

# India's Unusual Economic Past and Uncertain Future

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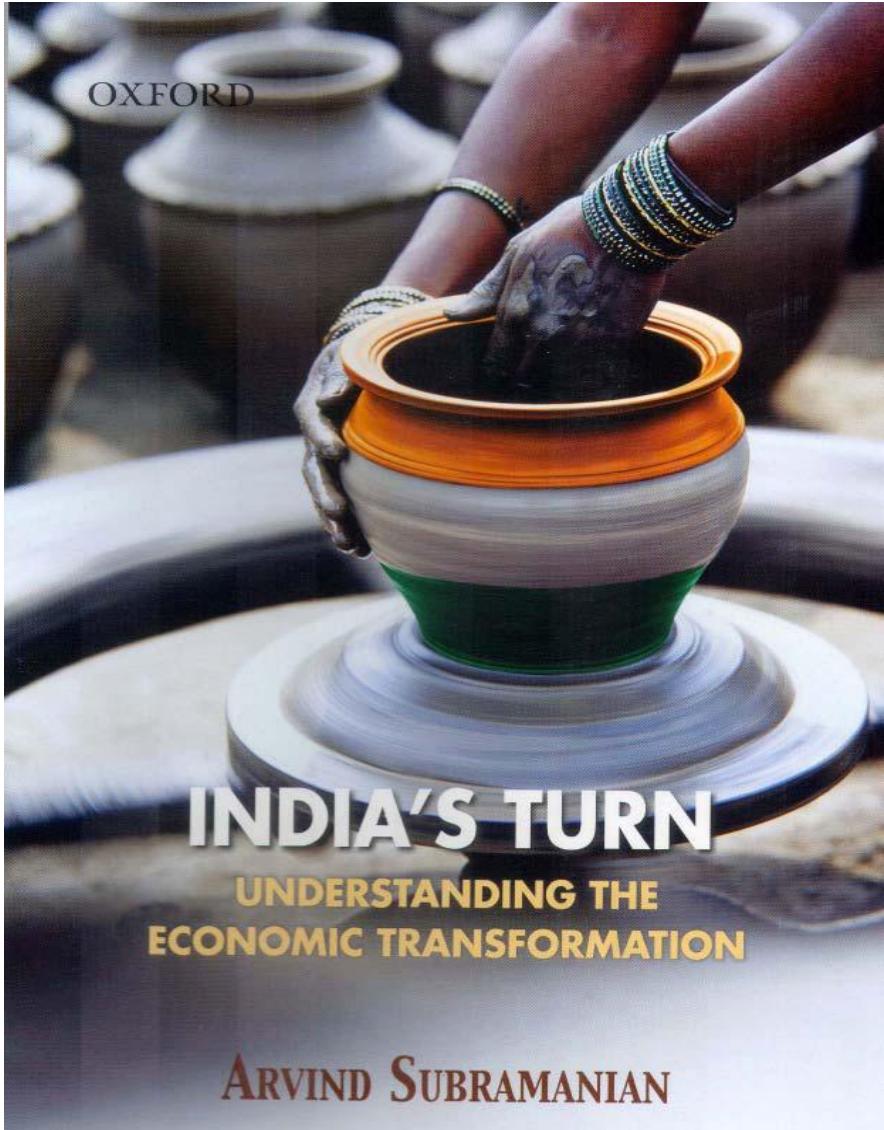
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## INDIA'S TURN UNDERSTANDING THE ECONOMIC TRANSFORMATION

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# ECLIPSE



Living in the Shadow  
of China's Economic Dominance

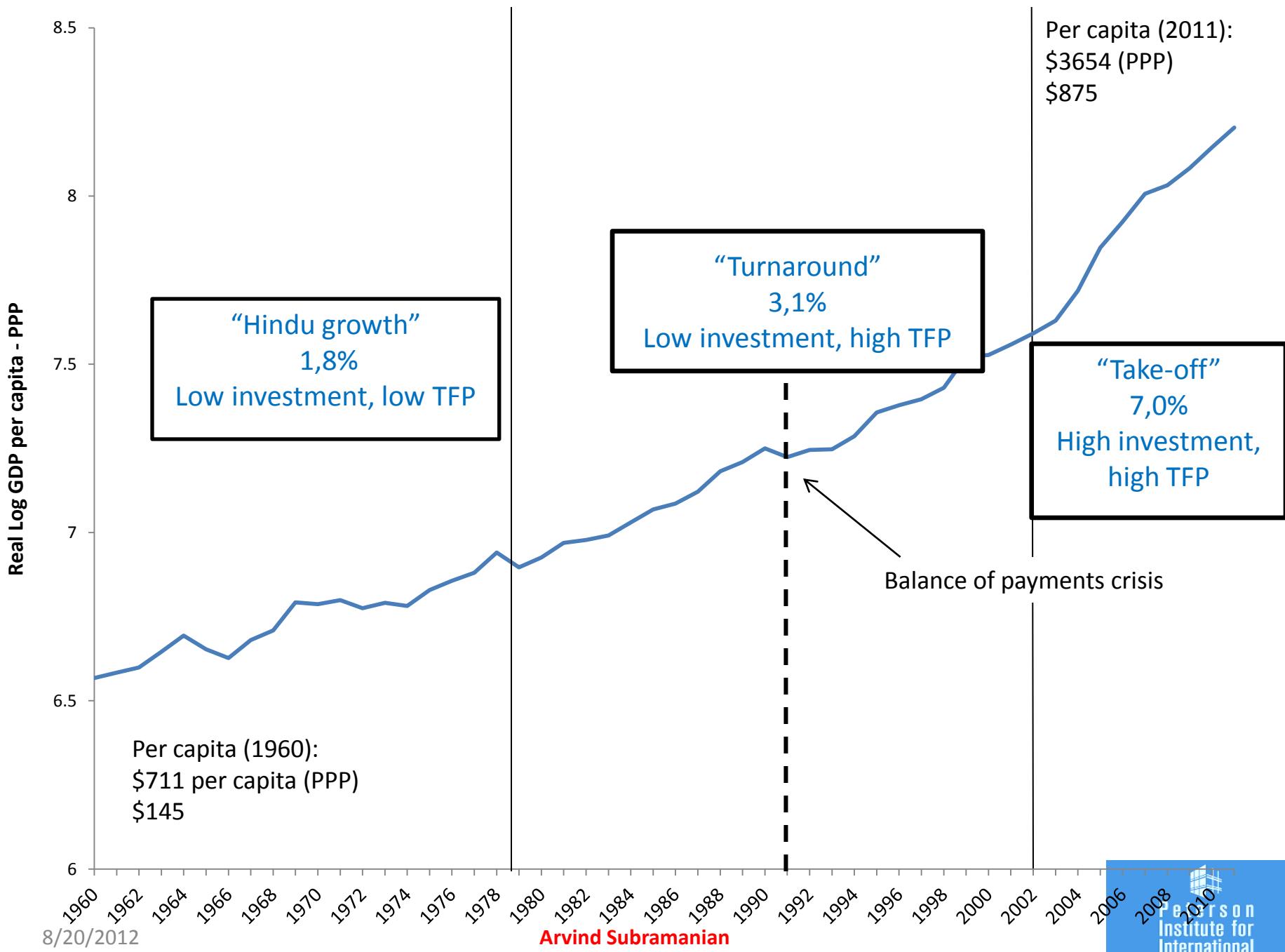
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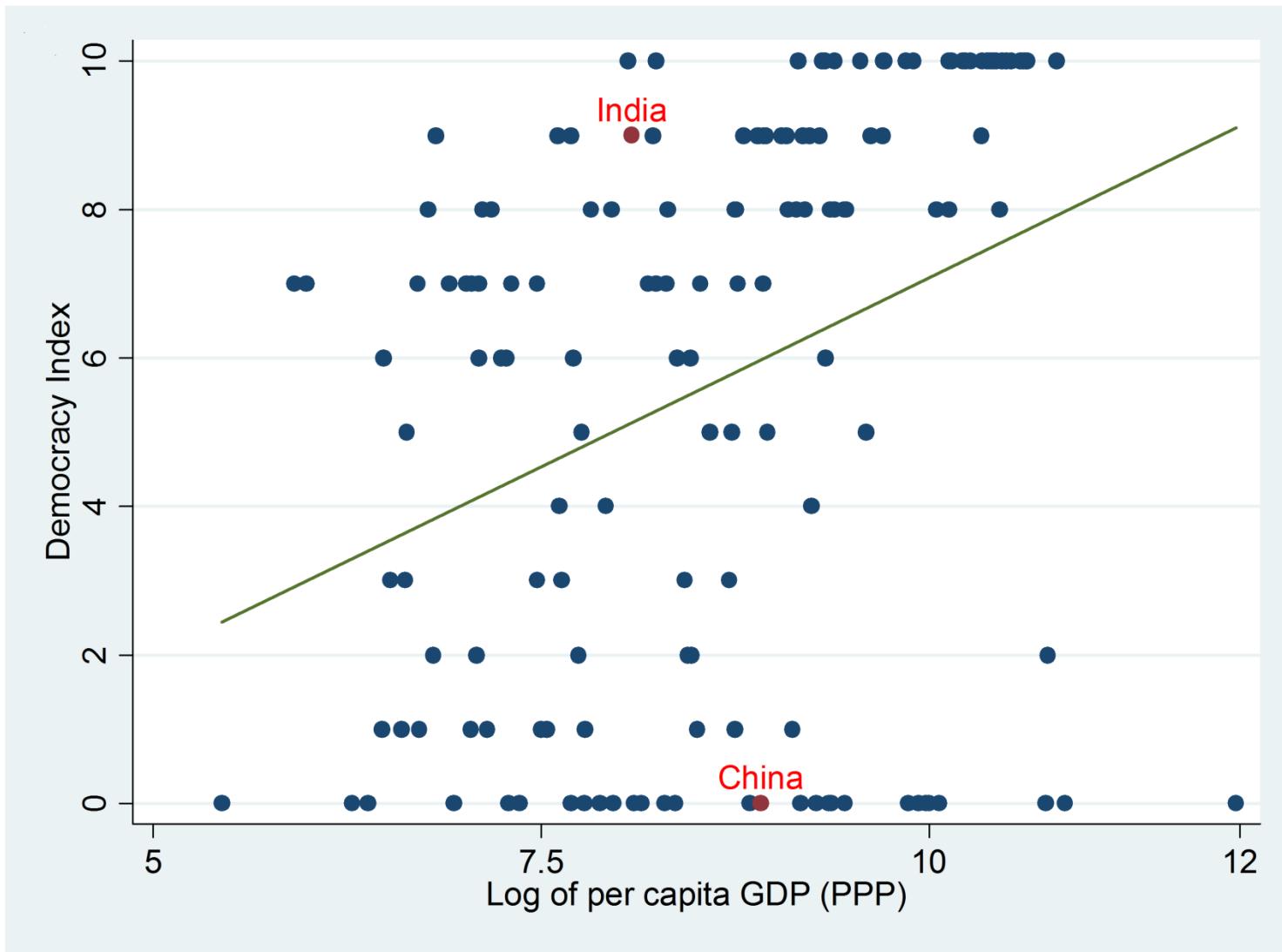
# Overview

- Unusual Model: “Precocious India”
- Economic future
  - Near-term macro-challenge
  - Medium-term growth challenge
  - Long-term “everything” challenge



# Precocious India

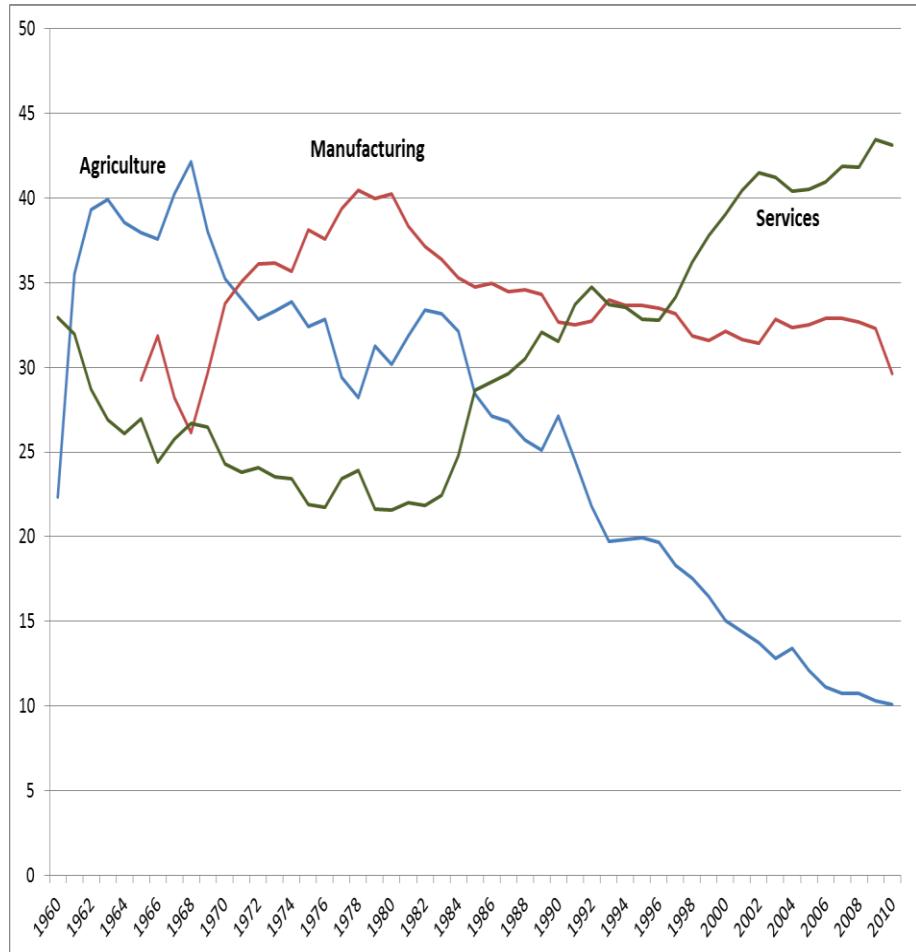
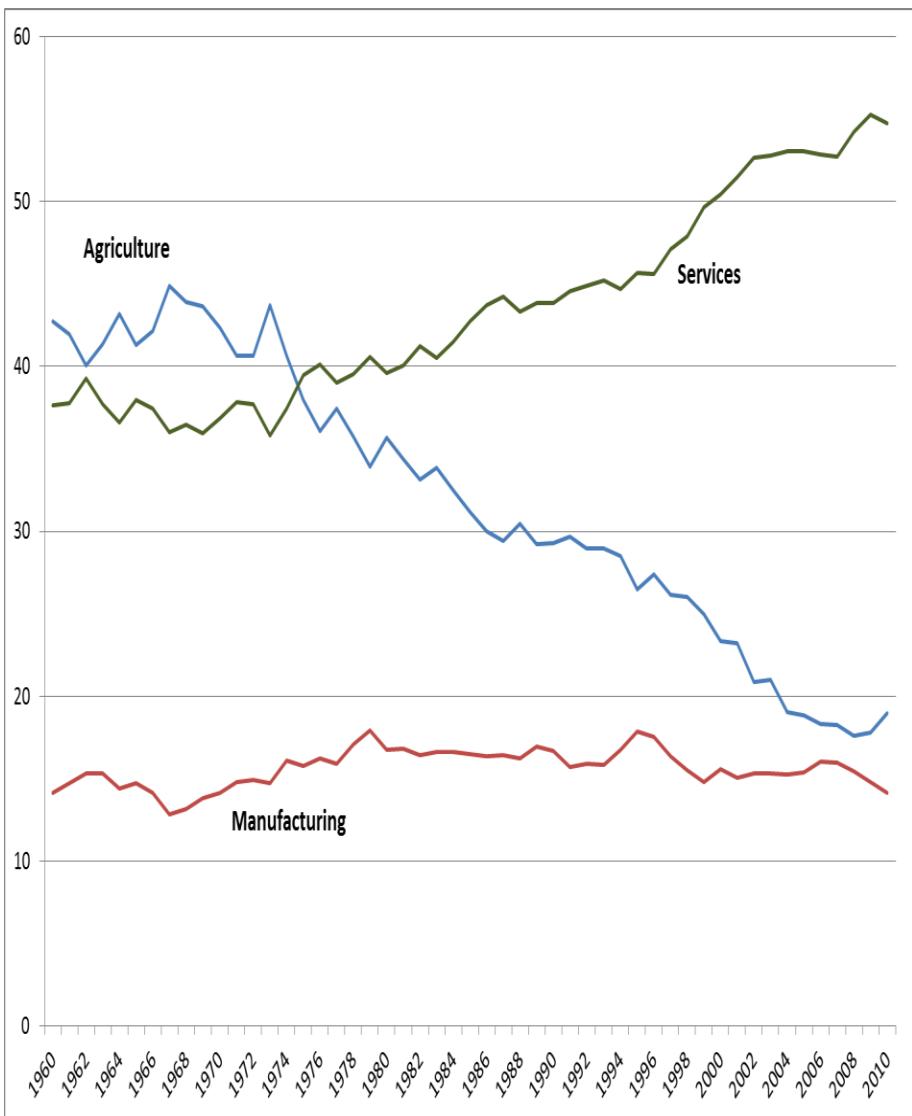
- Political: The democracy exception



# Precocious India

- Political: The democracy exception
- Growth based on using skilled rather than unskilled labor
  - Services-led (IT and software) not manufacturing-led growth
  - Within manufacturing too, skill-intensive and highly diversified

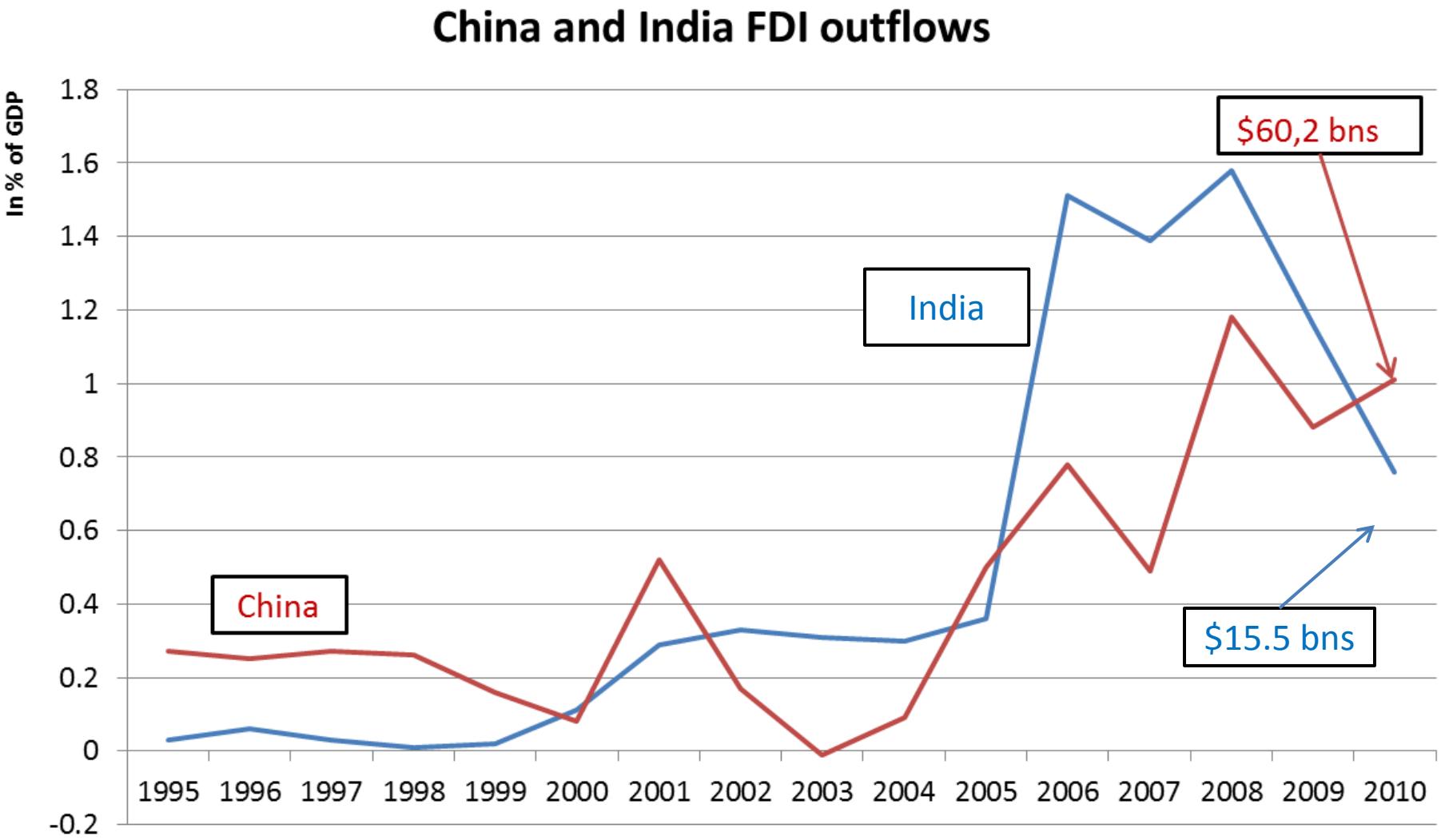
# India and China: Services Vs. Mfg



# Precocious India

- Unusual pattern of political and economic development
- Political: The democracy exception
- Growth based on using skilled rather than unskilled labor
  - Services-led (IT and software) not manufacturing-led growth
  - Within manufacturing too, skill-intensive and highly diversified
  - Uphill flows of foreign direct investment (FDI)

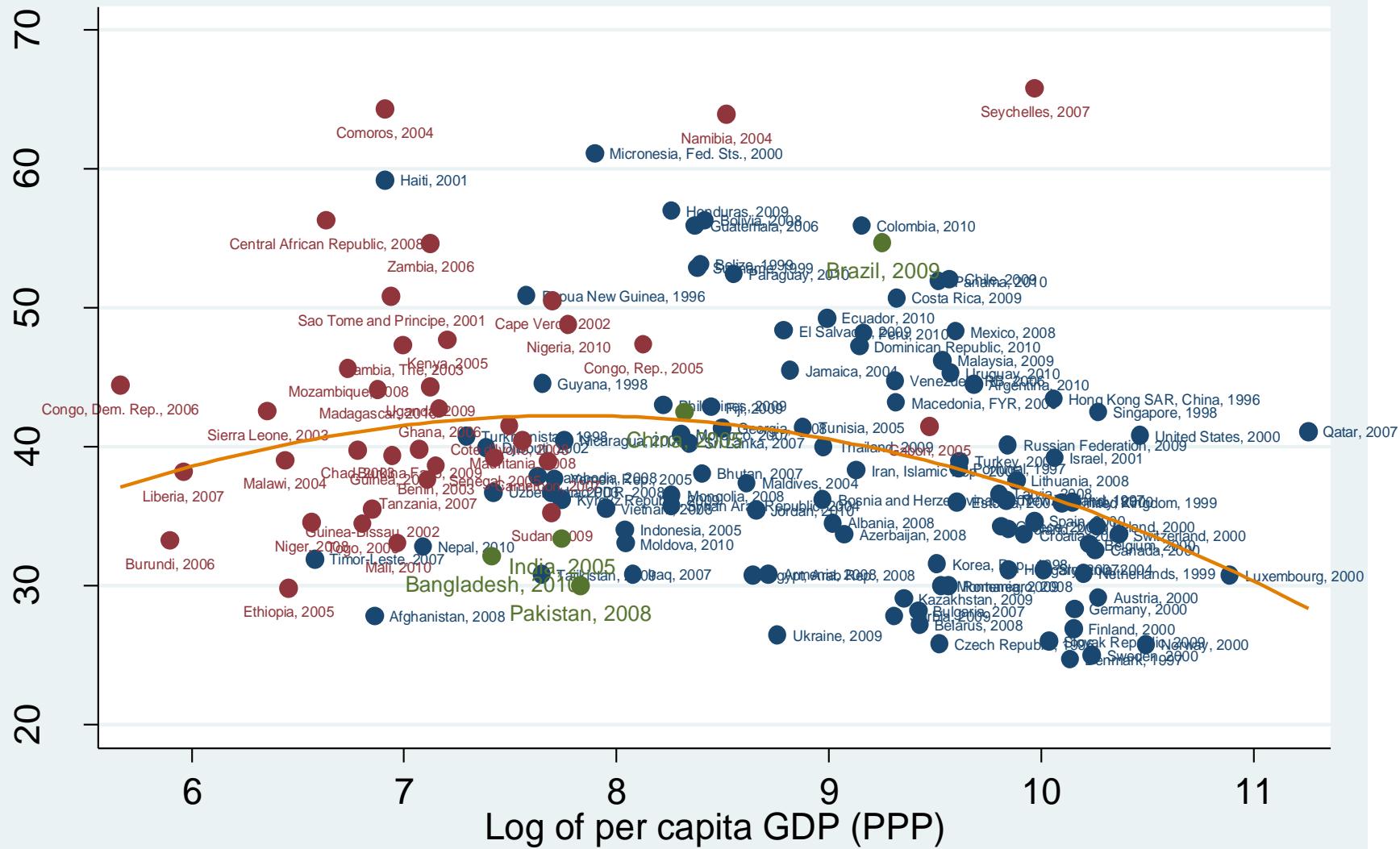
# India and China: FDI Exports



# Different and Not-so-Different India

- Domestic demand rather than export-led growth
  - Consumption-to-GDP ~35% in China and 58% in India
  - Number of years of surplus
  - Trade/GDP
    - India: from 16%(1980) to 45% (now)
    - China: from ~20-25% (1980) to 80% (now)
- Social outcomes:
- Not-so-bad on inequality
- Par on life expectancy
- Terrible on child malnutrition

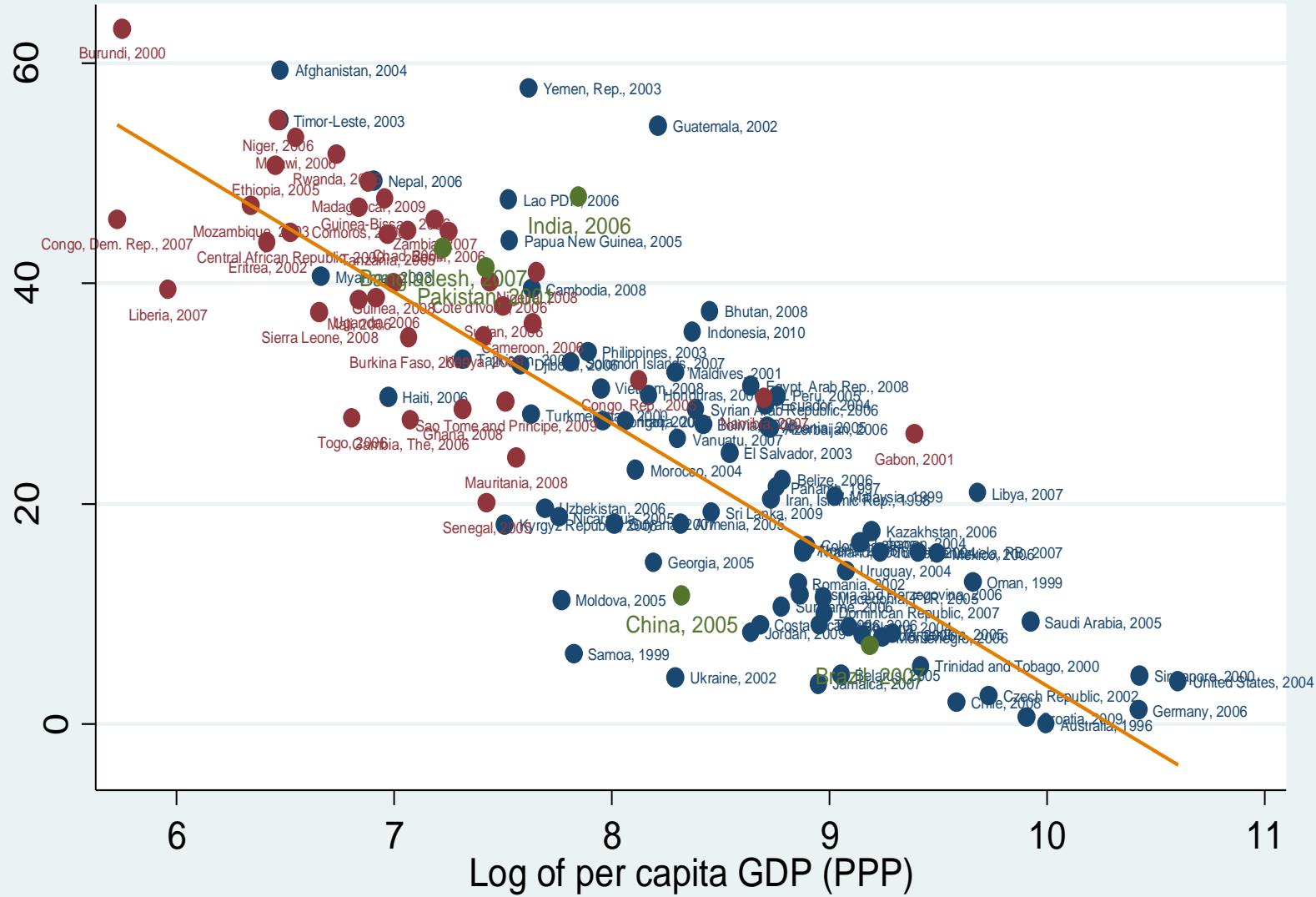
# Gini Index and GDP - most recent



Note: The surveys used are the latest available for each country

Source: World Bank, WDI

## Children malnutrition and GDP (most recent survey)



Malnutrition rate is percentage of children under 5 whose height is more than two SDs below the median of international reference

Sources: WHO, Global Database on Child Growth and Malnutrition. WDI

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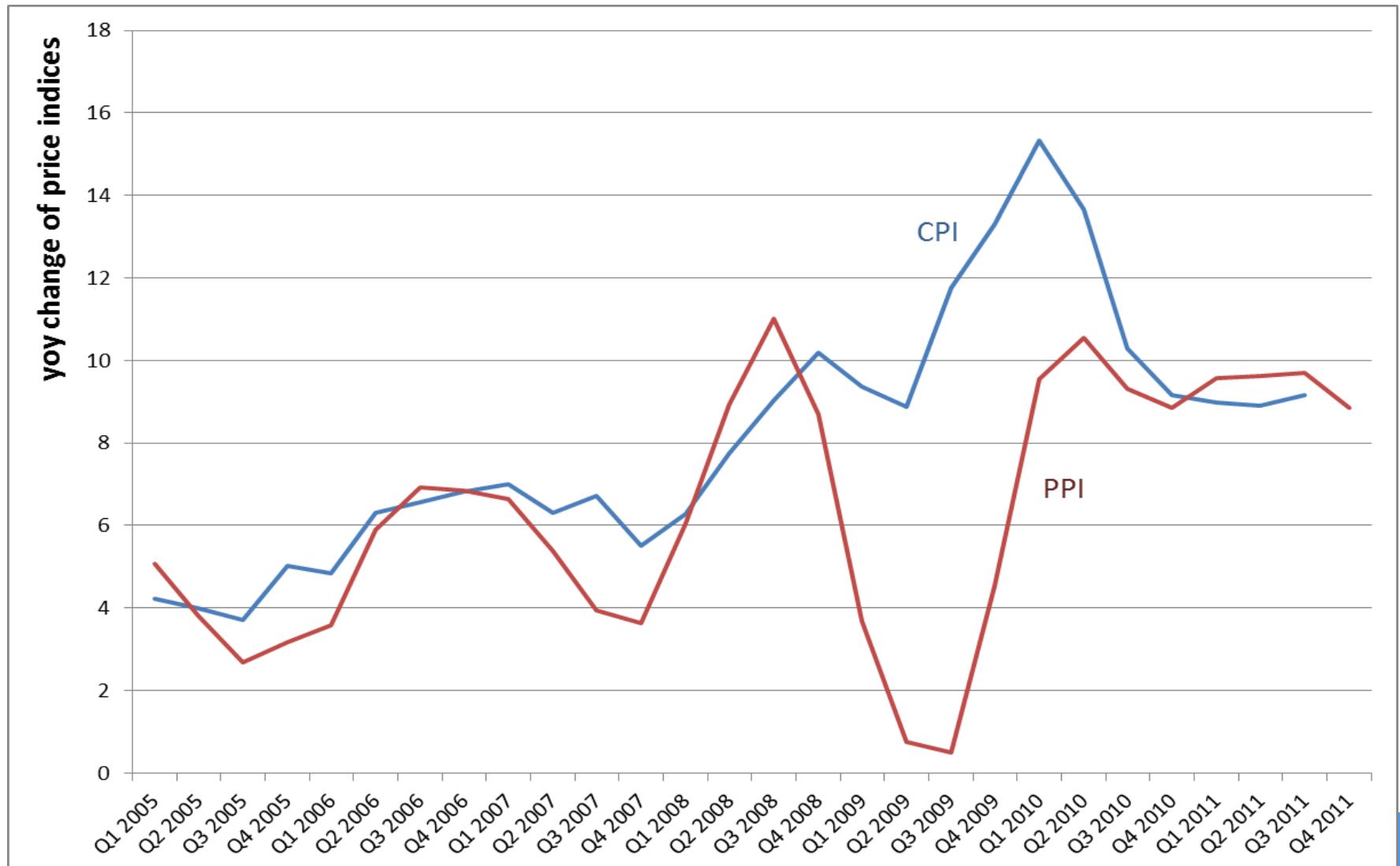
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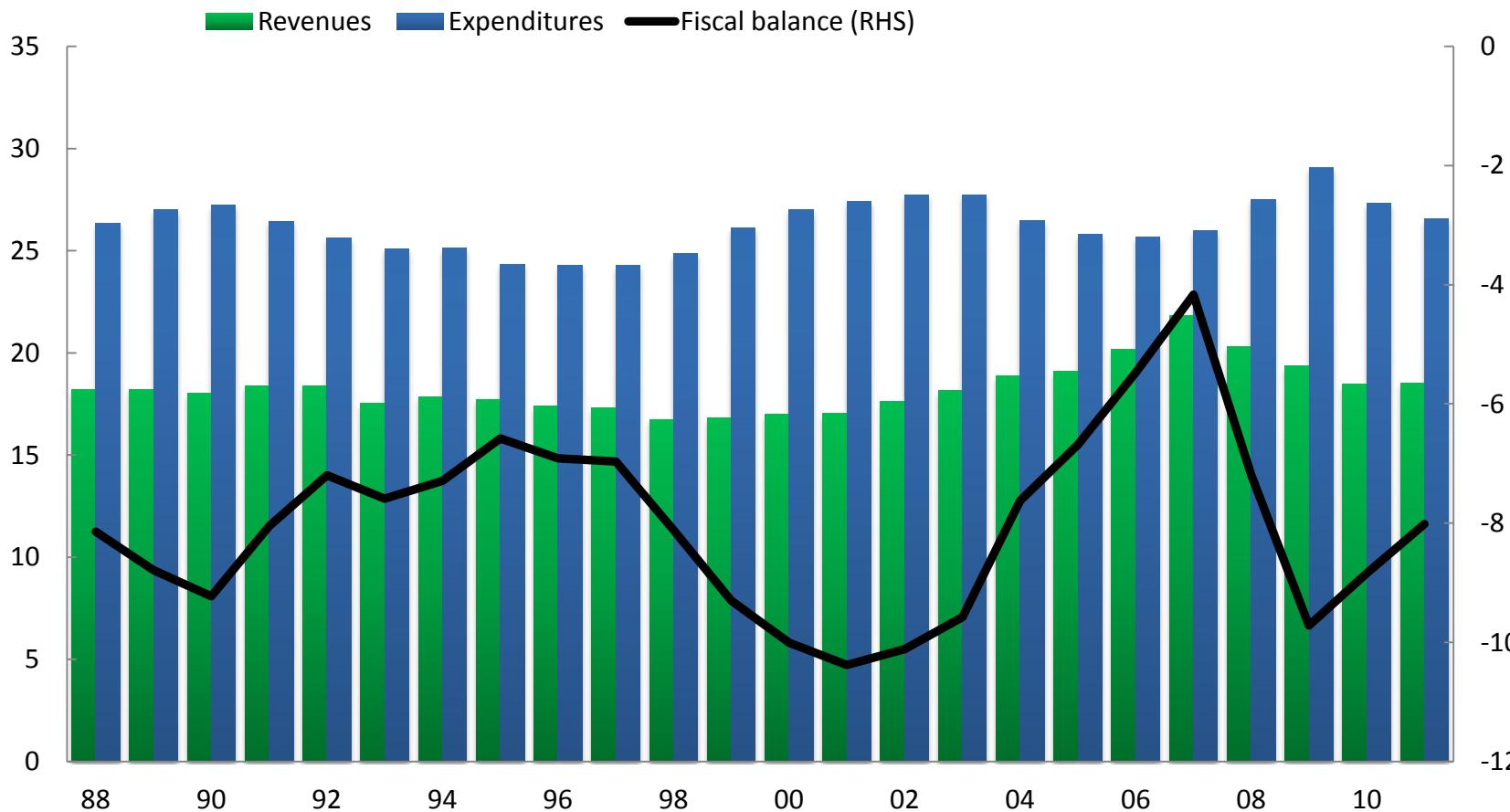
# Near Term Challenges

- Macro-economic vulnerabilities
  - Inflation
  - External deficits
  - Fiscal deficits
- Slow-down in growth

# High and Persistent Inflation



# Persistently High Fiscal Deficits

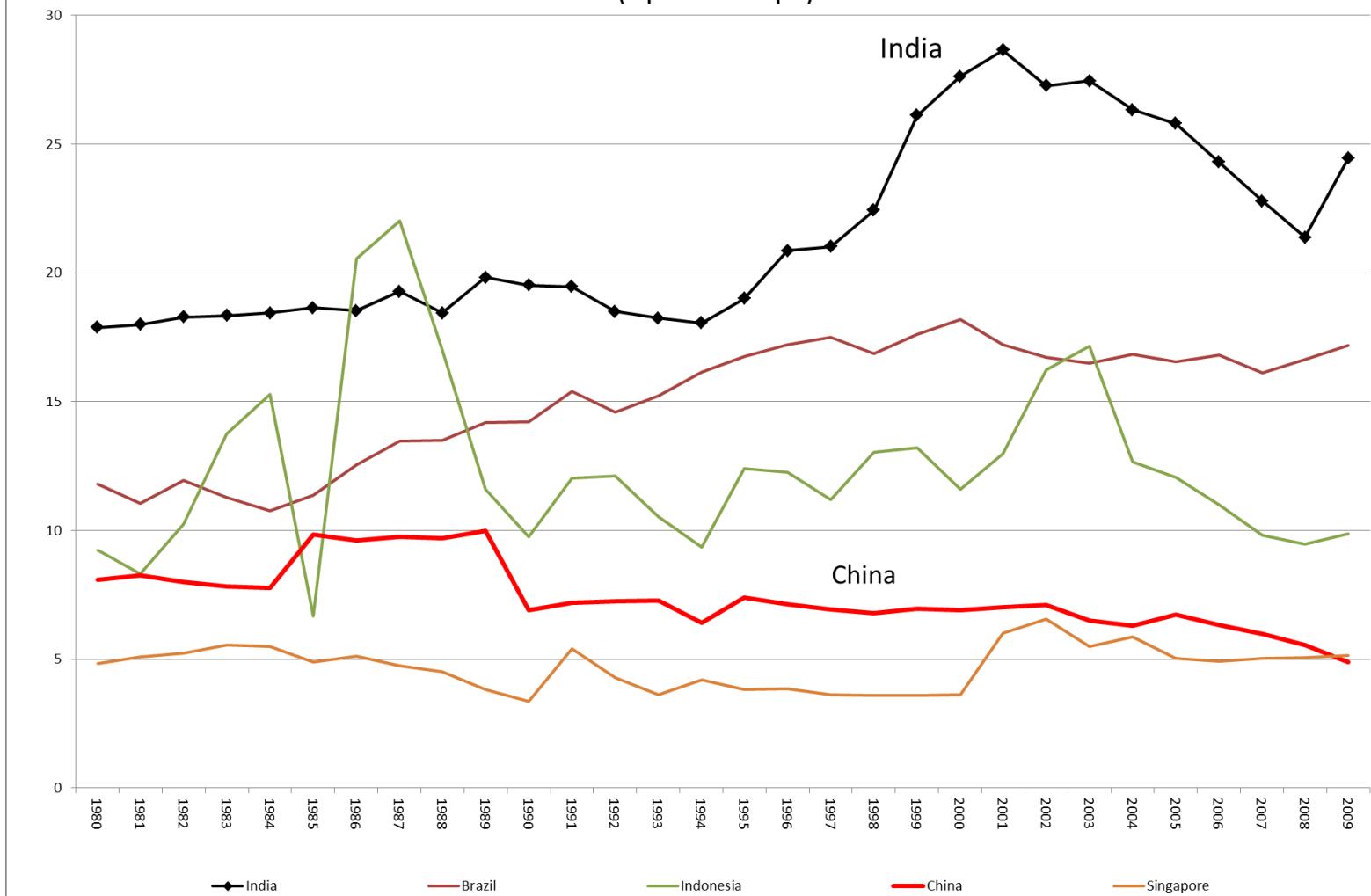


# What Potential: Medium Term Challenges?

- India does not deserve to be growing at 8-9 percent (cross-section and time series)
  - Is high inflation signalling that?
- “Precocious India” model unsustainable
- Scarce Skilled labor: Dysfunctional education limits supply
- Abundant unskilled labor: Under-utilized by labor laws
- Scarce social capital: Undermined through corruption/criminality
- Not-so-abundant land: Now locus of corruption; price bubble

# Power Losses 1980-2010

(in percent of output)



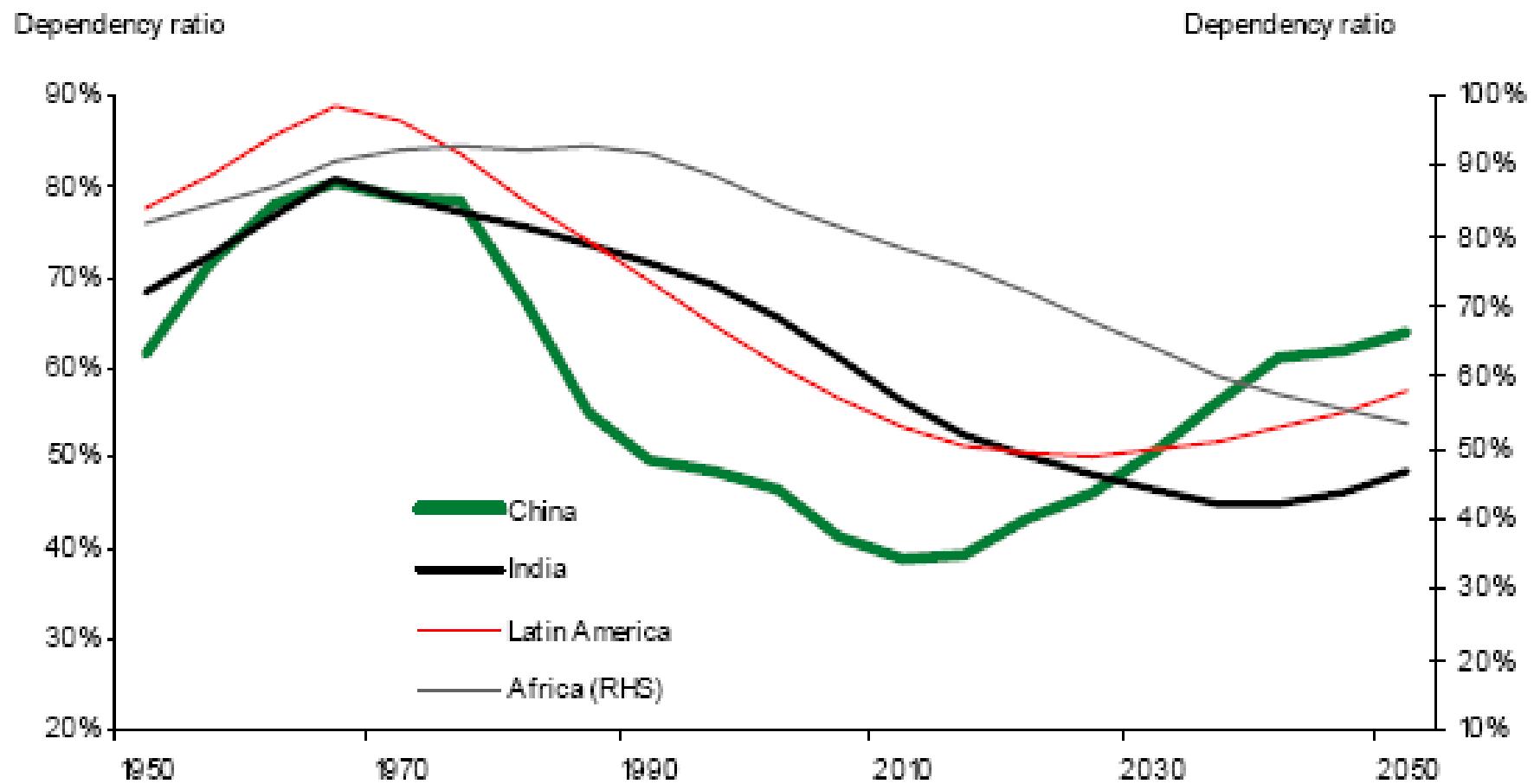
# What Potential: Medium Term Challenges?

- Fiscal populism
- From permit-licence-quota raj to Rents Raj:
  - Ethereal rents
  - Terrestrial rents
  - Subterranean rents

# How can you keep India down?

- Long way to go before running out of steam (“Advantage of backwardness”)
  - India’s per capita GDP is about 8 percent of US in 2010 and will be 20 percent in 2030 even if India grows at 9 percent a year)
- Demographic dividend
- Growth begetting growth dynamic has taken over
  - Education
  - Nano
- Dynamic of competition between states
- More responsive politics

### Chart 3: Dependency ratios in India's favour



Source: CEIC, UBS estimates

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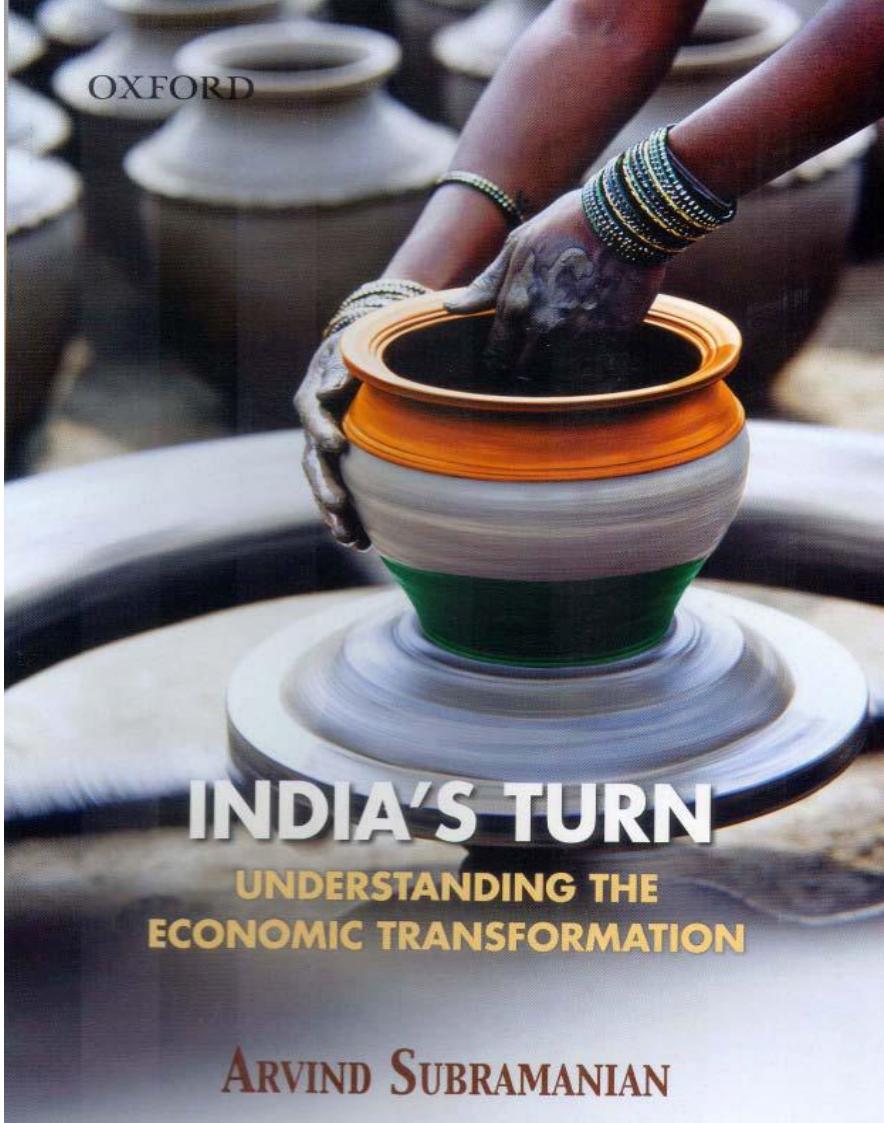
# How can you keep India down?

- Entrepreneurship: Nation of hustlers (“Jugaad”)
- Skilled labor: Growth eliciting supply especially in allowing private sector to substitute for public sector
- Unskilled labor: Demographic dividend and labor mobility aiding convergence
- Scarce social capital:
  - The Gilded Age Analogy: The market for wealth accumulation, crookery and criminality contestable
  - Civil society

# Long-term challenges

- Democracy and governance: Race between rot and regeneration
- The five axes of discord:
  - Economics (Class)
  - Language
  - Caste
  - Religion
  - Geography/Tribals: Internal security threatened: Writ of the Indian state runs only in 80% of the country
- Resources: Climate change and Water

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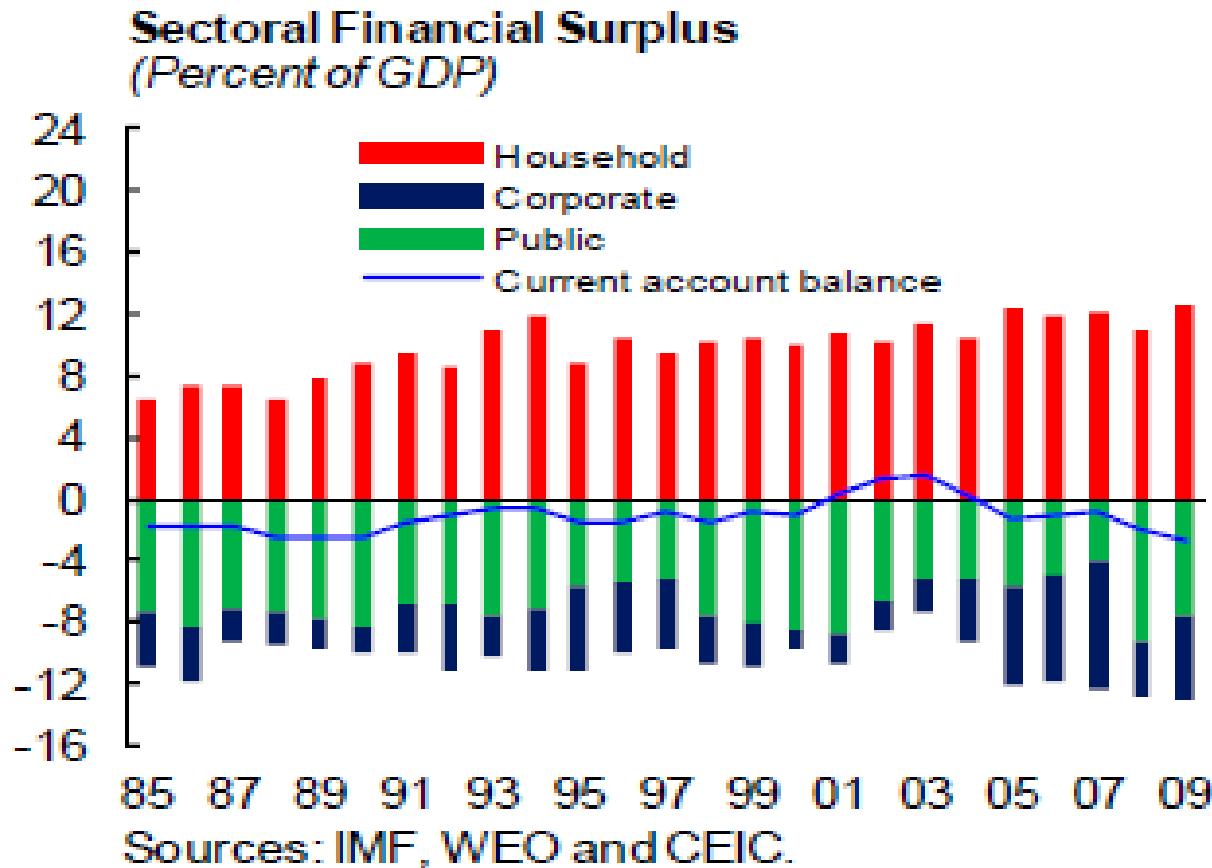
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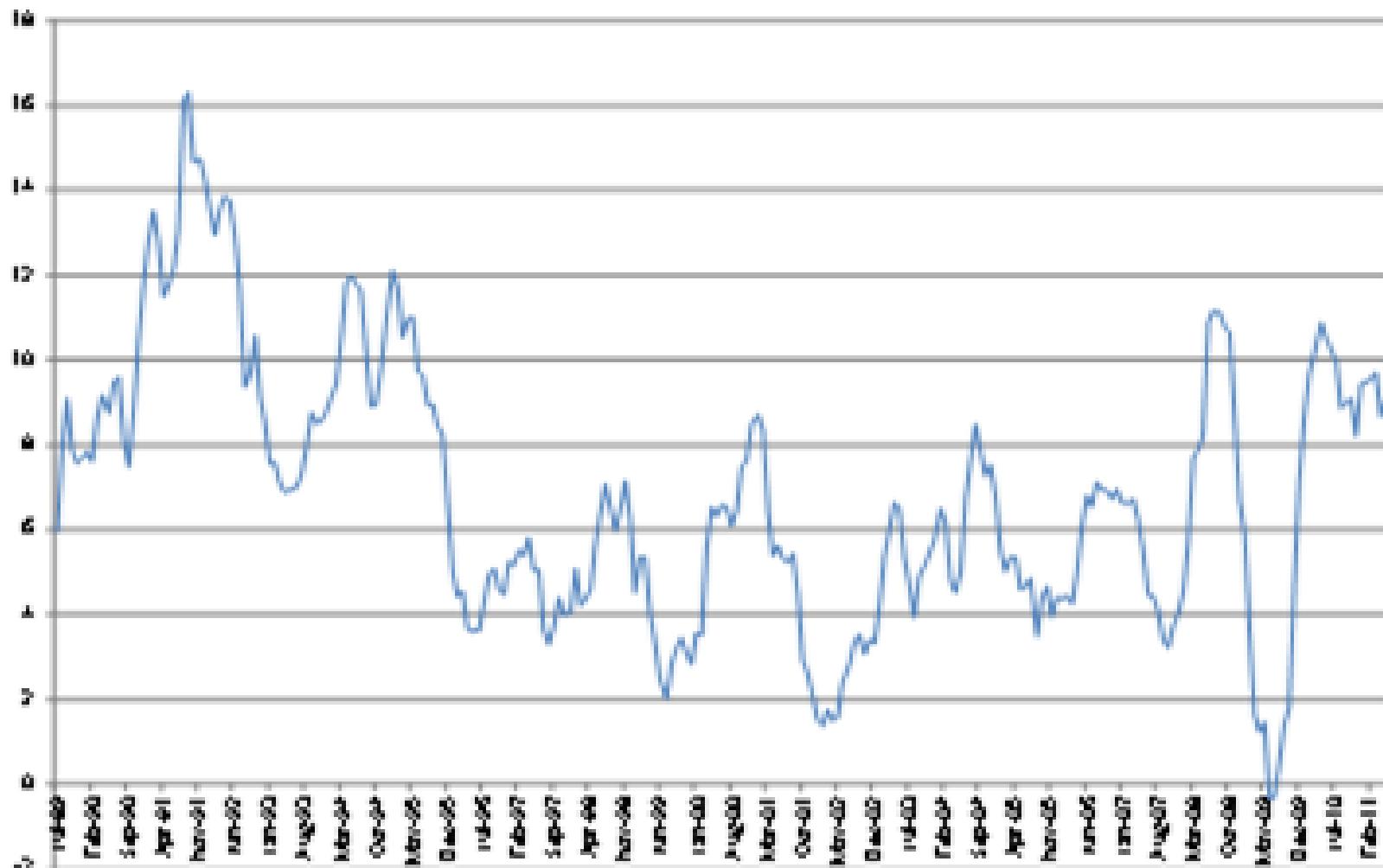
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# Persistent Current Account Deficits

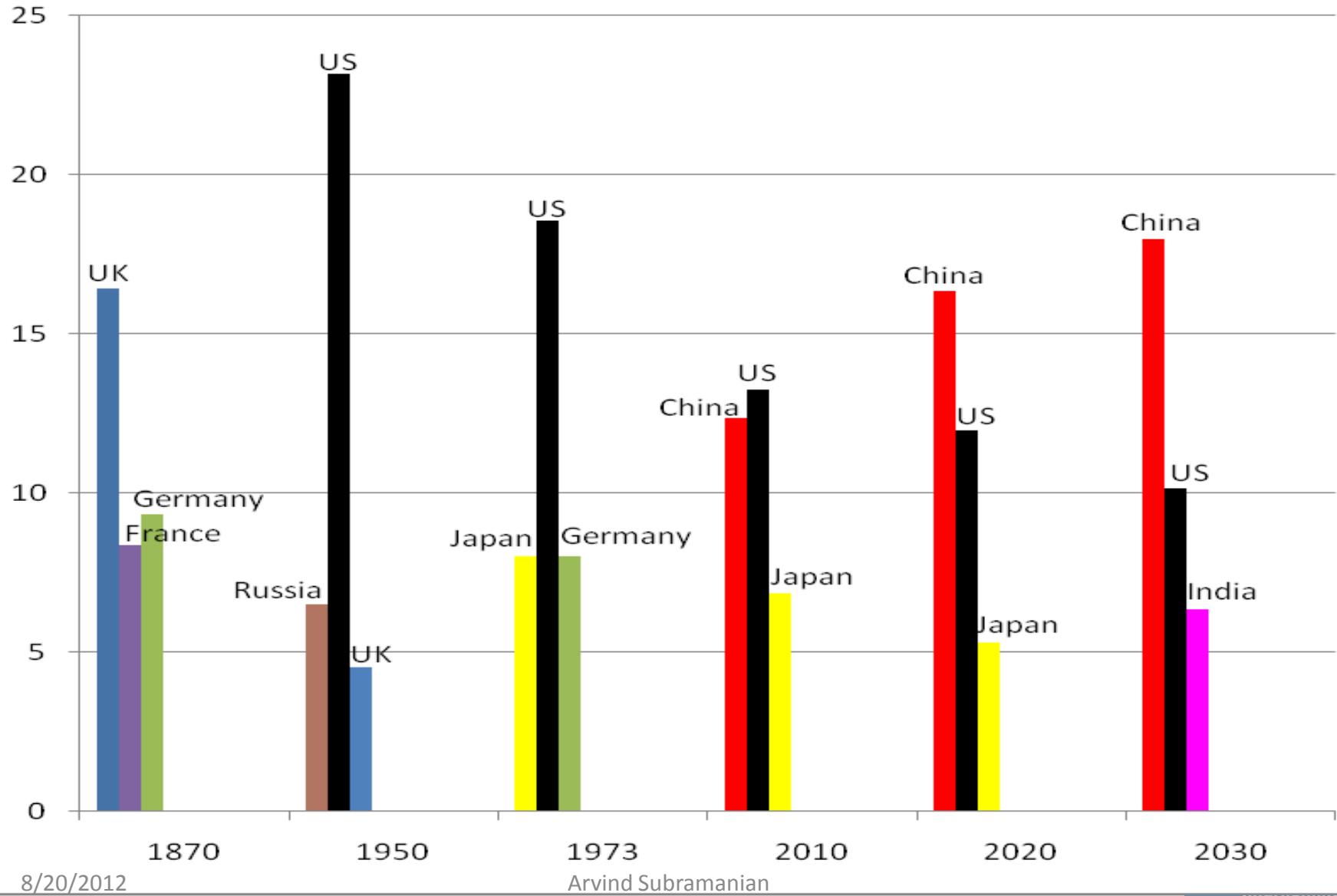


**Figure 3. Monthly Inflation Rate: India**



This graph presents monthly year-on-year inflation rates based on WPI sources.

# Index of Economic Dominance



# China and India: Key Economic Facts

	China	India
Size of economy (PPP \$; trillion)	14.8	4.6
Rank	1	3
Size of economy (\$; trillion)	5.9	1.6
Rank	2	9
Per capita GDP (PPP \$;)	11.3	3.8
Economic growth since 1980 (%)	~10 %	~6.5 %
Trade (goods and services; \$, trillion)	3.3	0.8
Inflation (%)	~3.5	~9
Fiscal deficit (% of GDP)	~3	~10
Current account balance (% of GDP)	3	-3