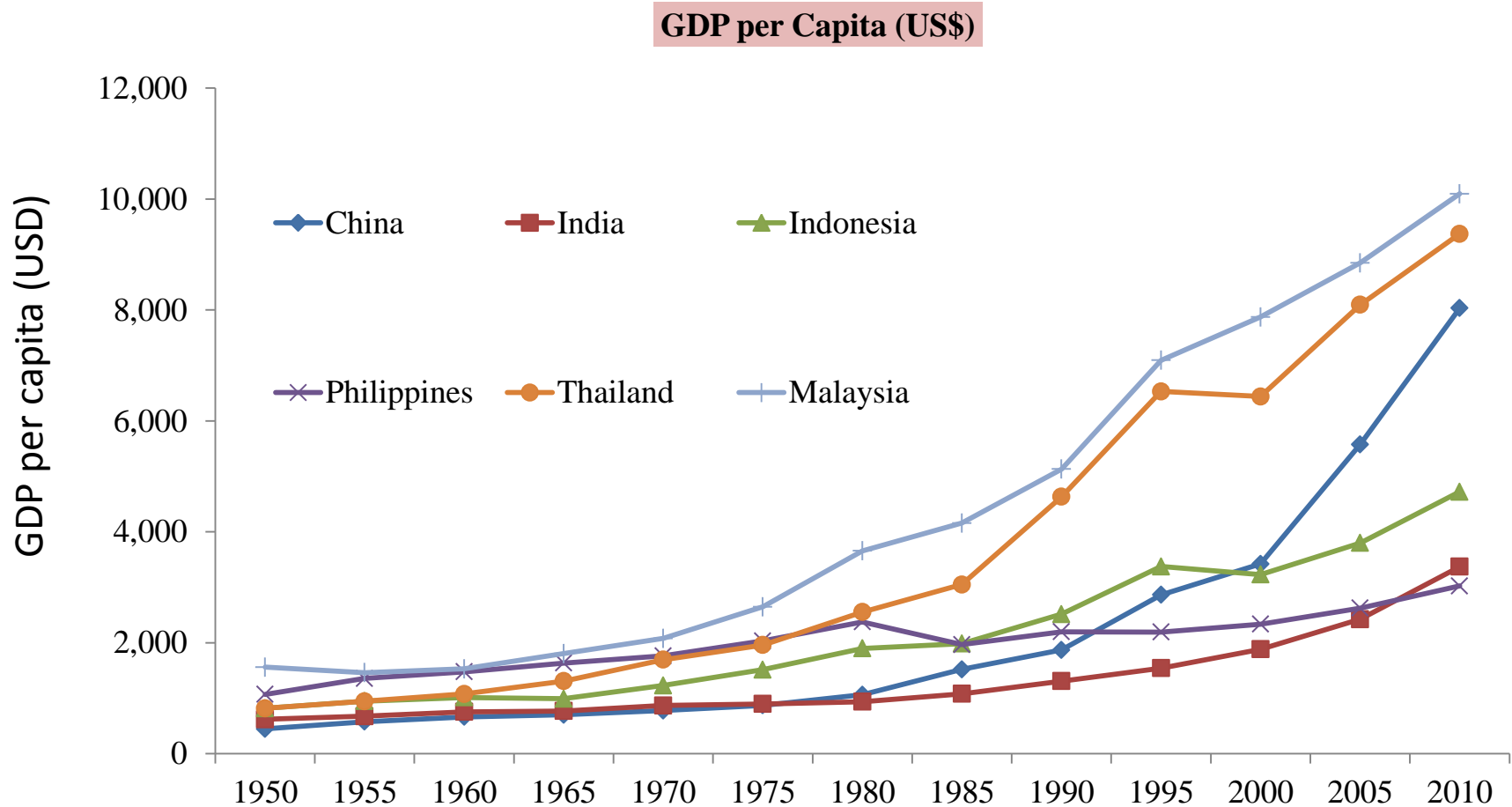
The world's largest young economy

A Comparison of Dependency Ratios



Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). *World Population Prospects: The 2015 Revision*.

Comparison of India's Growth Trajectory with East Asian Neighbors



Source: Maddison (2010)

Shifting Economic Fortunes of Key Asian Economies

Ranking by GDP per capita - highest to lowest

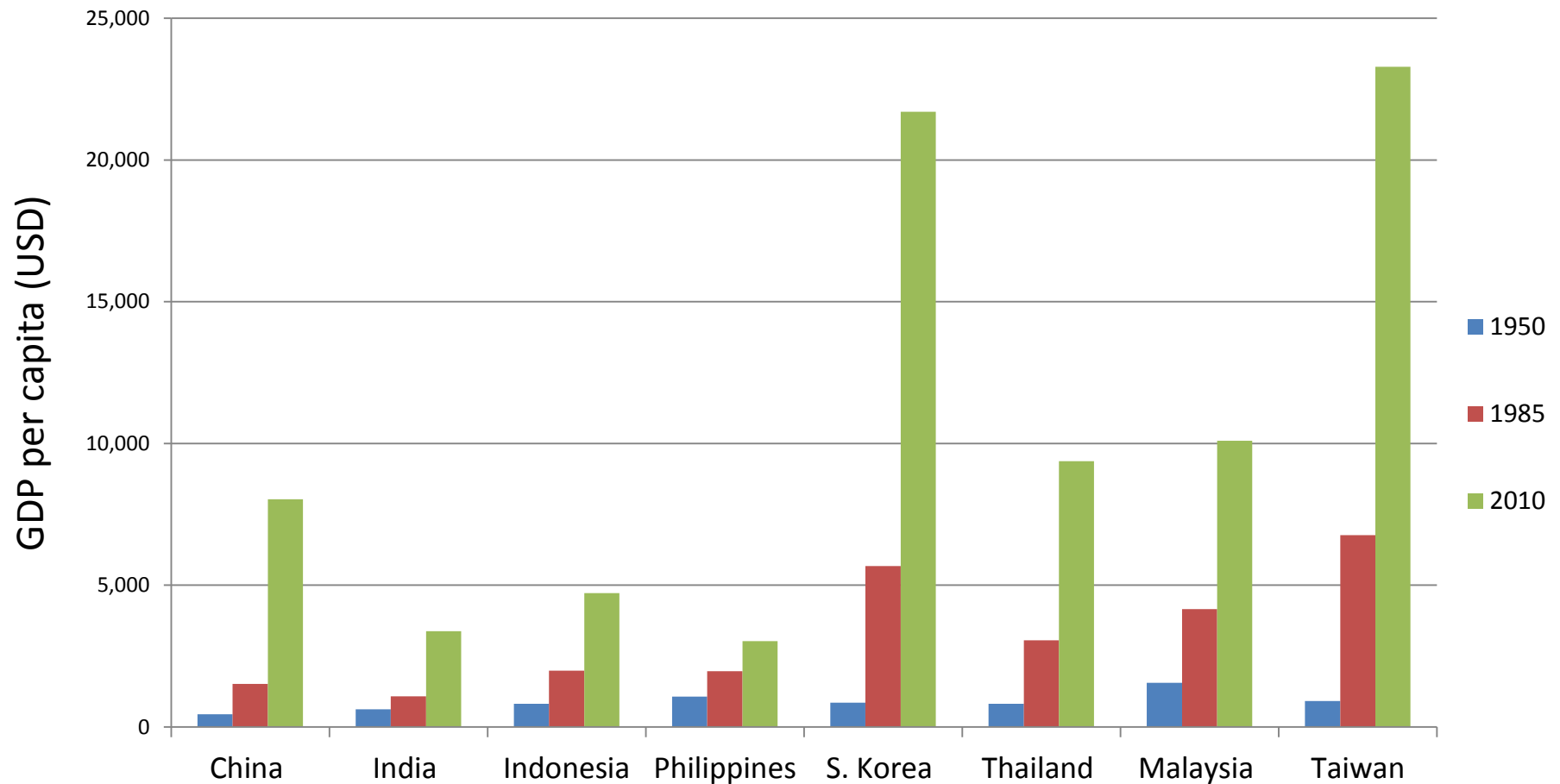
Year 1950	
Rank	Country
1	Malaysia
2	Philippines
3	Taiwan
4	S. Korea
5	Indonesia
6	Thailand
7	India
8	China

Year 1985	
Rank	Country
1	Taiwan
2	S. Korea
3	Malaysia
4	Thailand
5	Indonesia
6	Philippines
7	China
8	India

Year 2010	
Rank	Country
1	Taiwan
2	S. Korea
3	Malaysia
4	Thailand
5	China
6	Indonesia
7	India
8	Philippines

Source: Maddison (2010)

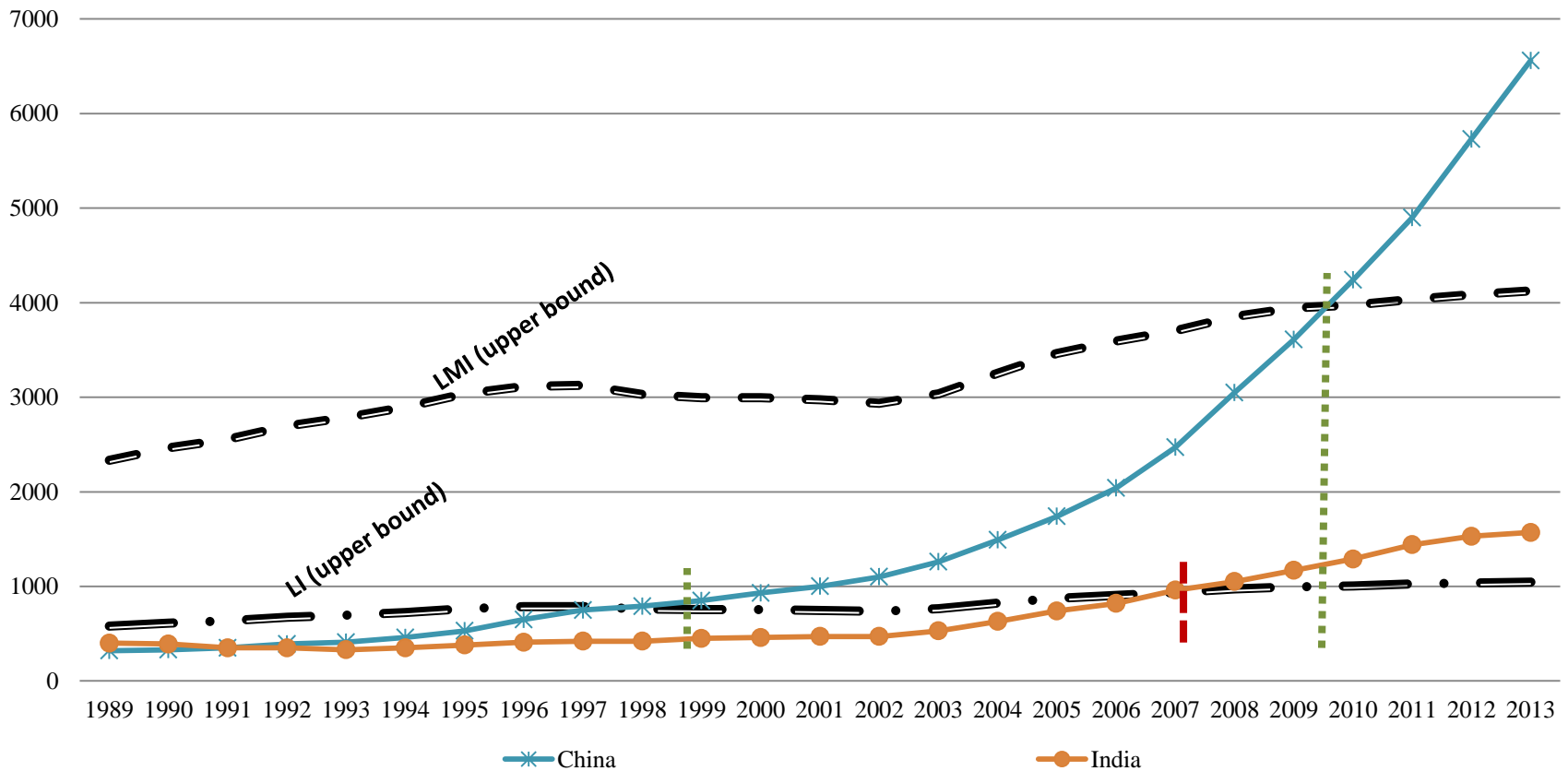
Comparison of India's Growth Trajectory with East Asian Neighbors



Source: Maddison (2010)

India's & China's Transition to Middle-Income Status

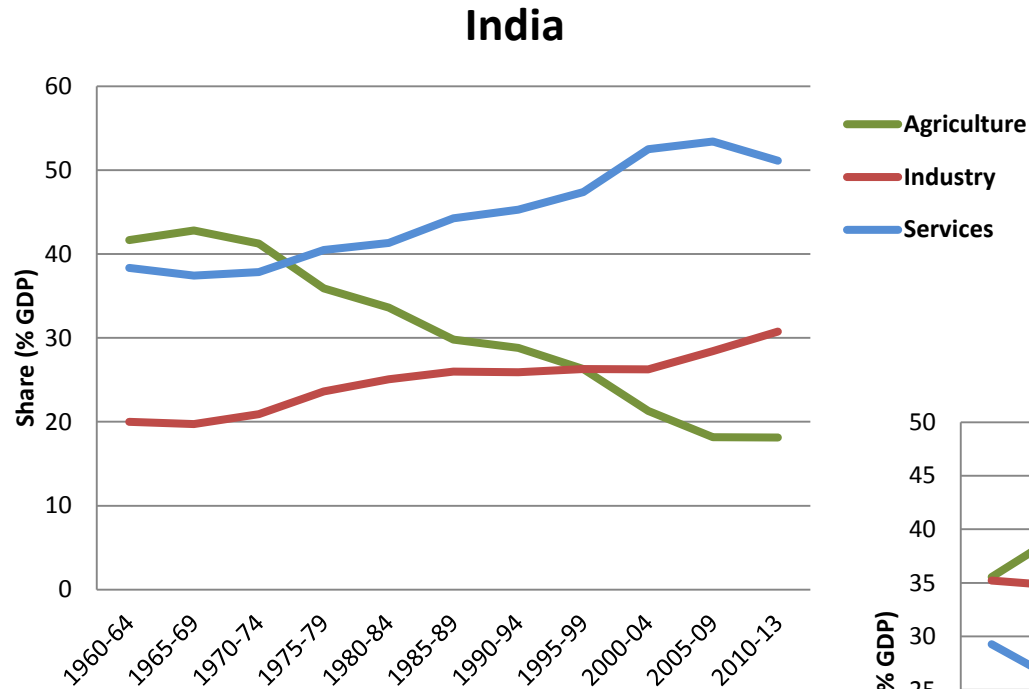
Trends in GNI per capita (Atlas method, current US\$)



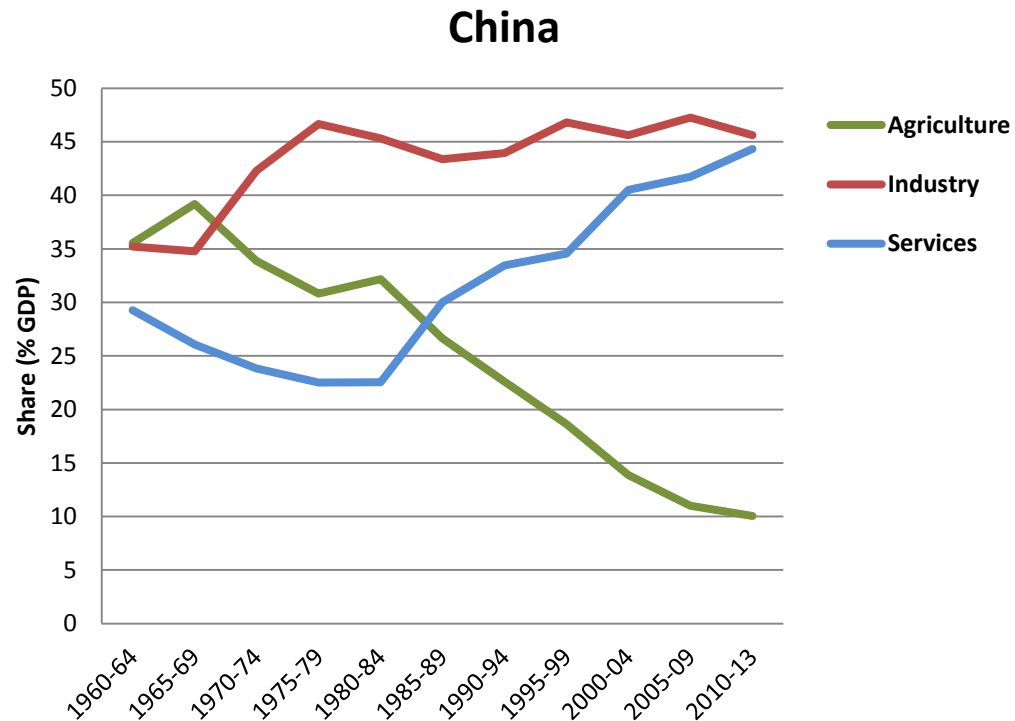
LI = Lower Income, LMI = Lower Middle Income

Source: World Development Indicators

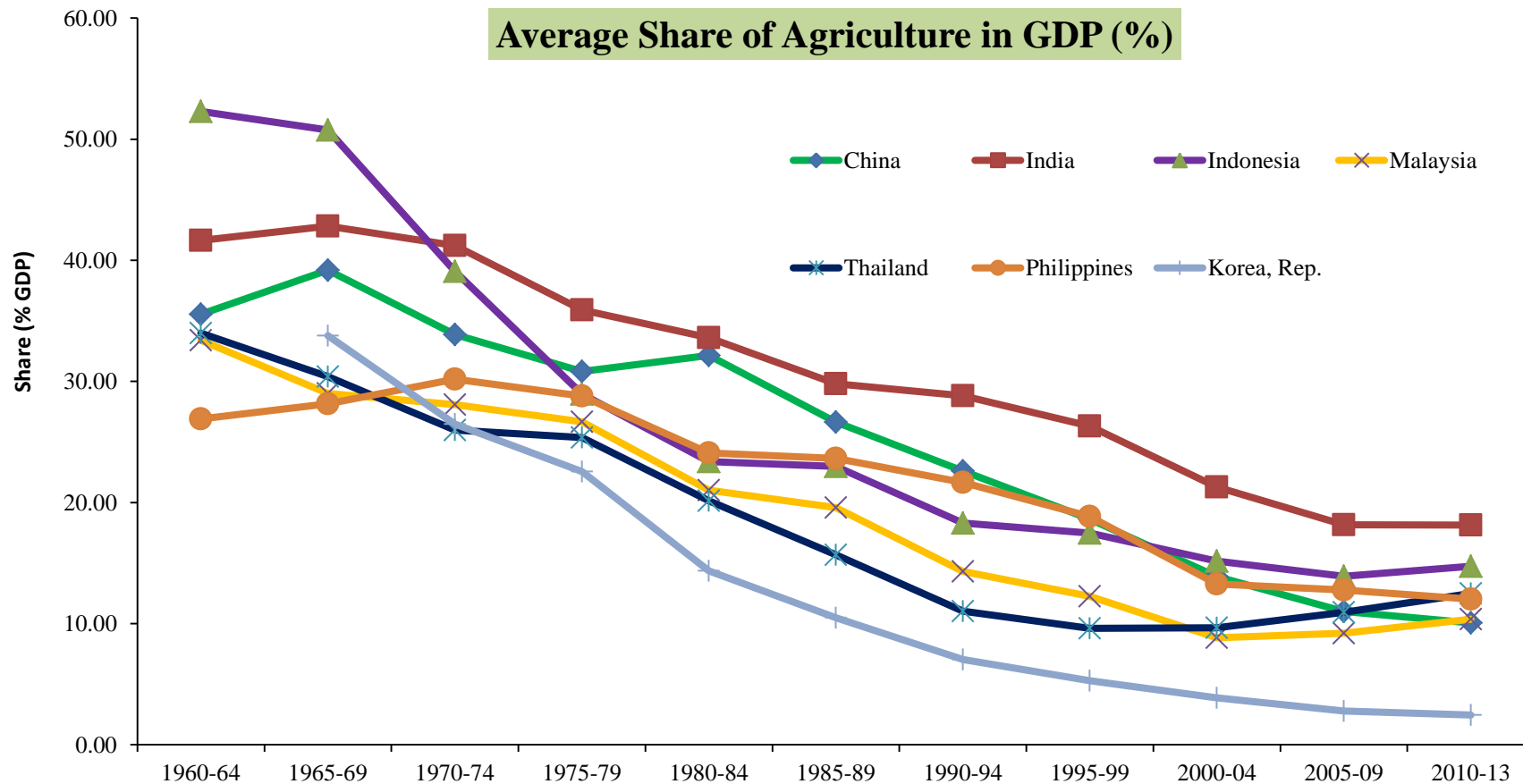
India's Idiosyncratic Growth Pattern



Source: World Development Indicators



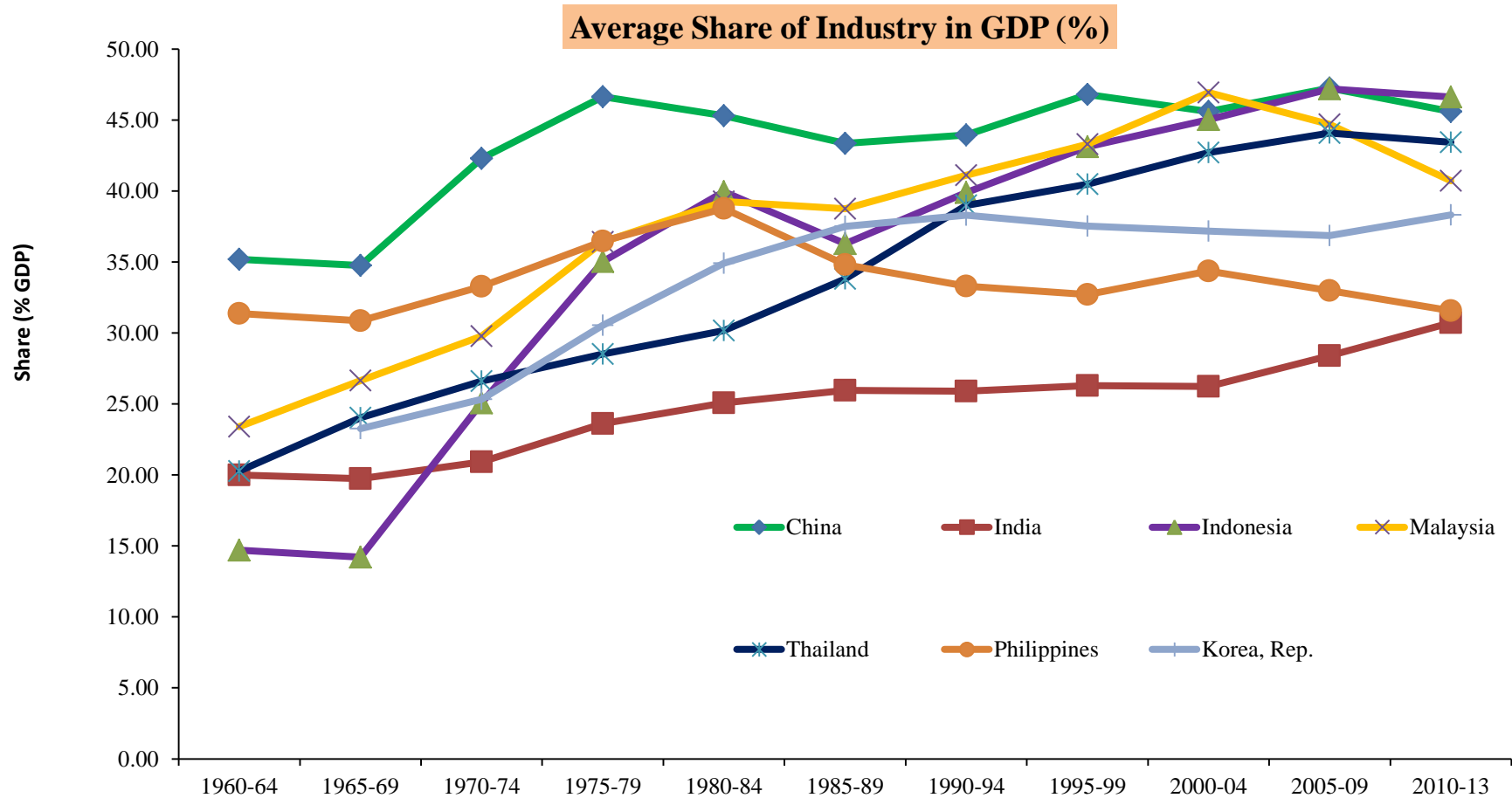
Agriculture Shares in GDP in Key Asian Economies



Source: World Development Indicators

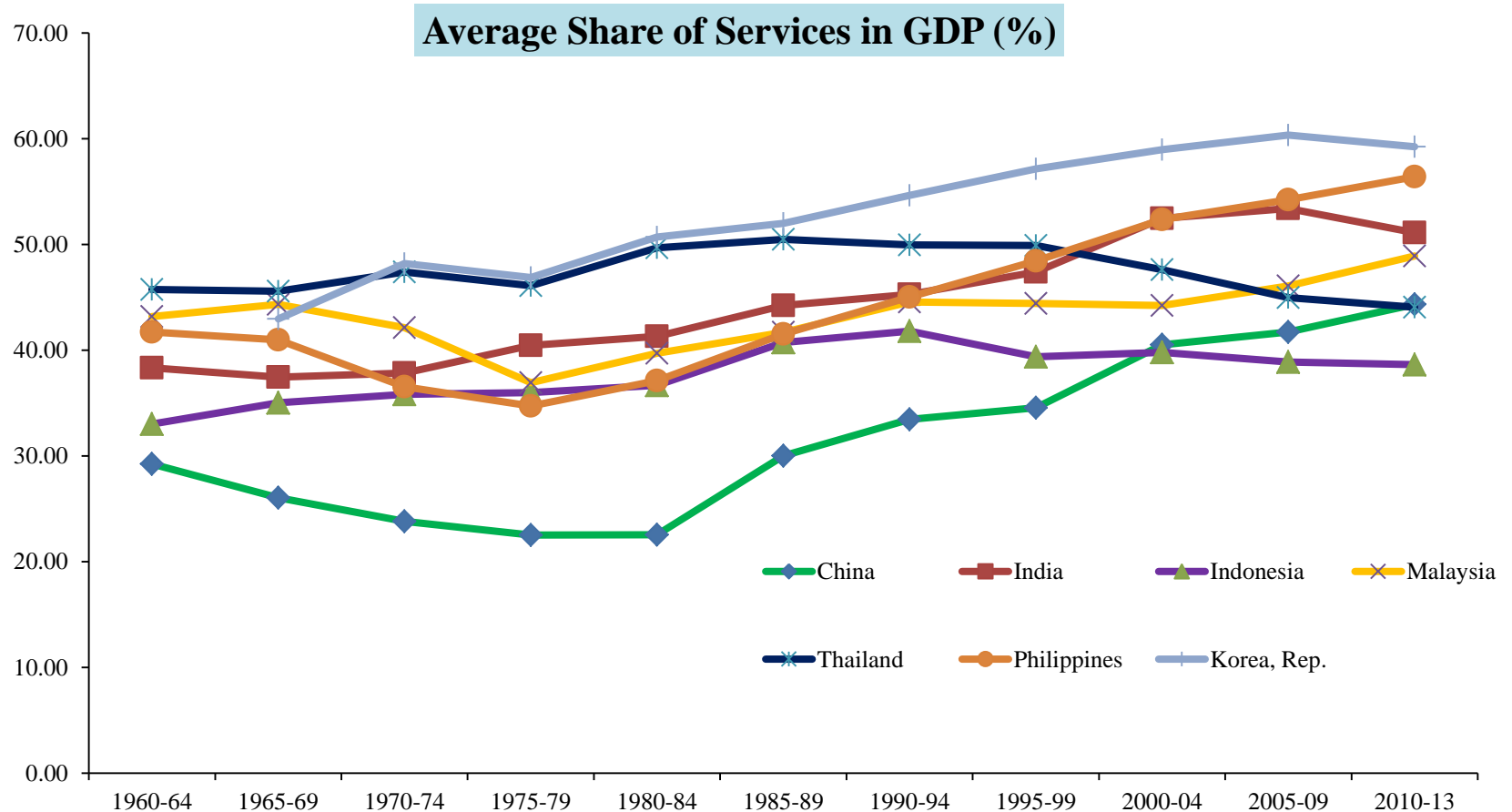
Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision.d

Industry Shares in GDP in Key Asian Economies



Source: World Development Indicators

Services Shares in GDP in Key Asian Economies

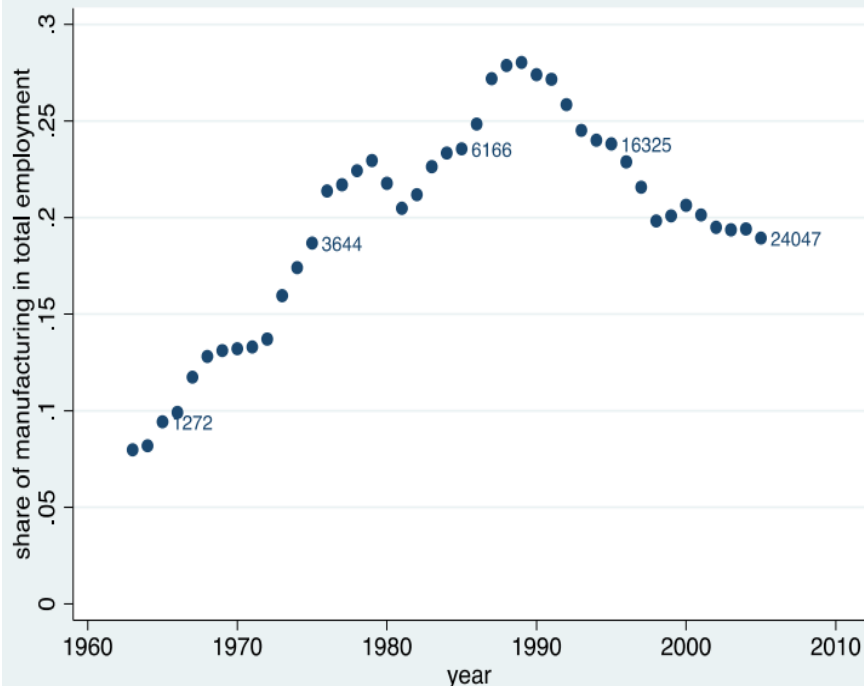


Source: World Development Indicators

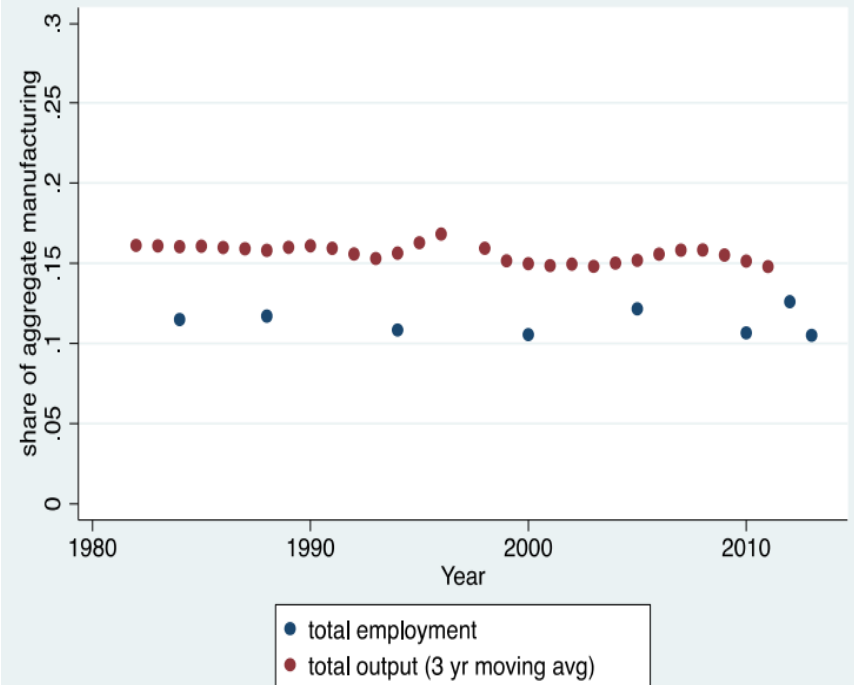
India's Premature De-industrialization?

Unlike other fast growing Asian Economies, the share of employment in manufacturing has stopped growing in India even before the country is fully industrialized.

South Korea



India



Source: Amirapu and Subramanian (2015)

Problems in Factor Markets

1. Land Market

- Problems related to land acquisition
- Laws passed till date have been inadequate in efficient transfer of ownership and resources

Inefficient/unfair Land Acquisition Law

Land Acquisition Act, 1894

- Designed to facilitate British government's acquisition of privately held land
- Inadequate compensation and rehabilitation for evicted land owner

Land Acquisition, Rehabilitation and Resettlement Act, 2013

- Four times higher rates of compensation
- Strict consent clause for acquisition by private entities
- Heavily favours land owners
- Transactions stuck due to strict consent clause and high anticipatory prices
- Spike in litigation

Ordinance withdrawn and 2013 law now operative, and initiative for reform passed on to the states

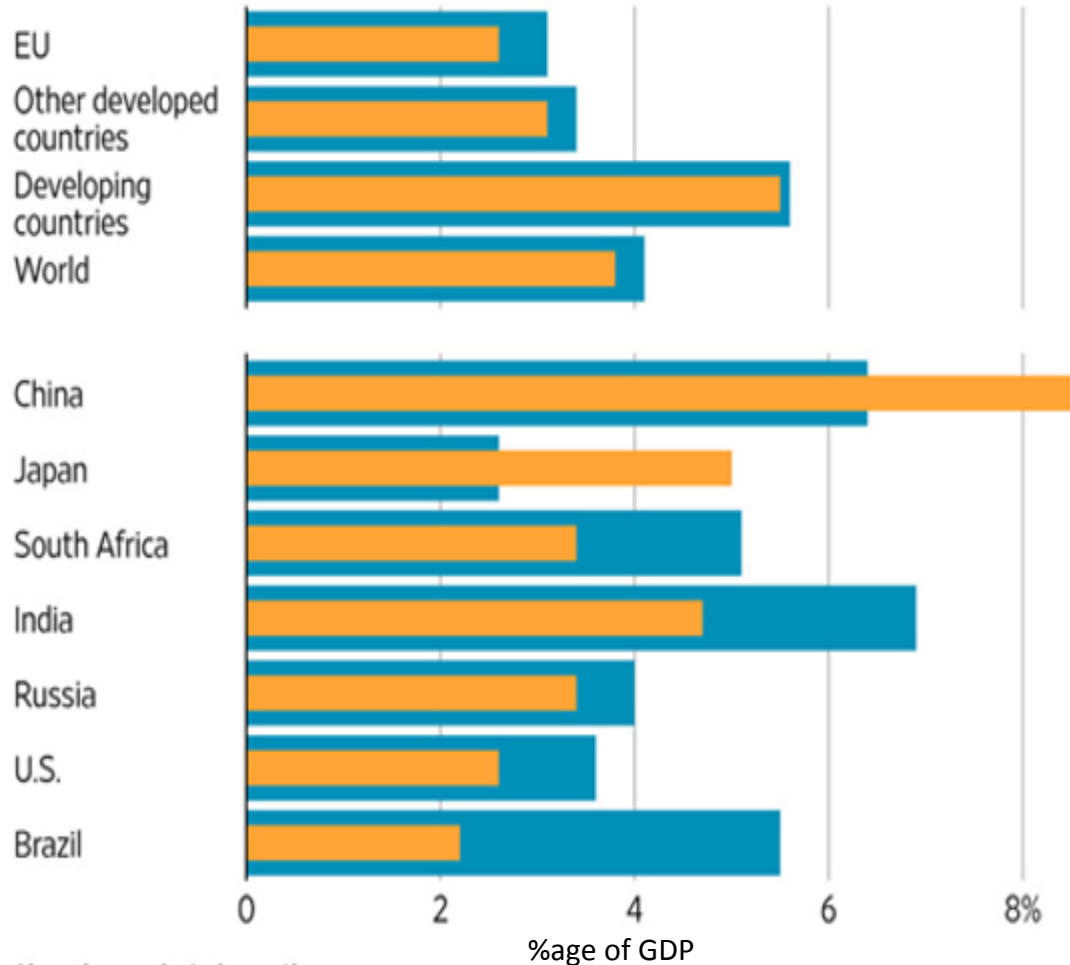
Problems in Factor Markets

2. *Labour Market*

- Archaic, restrictive labour laws, varying from state to state
- Complicated regulatory regime hinders expansion of registered manufacturing & absorption of labour into formal economy: 93 % of labour force is informal
- Inadequate skilling and poor education levels of workers in informal economy
- As a result, India has not utilized its comparative advantage in low-skilled labour as most others have

Infrastructure Deficit

■ Estimated need, 2013-30* ■ Actual average annual spending, 1992-2011



*based on projected growth

Source: McKinsey Global Institute, WSJ

Pension Fund Asset Allocation in Largest Pension Fund Markets

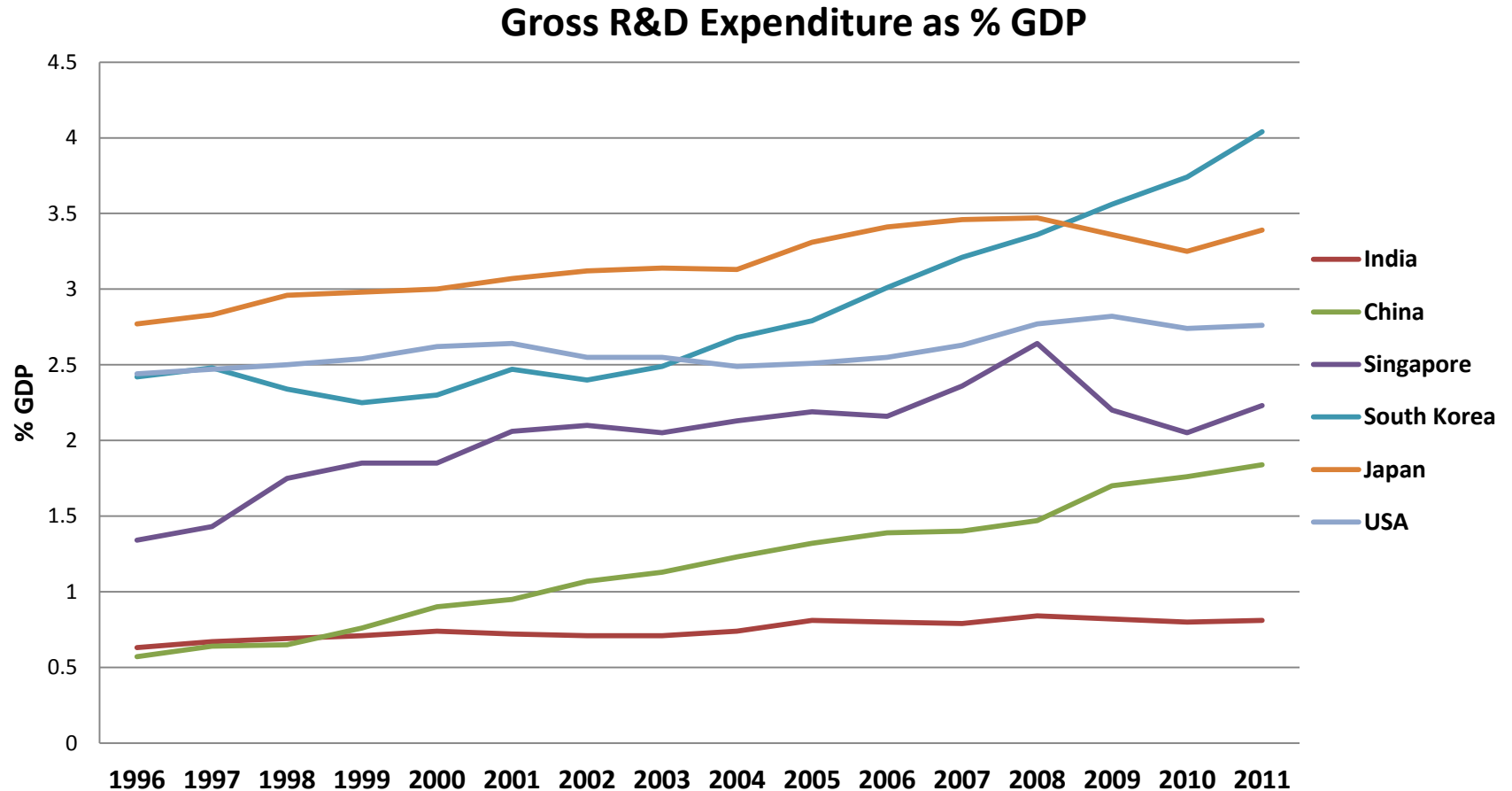
Country	Total Assets \$ bln	% of GDP	Pension Fund Asset Allocation							
			2001				2014			
			Equities	Bonds	Cash	Other	Equities	Bonds	Cash	Other
Australia	1,675	113%	62%	19%	5%	14%	51%	15%	8%	26%
Canada	1,526	85%	62%	26%	2%	10%	41%	35%	2%	22%
Japan	2,862	60%	52%	46%	0%	2%	33%	57%	3%	7%
Netherlands	1,457	166%	44%	44%	11%	1%	30%	55%	0%	15%
Switzerland	823	121%	36%	35%	20%	9%	29%	36%	7%	28%
UK	3,309	116%	67%	18%	5%	10%	44%	37%	3%	16%
US	22,117	127%	65%	28%	2%	5%	44%	25%	2%	29%
Others (9)	2,350	-	-	-	-	-	-	-	-	-
TOTAL	36,119	84%	-	-	-	-	-	-	-	-

Source: Towers Watson

One Old, Two New Challenges

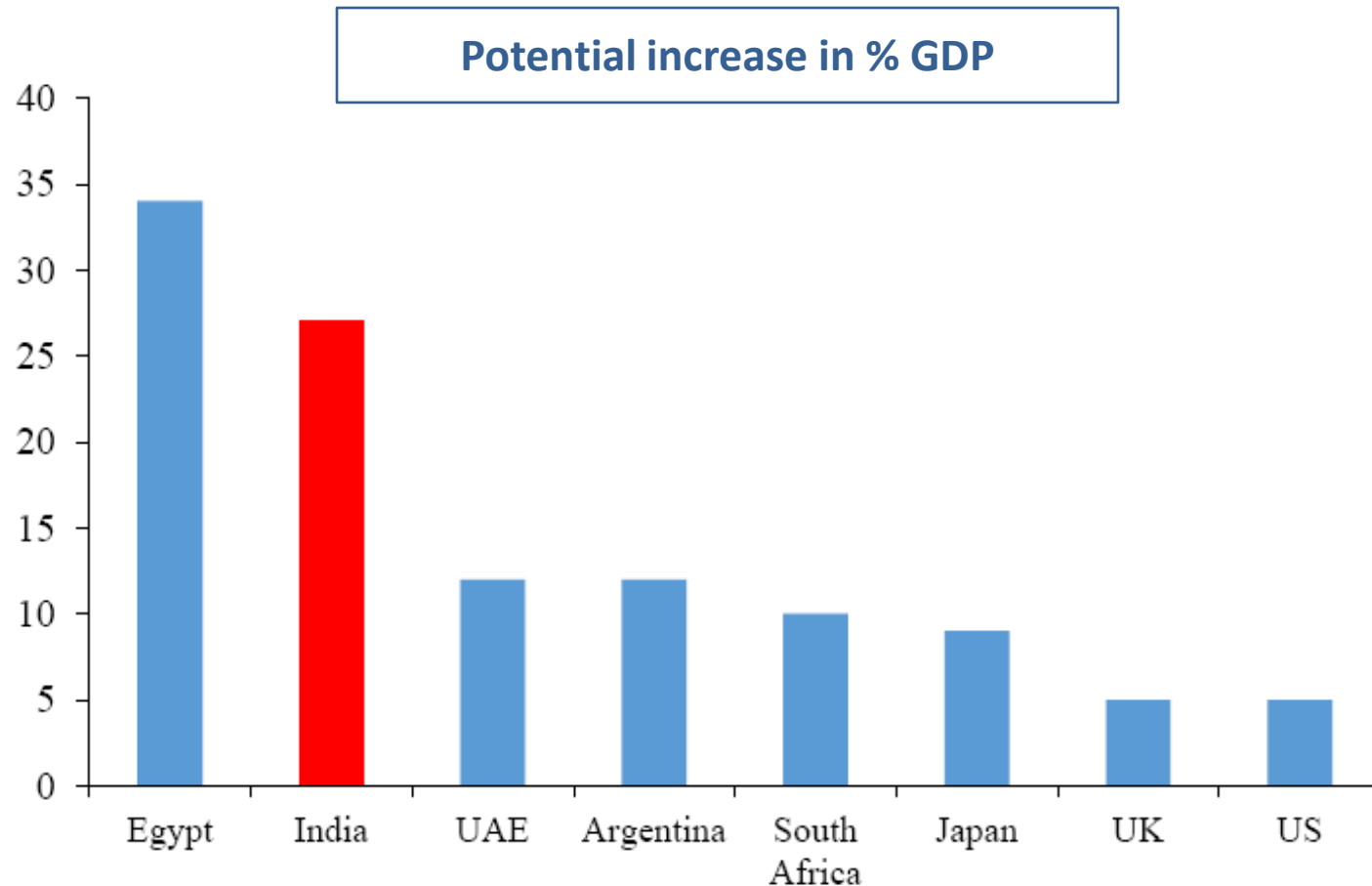
- Politics of a large poor country makes politicians focus on patronage & providing immediate consumption benefits, not investments in human or physical capital
- The disorderly international trading environment
- Climate change constraints

R&D Expenditures



Source: UNESCO Institute of Statistics

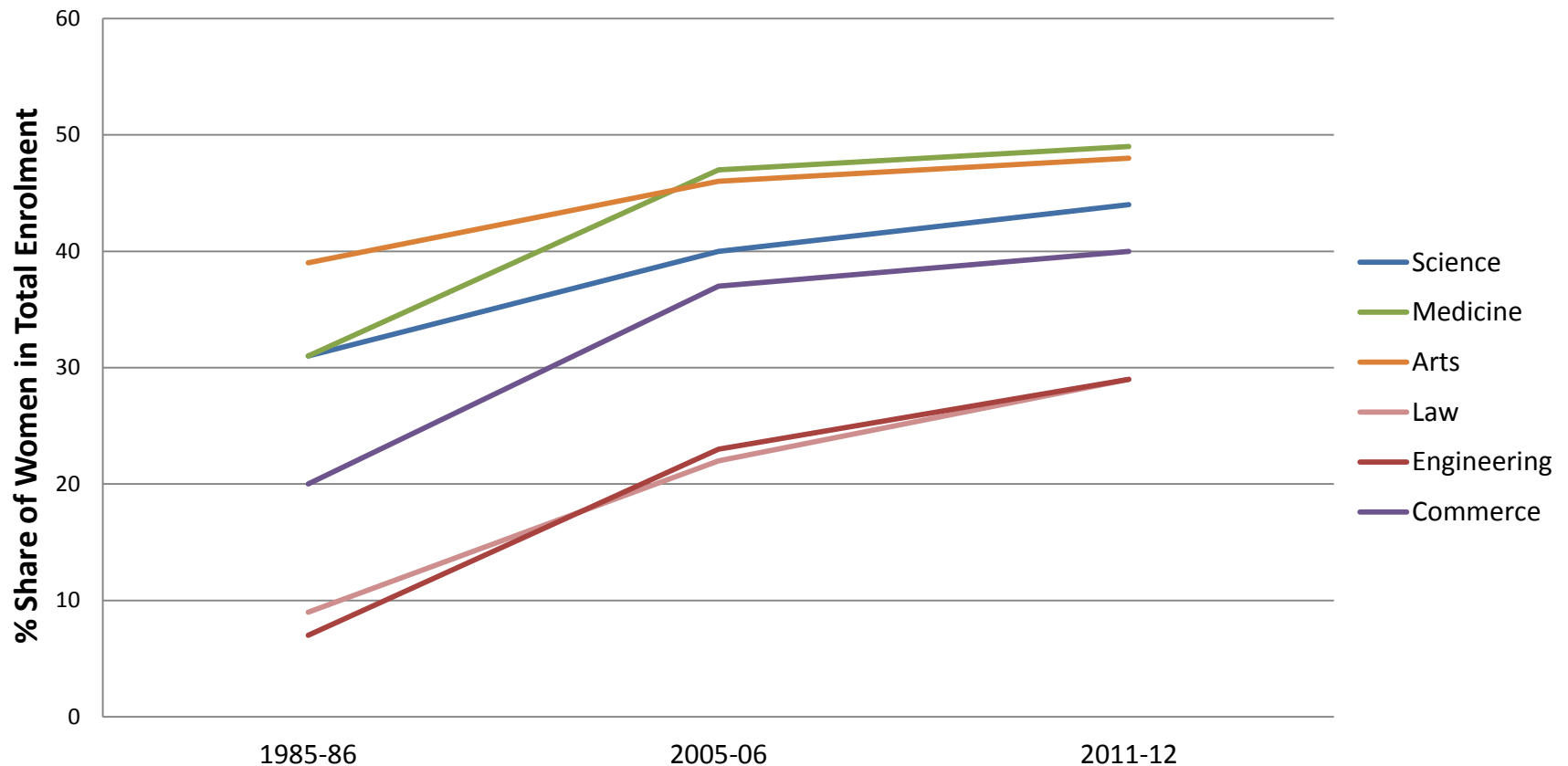
GDP Impact if Female LF Participation equaled Male Participation Rates



Source: Booz and Company/PriceWaterhouse Coopers

Progress in Women's Participation in University Education in India

Change in Women's Share in Select Disciplines of Higher Education



New Government Initiatives

- The *Make in India* and *Skill India* Programs
 - National Policy for Skill Development & Entrepreneurship 2015
 - National Employability through Apprentices Programme
- The *100 Smart Cities* and *Digital India* program
- Railways as an engine of growth
- Improving the ease of doing business
- FDI a priority

Solutions to Politics of Large Poor Country

- Decentralisation (14th Finance Commission recommendations)
- *Aadhar* biometric IDs – 920 mln now issued
- *Jan Dhan Yojna* for financial inclusion
- Direct digital cash transfers
- Other forms of social protection, such as insurance

Big Questions

- *Can India become rich before it gets old?*
- Can Modi Government launch & then steer 15-year vision of what India can be?
- Can India ride 2 horses together & escape low-income traps & avert middle-income ones?
- Can India (stop discounting future) & realize its true potential over next 2 or 3 decades?
- Will be tough unless cohesive, well-led, fully shared policymaking/action start now
- With demographics, there is no time to be lost