

AEI Conference Asia 2012

**India's Future:
It's about Jobs**



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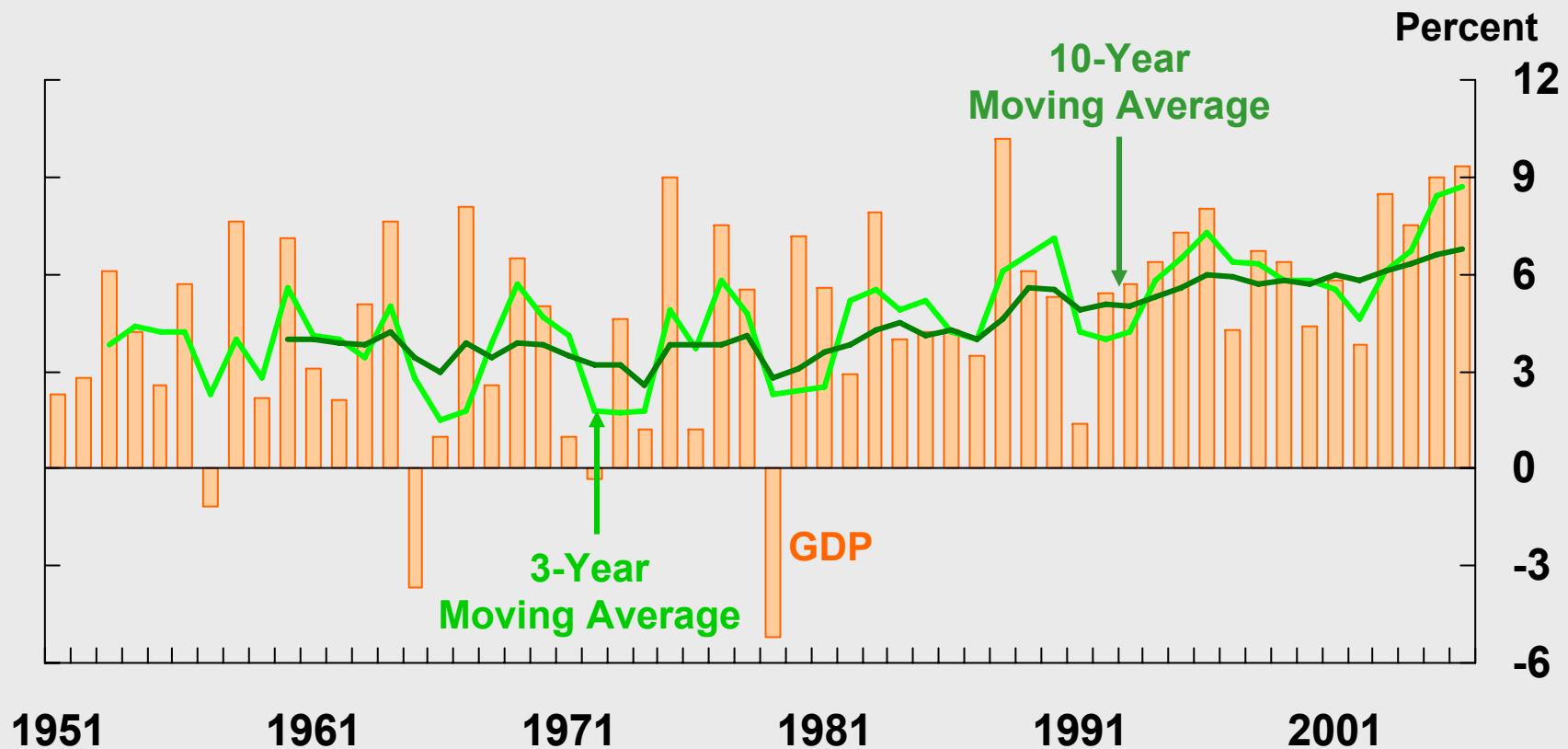


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Recent growth has been exceptional

Real GDP growth 1951-2006

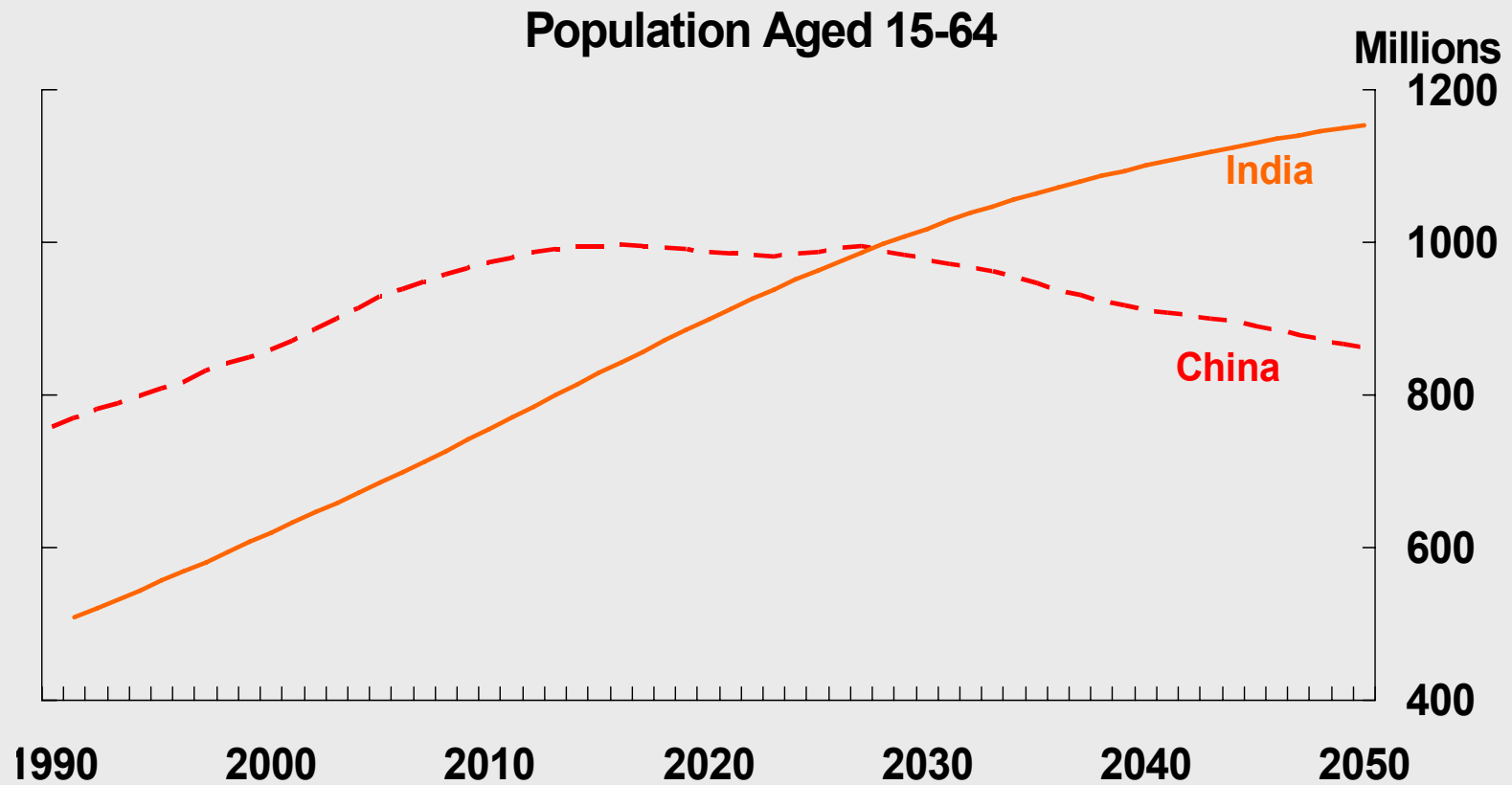


Note: Data are for fiscal years beginning in April.
Source: Indian Central Statistical Organisation.

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Demographics are crucial for sustaining success.





Characteristics of this dividend ... Rural and barely literate

Rural population

(2005)

Percent of total population < 25	74
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Rural literacy

(2004-05; percent of rural pop. 15+)

Literate at primary level	55
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Literate at secondary level	31
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Source: Indian National Sample Survey Organisation.



Poorly educated

Gross enrollment ratio

(2005; percent of eligible children)

All levels	64
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Public expenditure

(2004; percent of GDP per capita)

Primary	9
Secondary	17
Tertiary	95

Sources: UNESCO Institute for Statistics.



Impoverished

Nutrition

(percent of total)

Total undernourished population (2004)	20
Children younger than 5 (2000):	
underweight	47
stunted	45
wasting	16

Monthly personal consumption expenditure

(2004-05; U.S. dollars)

Urban	24
Rural	13

Source: UNESCO UIS, World Bank, HNP Stats, National Sample Survey Organisation (2006b).



Present development path inconsistent with employing the demographic dividend.

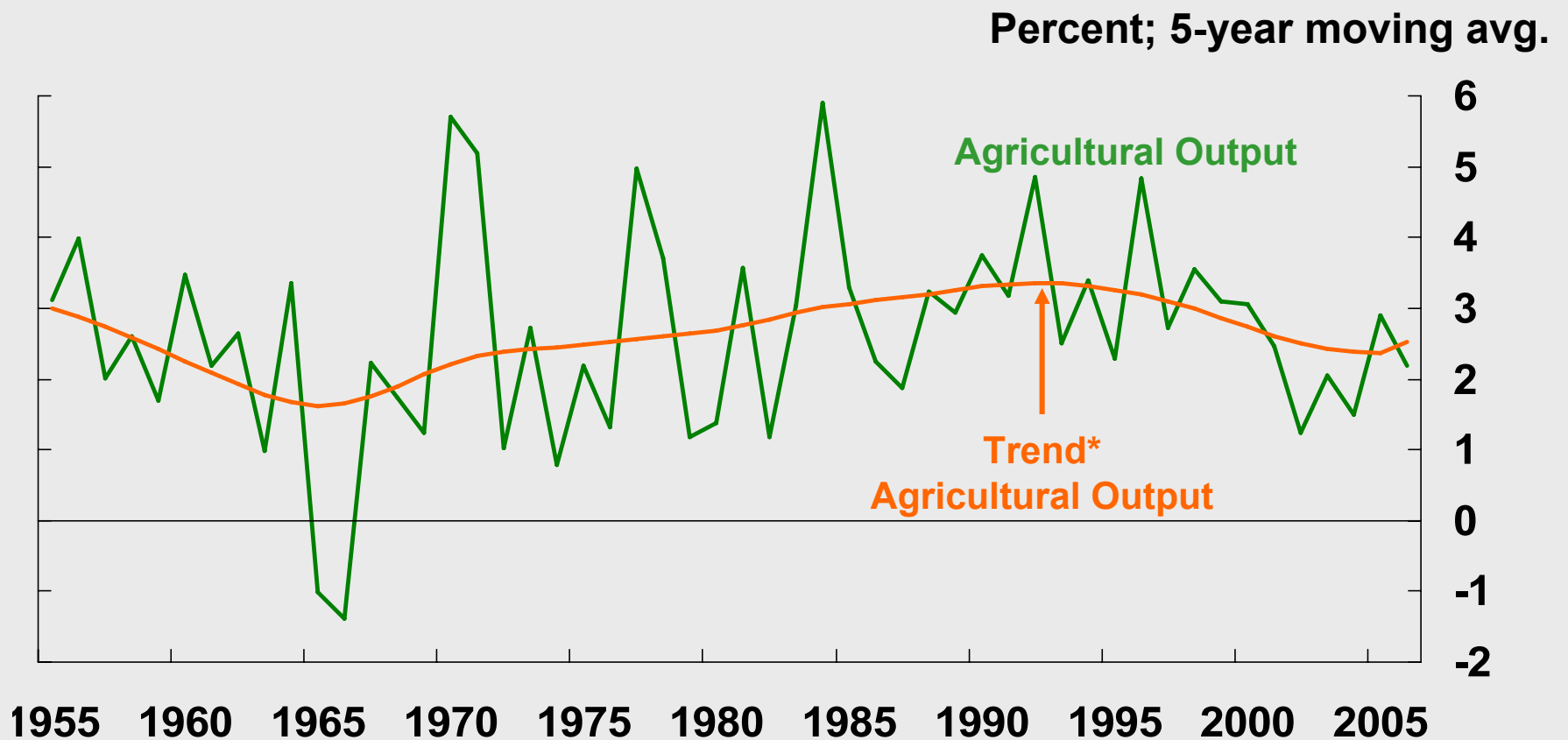
- Growth propelled by high-skill and high-capital intensive industries. (See Kolchar, Kumar, and Raghuram, IMF, 2006)
- India needs a massive shift in employment away from agriculture.
- Why hasn't that happened already?
 - Let's look at India's agriculture and manufacturing sectors.



Agriculture



India's agriculture sector vast but slow growing.



* Trend estimated using HP-Filter with smoothing parameter equal to 100.

Note: Data are for fiscal years beginning in April.

Source: Indian Central Statistical Organization.

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In contrast to China and Korea

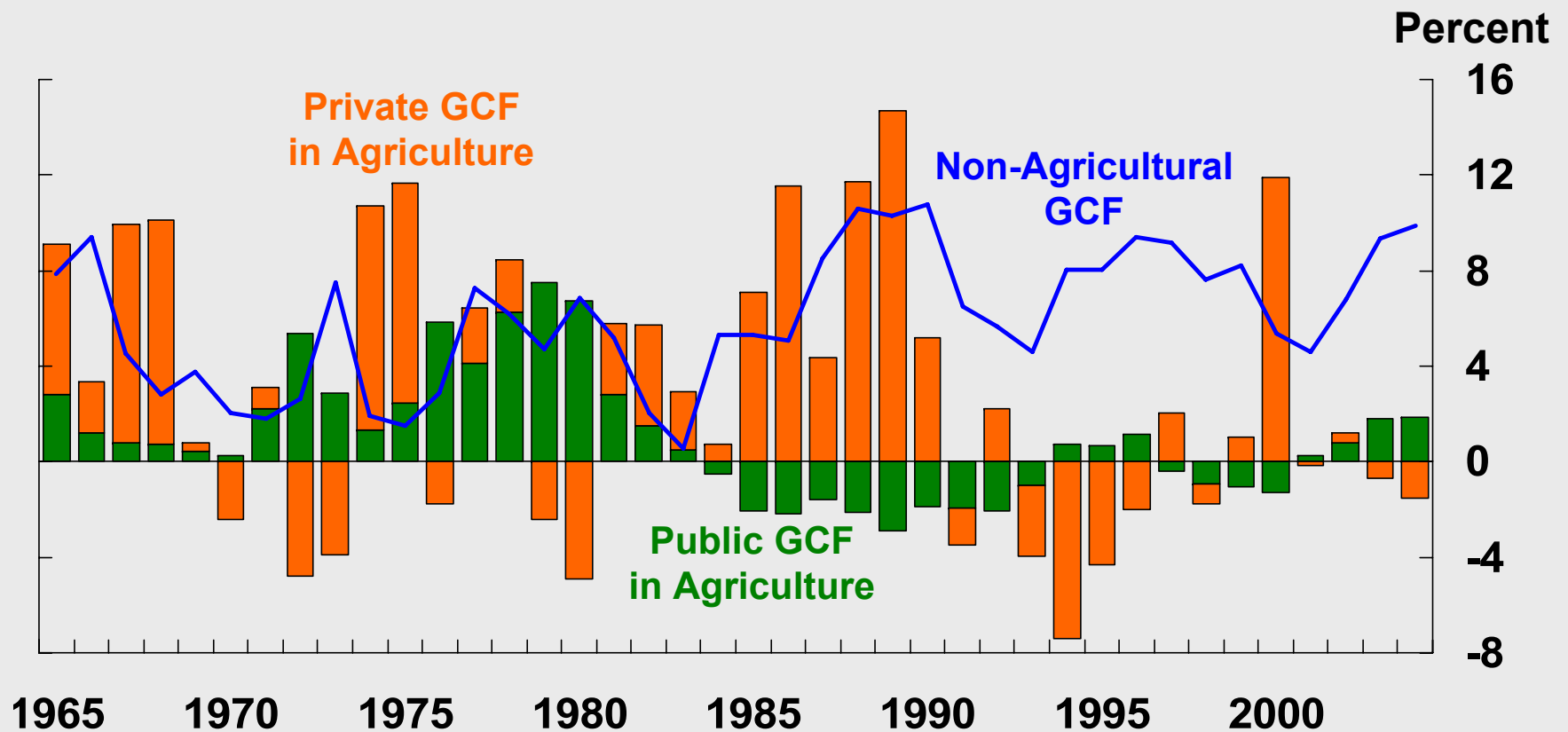
Cereal Yield (2005)

	(Kg/hectare)
India	2,367
China	5,105
Korea	6,283

Source: World Development Indicators.



Reflecting a lack of investment.



Note: Data are for fiscal years beginning in April.
Source: Indian Central Statistical Organisation.

Wilson & Keim 2007



Why such weak investment in agriculture?

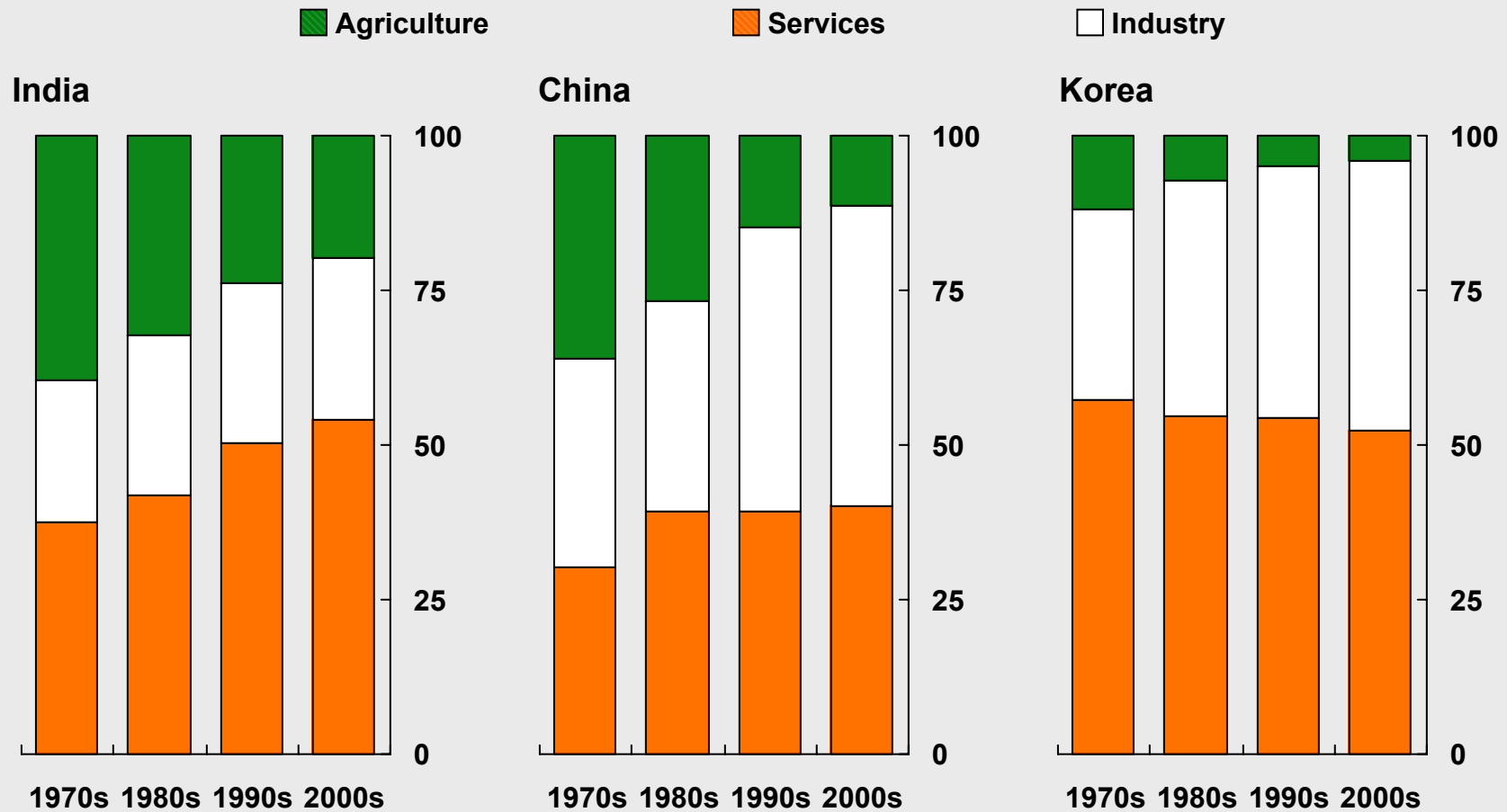
- Government switched from investment to subsidies.
- Severe constraints to private-sector involvement.
 - Stifling government restrictions.
 - Foreign investment generally prohibited and trade restricted.
 - Limited financial intermediation and weak legal institutions.
- Signs of improvement, but more is needed.
 - Greater government investment and fewer regulations.
 - But huge risks remain, including failing infrastructure.



Manufacturing



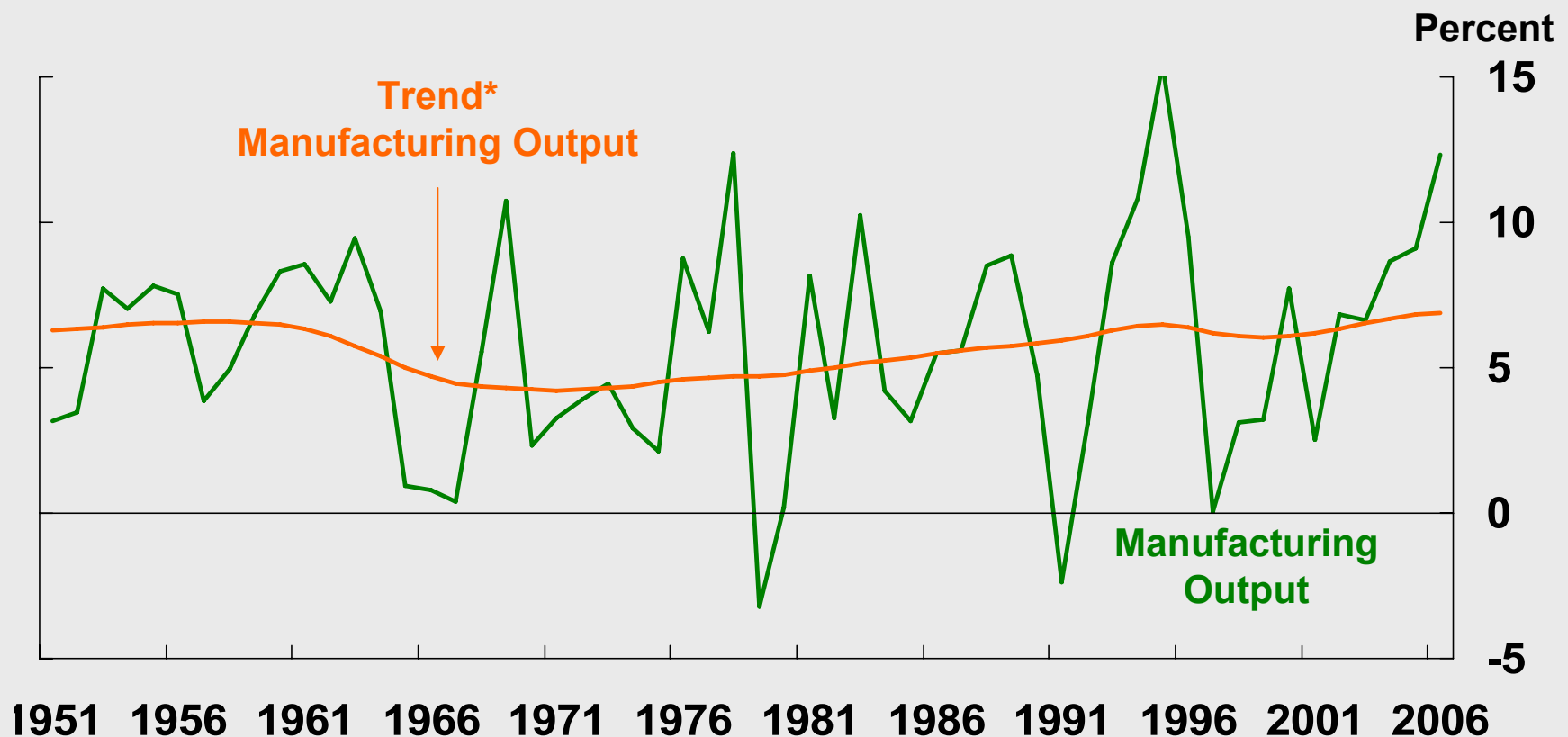
India's manufacturing sector is relatively small. (Percent)



Sources: Country Sources, CEIC, and authors' calculations.



Although manufacturing output growth has picked up



* Trend estimated using HP-Filter with smoothing parameter equal to 100.

Note: Data are for fiscal years beginning in April.

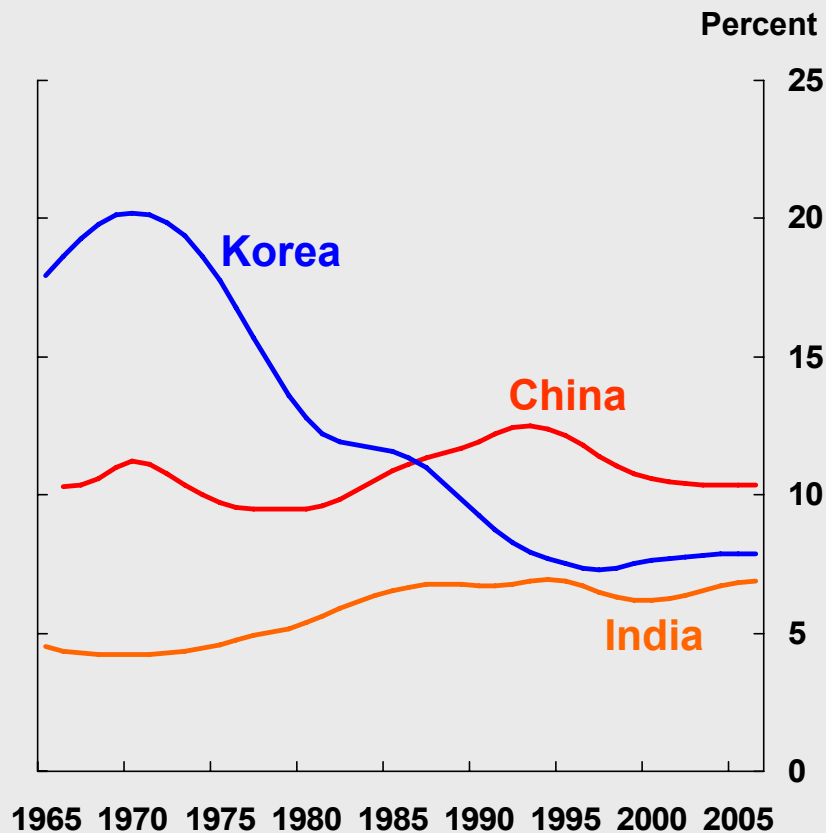
Source: Indian Central Statistical Organisation.

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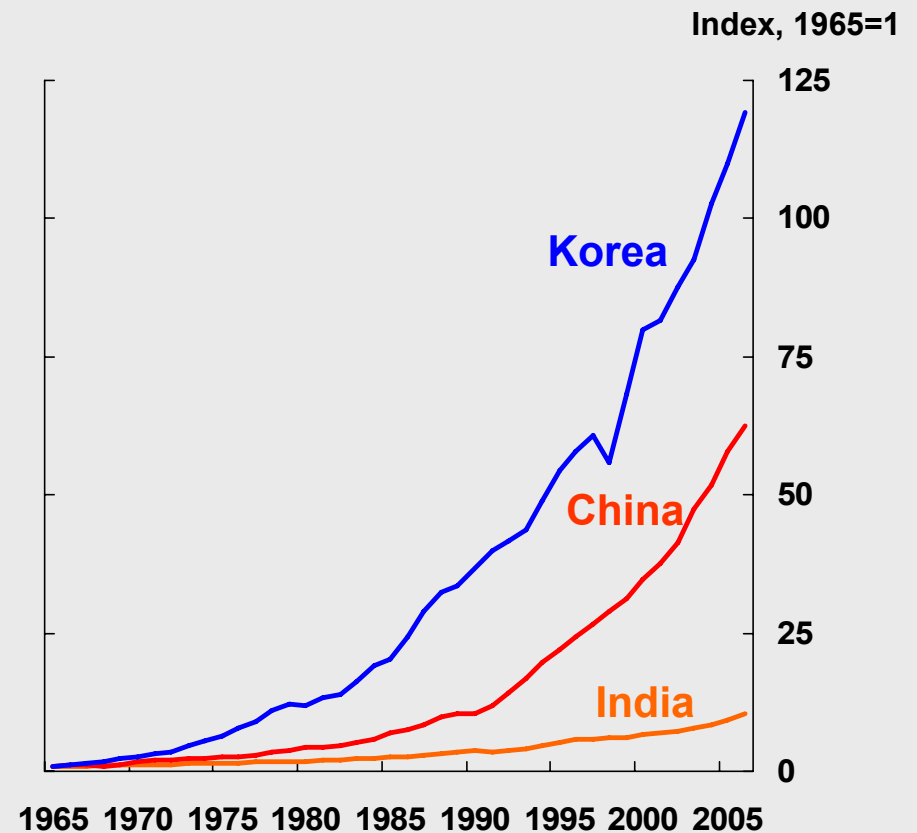


It's still weak in comparison.

Trend Growth



Manufacturing Gross Value Added



*Trend estimated using HP-Filter with smoothing parameter equal to 100. Data are measured in constant 2000 dollars.
Source: World Development Indicators and authors' calculations.

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Moreover, employment growth has lagged.

Avg. Annual Growth (percent)	
Korea (1963-1990)	7.9
China(1965-1995)	6.4
India (1983-2005)	3.5

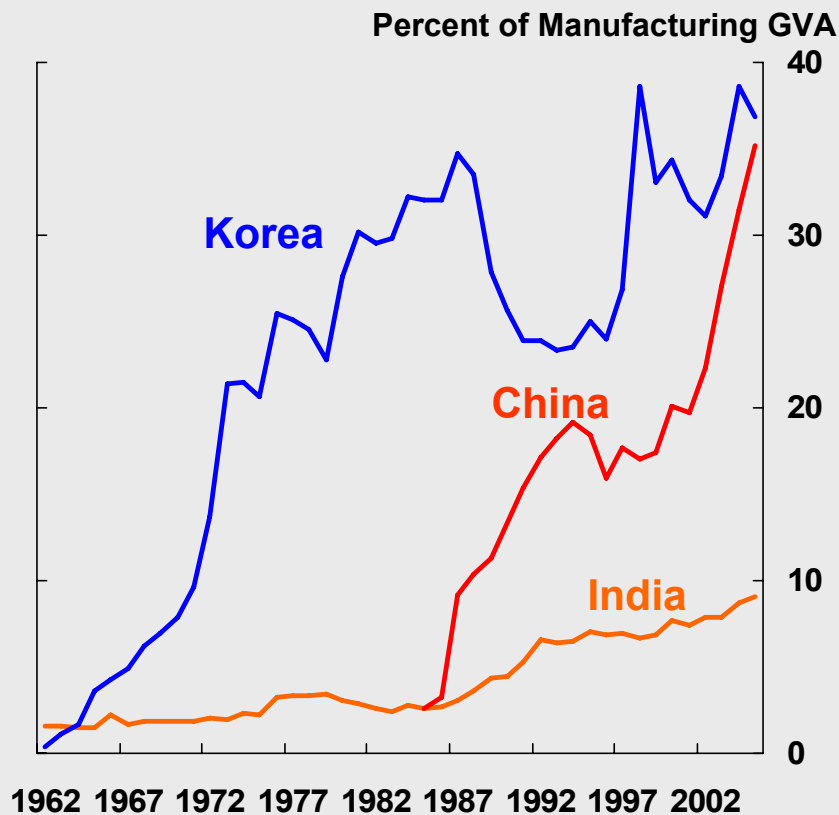
Source: Indian National Sample Survey Organisation, Haver Analytics, and International Financial Statistics.

→ **Why such anemic output and employment growth?**

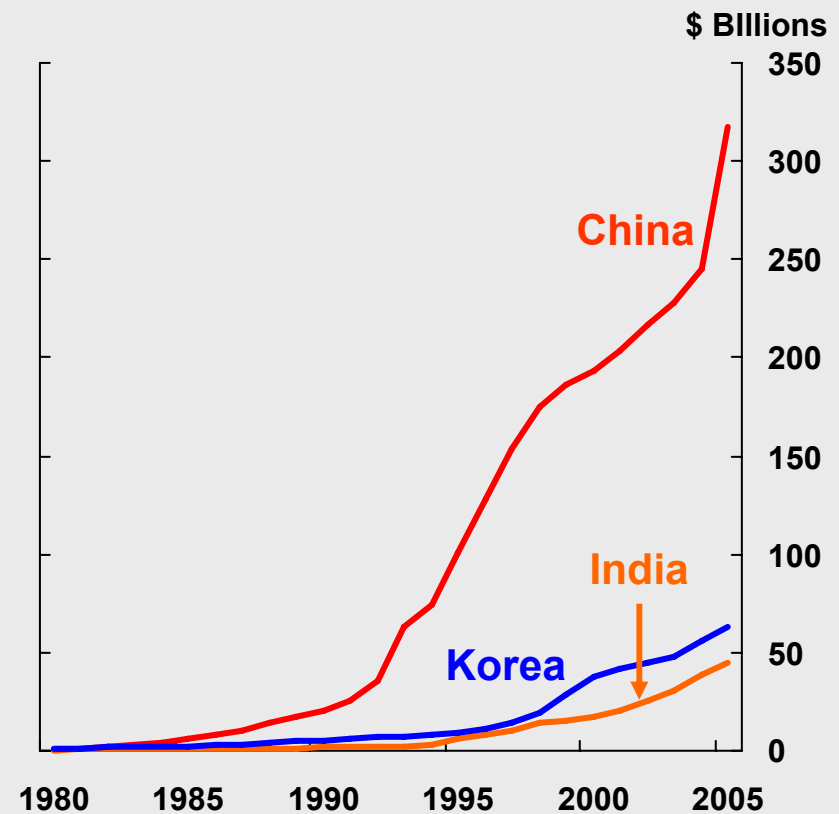


Industry has been closed to trade and investment.

Manufacturing Exports



Foreign Direct Investment



Source: World Development Indicators, UNCTAD FDI Database, and authors' calculations.



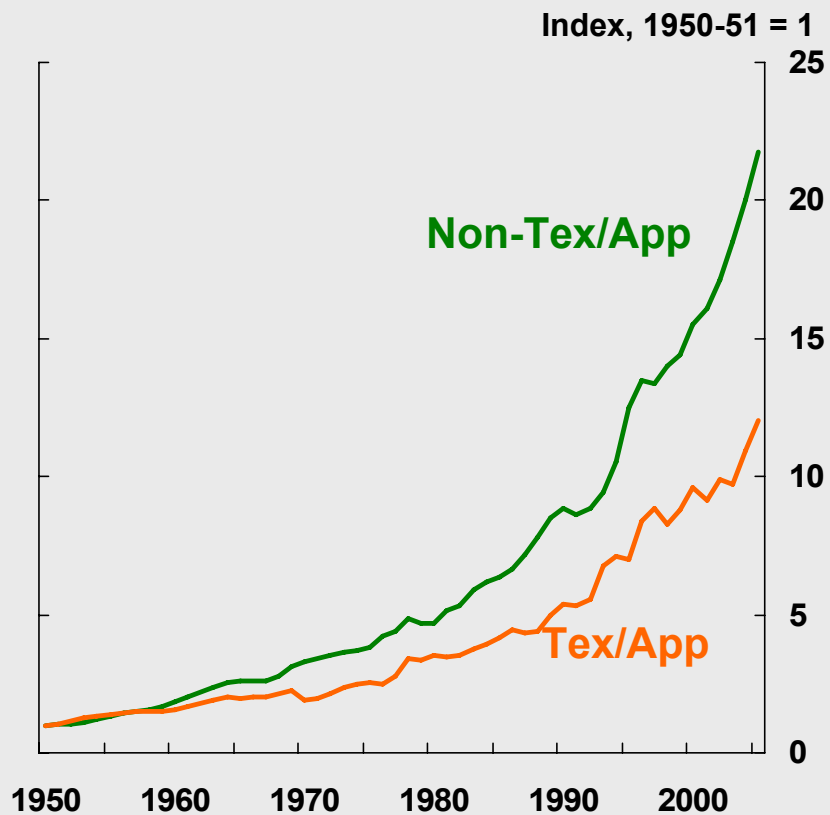
**And faced a poor business environment.
(For example, textiles and apparel.)**

- **India's textile/apparel industry should dominate.**
 - Typically a key transition industry for developing countries.
 - Is low-skill and labor intensive.
 - Has labor endowment, cotton, and longstanding tradition.
- **But...**
 - Textiles/apparel restricted to be “small-scale”.
 - Regulations controlled every aspect of production.
 - Labor restrictions among the most onerous in the world.

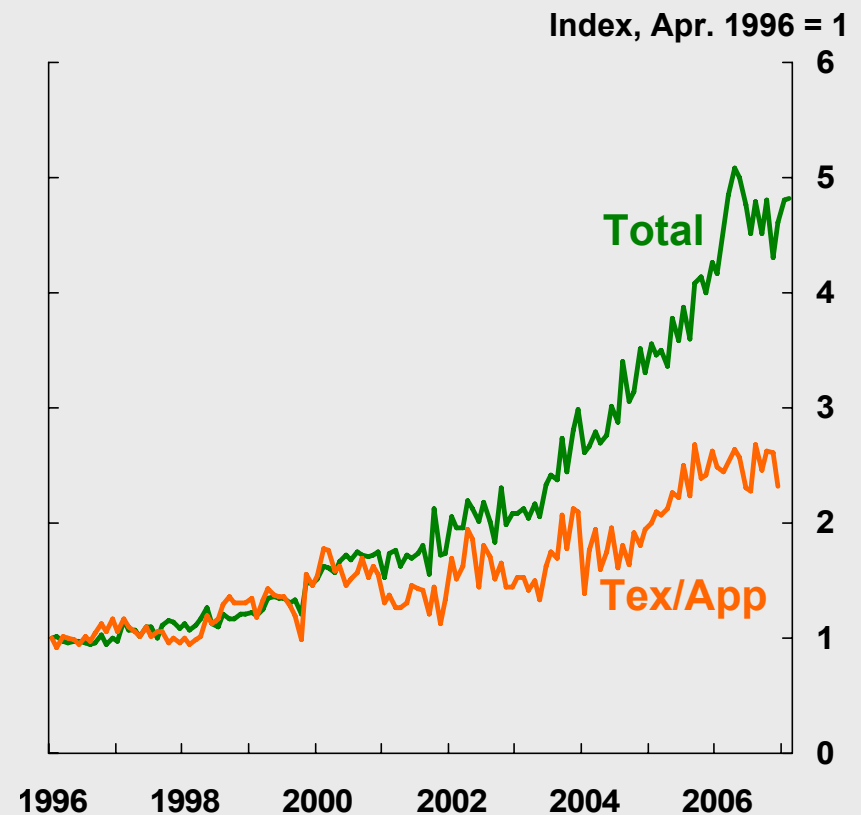


Suppressing textiles and apparel performance.

Manufacturing Output



Manufacturing Exports



Source: Indian Central Statistical Organisation and CEIC.

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Industry responds quickly to diminished constraints.

- With the reduction in textile/apparel regulations...
 - Small-scale reservations lifted (last in 2005).
 - Export and import restrictions lessening.
 - Other domestic policies improving.
- Noticeable improvements in performance
 - Significant pick-up in employment and output growth in apparel. Smaller, though noticeable, gains in textiles.



Conclusion

- Long-term performance in India depends on its demographic dividend.
- Current focus on high-tech, high-skilled sectors is inconsistent with employing this dividend.
- Significant changes are needed in ...
 - Health and education
 - Improving agriculture productivity
 - Supporting job growth in manufacturing and services