FOUNDATION FOR ECONOMIC DEVELOPMENT

ARTICLES
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BEST OF 2024

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EDITOR'S NOTE

Dear Friend of Economic Development

You're reading this because, in our attempt to improve lives in India, your attention and support have improved ours. 2024 was a good year for us. We had big policy wins across states and the union government — a national roadmap for electronics manufacturing, state legislation on industrial hubs, and substantially liberalised building bye-laws for hotels. We made new partnerships with key stakeholders across industry and government and preserved momentum with existing relationships.

A key pillar of our work is to bring attention to the importance of economic growth and related topics. We held a few high-level convenings that raised the profile of our work on economic development. In addition, our team regularly publishes articles on topics of interest. We have a monthly newsletter with a data story (among other things) and a podcast with interesting people.

In this compilation, we've selected what we like best and put them together here. While every one of these efforts will repay your attention, I'll specifically call out the data stories - these short, punchy combinations of stats and visuals make important points you will appreciate. We've also been incredibly fortunate to get A-list folks on our podcast. I could not have asked for a better playlist; they've all been excellent. You will enjoy the excerpts we've included, but the full episodes capture much more depth! We've included QR codes so you can find them easily.

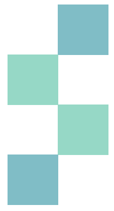
I hope you enjoy the compilation!

May we all have a great year.

Rahul Ahluwalia

Founder-Director

Foundation for Economic Development (FED)



BEST OF

FED 2024

Articles and Data stories

THE HINDU

Powering up to get to the $30-trillion economy point

Rahul Ahluwalia
Founder-Director at the Foundation for Economic Development (FED), a not-for-profit that works with the Centre and State governments to advance economic growth

Harshit Rakheja
Manager, Communications at the Foundation for Economic Development

India must aim for rapid economic growth using liberal policies that tap the private sector; it should not be affected by criticism of income inequality

Powering up to get to the $30-trillion economy point

Updated - August 07, 2024
01:07 pm IST

Rahul Ahluwalia

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Commentary on the India growth story often betrays a hint of premature triumphalism. Facts such as our 7%-plus GDP growth rate and India being the fastest-growing large economy in the world today, are repeated to buttress prophecies such as the 21st century being "India's century. There is a belief that in India's case, economic growth is inevitable. We must remember that several countries have been here before, at the very juncture where India stands today. However, most have failed to go the last mile and emerge as developed nations. For India to avoid such a fate and become a $30-trillion economy by 2047, as envisaged by the government, we must relentlessly pursue rapid economic growth built on liberal economic policies that harness the private sector. In this pursuit, many would continue to decry India's income inequality. We must not get swayed or overly affected by such criticism.

Potential of India's working-age population

The fact is: economic growth is the most effective tool for poverty alleviation and improving living standards. From Independence till 1991, India's poverty rate stayed at approximately 50% despite socialist policies emphasising poverty reduction. However, between 1991, the year of liberalisation, and 2011, the poverty rate fell to approximately 20%. India's growth pulled 35 crore people out of abject poverty during this period.

Is India more unequal today than pre-1991? Perhaps, though the data does not show much change in the gini co-efficient. But are more Indians better off than ever before, especially those at the bottom of the pyramid? Yes. In any fast-growing economy, there are bound to be a few people who generate a lot of wealth - wealth creation is inherent to economic growth and the most crucial incentive for entrepreneurship. It is

also, simultaneously, the vehicle that improves everyone's lives. We should focus on the latter.

Now that we have somewhat placated the inequality doomsayers, let us look at a few more numbers-less triumphal and more sobering.

The easier gains from the economic reforms of the 1990s have been realised. India's high-growth years of 2000-10 were led by an IT services boom that spawned an affluent middle-class. However, 46% of our labour force remains in agriculture, characterised by low productivity and under-employment, contributing just 18% of our GDP. Another inconsistency with the trend observed in countries that grew rapidly is India's female labour force participation rate (FLFPR) - just 37%.

Even this is a figure that masks more than it reveals, as it was 26% in 2019, and post-COVID-19, several women have gone back to work as agricultural labour. Compare this with the FLFPR in China, Vietnam, and Japan, all between 60%-70%, and we know exactly where we need to be.

So, how do we unlock the immense potential of India's working-age population-sized 950 million, only half of whom are employed - and ensure employment equity? Low-skilled, employment-intensive manufacturing with a strong focus on exports is how South Korea, Taiwan, Japan, and Vietnam came to be called the "Asian Tigers', regularly achieving double-digit growth between 1960-90. Their particular brand of economic policy, focused on rapid export-oriented industrialisation, was premised on the understanding that growing exports require focusing on your advantages while being receptive to imports in other areas. Net-net, openness is needed for growth, as it was for India—between 1990 and 2013, exports as a percentage of India's GDP grew from 7% in 1990 to 25% in 2013. Today, as India tries to capitalise on the China+1 moment to attract global manufacturers and their supply chains, and further augment its exports, we must resist the temptation of putting up huge tariff walls for imports.

The middle-income trap

In our hope of protecting industries from foreign competition, we risk giving rise to heavily coddled and inefficient manufacturers. The lure of import tariffs must also be resisted for how they will disadvantage Indian manufacturers, say a mobile phone maker who has to import components from China. Tariffs will artificially inflate the prices of the many parts needed for their finished phones, ultimately raising the prices of downstream Indian exports. It is the proverbial vicious circle that India should steer clear of, especially as the middle-income trap looms ahead.

Of 101 middle-income economies in 1960, only 23 had attained high-income status by 2018, a stern reminder of the challenge that awaits India, still a lower-middle-income economy that must graduate to middle-income status by the early part of the next decade, and then go further. There are many reasons countries get ensnared in the middle-income trap - these can be broadly summed up as economies losing their edge in lower-end sectors and not being competitive enough with more prosperous countries in high-tech sectors.

India must aim for rapid economic growth using liberal policies that tap the private sector: it should not be affected by criticism of income inequality

India's problem is peculiar: We have been unable to leverage our surplus labour to grow in low-end sectors. The IT boom gave us an alternative pathway to growth, but the headroom there is limited. This is damaging as moving up the value chain in manufacturing is built on a foundation of low-tech manufacturing- ecosystems of managers and workers who get things done while ensuring scale and quality, form the backbone of any industrial sector. Even government functionaries who have helped develop simple, low-tech manufacturing at scale will find it easier to graduate to more complex challenges later.

India's social sector and civil society should view campaigns that paint factories (hubs of low-tech manufacturing) as sweatshops, decrying their work conditions and low wages, in this regard.

Forcing employers operating on wafer-thin margins to spend more on employee welfare would not improve the quality of manufacturing jobs as much as it would result in the erasure of such jobs altogether for those with very few options for employment outside of farm work.

Avoiding the middle-income trap requires a market-led economy that lets private enterprise thrive, without the government, or perceptions of factory jobs, getting in the way-Minimum Government, Maximum Governance. The Indian state must continue delivering on this decade-long promise in earnest, which means that reforms to enhance 'ease of doing business" must not stall.

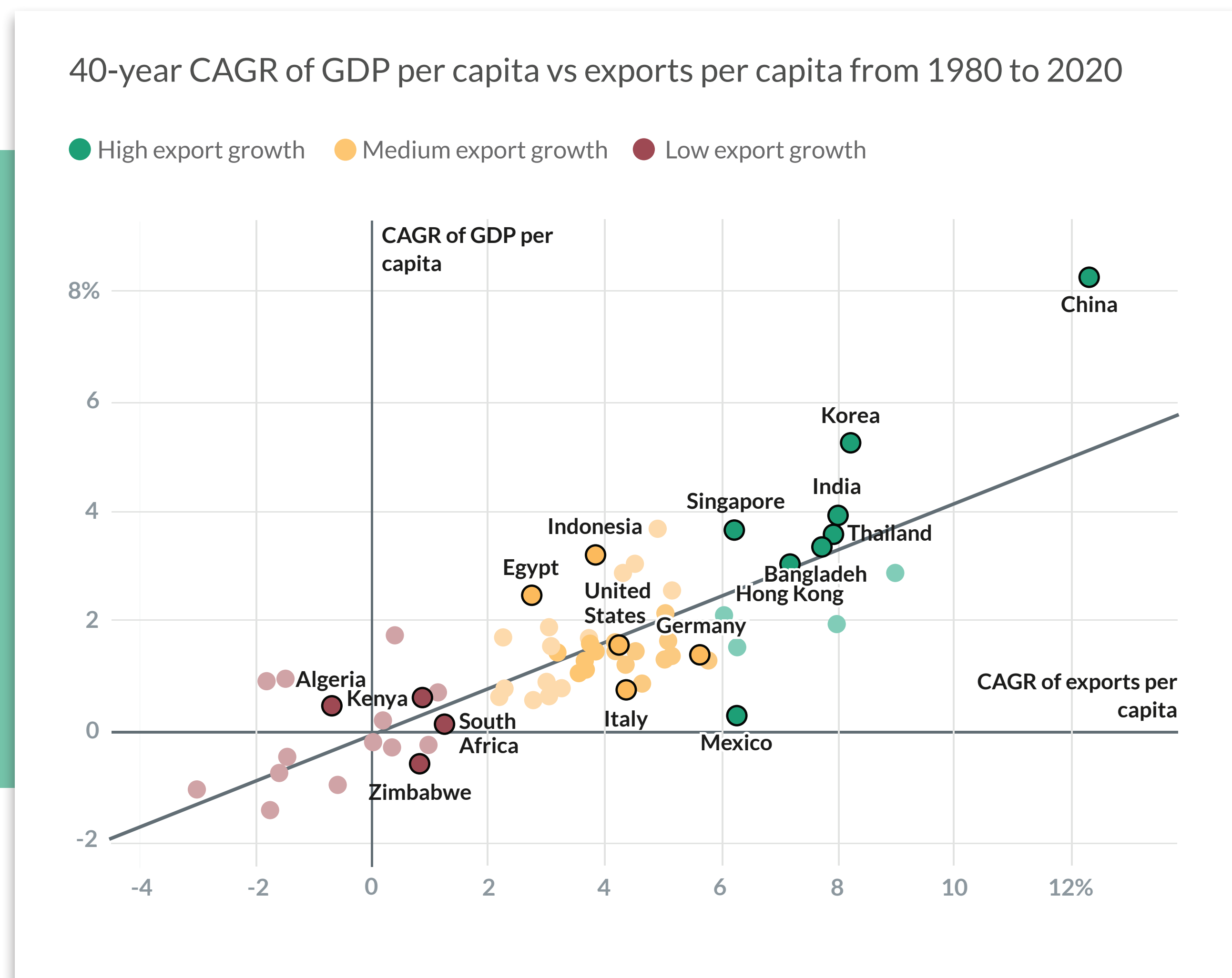
A cluster-led industrial model

The government must also double down on its impressive achievements in revamping India's hitherto creaky infrastructure by building industrial clusters that are on a par with those in China and Vietnam, replete with plug-and-play infrastructure and ancillary ecosystems, for education, health care and entertainment, which would attract both employers and workers. Today, Indian states face cost disabilities for power, logistics and financing, coupled with low labour productivity when compared to countries such as Bangladesh, China and Vietnam, and a compliance burden that deters new players from entering and the existing ones from expanding. Several countries have faced similar challenges; hence, a cluster-led model of industrial development, whereby stringent regulations are relaxed in designated areas, helps create a favourable environment for manufacturing.

Time is of the essence; the government must leverage the strengths of the private sector and its own penchant for reforms to focus on low-skilled manufacturing that can employ multitudes of people in sectors such as electronics assembly and apparel, as the opportunity that needs to be made more lucrative for scores of Indians. Inter-state migration and urbanisation would be important proxies here, as would FLFPR and a decline in agriculture's share of total employment, to assess whether we are on the right path to becoming a $30-trillion economy by 2047.

There is a phrase often repeated in policy circles about India - "It's a country with mouth-watering opportunities and eyewatering challenges." We think the challenges here are the most exciting opportunities. The reward for breaking down these barriers to growth would be an unfettered path to prosperity till we fulfil our tryst with destiny. It is time to be as forward-thinking and ambitious as befits a Vishwaguru.

Economic growth and exports go together



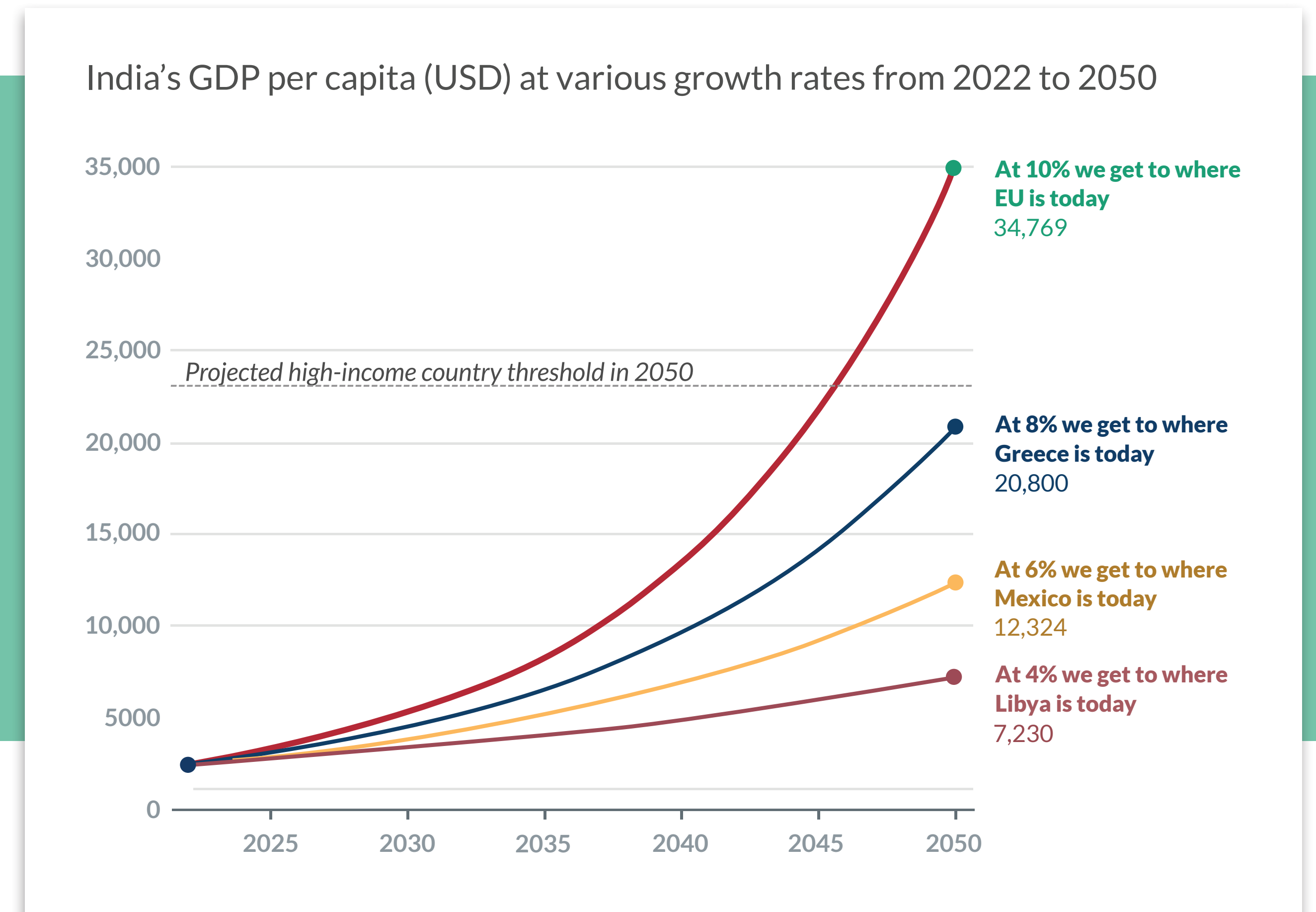
Only countries with available data and a population above 5 million are shown | Exports include goods and services

Chart: FED Source: World Bank • Created with Datawrapper

Over the last 40 years, there has been a strong positive relationship between economic growth and exports. So much so that NO country has grown fast without growing exports. Countries such as China, Korea, Thailand, Bangladesh and Singapore have all grown rapidly on the back of a strong export-oriented economy.

Even India's economic growth has been sustained by export growth, especially in professional services which has grown at 14% over the last decade. On the other hand, countries like Zimbabwe and Algeria have struggled to meaningfully raise living standards without prioritising exports. For India to achieve rapid growth, we must focus our efforts on growing exports from ~USD 800 billion (i.e. goods and services) today to the target of USD 2 trillion by 2030. Improving ease of doing business and solving persistent ecosystem challenges from taxation to contract enforcement and port efficiency to policy stability will be crucial steps in our journey towards this target.

Achieving rich-country standards by 2050 requires sustained economic growth at 10%



Assuming the World Bank's high-income country threshold grows at an annual rate of 2% (long-term inflation target in high-income countries) from USD 13,205 in 2022 to USD 22,990 in 2050

Chart: FED Source: World Bank • Created with Datawrapper

What would it take for India to achieve the living standards European countries enjoy today? The answer is clear: economic growth at 10% sustained for the next 30 years. The chart above shows India's GDP per capita starting in 2022 (at around USD 2,400) and growing at various rates consistently for ~30 years till 2050.

As is clear from the chart, growing at 4% vs 10% over 30 years will be the difference between India achieving the living standards of Libya or Europe. By playing to our strengths, we will give ourselves the best chance of sustaining a growth rate of 10% for the next 30 years. This involves taking advantage of our large working age population to unlock globally competitive labour-intensive manufacturing exports.

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The Indian EXPRESS

India's $500 billion opportunity — and how not to lose it

Written by Ashish Dhawan, Vinay Ramesh, October 17, 2024 10:16 IST

Electronics factories can employ thousands — the Foxconn factory in Sriperumbudur has 21,000 workers — and it is important to house workers close to factories. (PTI)

SUMMARY

- *PM's target for electronics manufacturing is ambitious. We must start by reforming regulatory environment in geographically limited areas, building thriving manufacturing regions*

Last month, Prime Minister Narendra Modi announced a $500 billion (Rs 4.20 lakh crore) target for electronics manufacturing in India by 2030. We must applaud and support the ambition — growth in electronics manufacturing will help solve India's jobs challenge. For example, the Apple ecosystem alone exports around $14 billion (Rs 1.17 lakh crore) and employs 1.6 lakh people.

At the same time, we must recognise that the ambition is audacious — India's entire manufacturing output in 2023-24 was roughly $660 billion (Rs 55.4 lakh crore). Meeting the target would mean sustaining growth rates few countries have achieved and will require equally audacious reform.

The government already realises that much of this growth will have to be export-led, as statements by the minister of electronics and information technology have made clear. However, while achieving export competitiveness at scale is the right strategy, executing it is no mean task. How can we do it, especially given our legacy ecosystem that has proven so resistant to reform?

The answer lies in the history of manufacturing growth, which has been a story of regional clusters. The electronics industry is no different.

From its beginnings in Silicon Valley to its later centres – Taiwan, Japan, South Korea and then more recently Shenzhen in China and Northern key economic region (NKER) in Vietnam– competitive regional clusters have driven growth in electronics

In India too, clusters in regions like Sriperumbudur in Tamil Nadu and Noida in Uttar Pradesh have recently been growing fast, and account for nearly 50 per cent of our electronics exports. To sustain and accelerate growth in electronics, we need deep and ambitious region-led reform that can create large, globally competitive electronics manufacturing regions.

Studying successful regions around the world reveals three key factors for success — large size with anchor investors, customised regulations to suit export activity and devolution of administrative power down to the industrial park level. We go into some detail on each of these to explain why a new policy should incorporate these factors.

Large size is essential for competitiveness. Shenzhen, a Chinese special region, which alone exports around $350 billion, is 2,000 sq km, while the largest Indian electronics cluster, under the government's Electronics Manufacturing Cluster (EMC) scheme, is 2.5 sq km.

Large size helps in co-locating suppliers and buyers, which is important for ecosystem competitiveness. It also helps invest in large, efficient shared industrial infrastructure like effluent plants and testing facilities that lower costs for everyone.

Electronics factories can employ thousands — the Foxconn factory in Sriperumbudur has 21,000 workers — and it is important to house workers close to factories. Large zones make it possible to have social infrastructure like worker housing, schools, hospitals and recreation facilities.

Given the political difficulties and prohibitive costs of acquiring large tracts of land, it will be better to develop around existing electronics manufacturing regions. This would mean declaring a large — say 300 sq km — special region incorporating existing factories and new parks. Within the zones, the focus needs to be on attracting lead brands and their partners as anchor investors and they can, in turn, attract their downstream partners.

To give a sense of the importance of scale, Shenzhen (2,000 sq km) generates manufacturing employment for 4.6 million workers and exports of more than $300 billion. By contrast, Mundra EMC is just 2.5 sq km and employs 5,000 workers.

Large size and anchor investors alone will not be enough. These regions need a regulatory environment that is conducive to exports and comparable to the best manufacturing regions. The priority would be pro-employment labour laws — allowing longer shifts, globally competitive over-time rules and removing restrictions on employing women, who make up a majority of electronics workers.

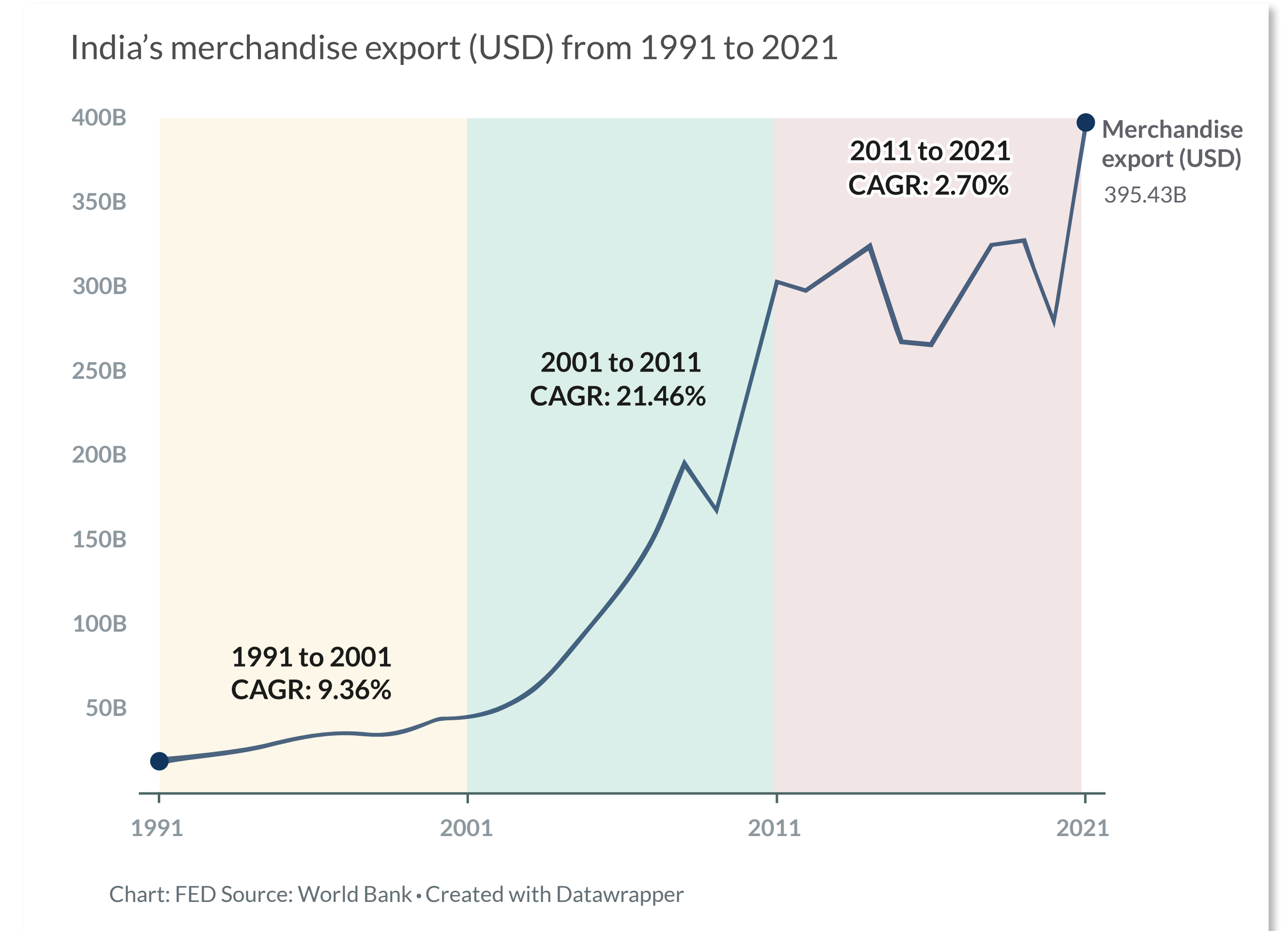
The other key area of customised regulation is taxation and tariffs. Electronics manufacturing requires movement of lakhs of components with designs changing frequently. Extremely specialised supply chain participants mean that much of this movement is cross-border, even in countries with much greater value add. Thus, all our competitors like Vietnam, China, etc., already allow foreign vendors or brands to manage component inventory seamlessly across borders without tax or tariff implications. This has been a big part of their success.

However, current Indian tax laws make inventory management by foreign entities unviable, making manufacturing needlessly complex. Interestingly, the required tax exceptions have been allowed previously in "national interest" for the Oil & Gas industry. Electronics today is no less strategic.

Corporate tax and GST rates too need to be benchmarked against those in Vietnam and China to attract large global players. Finally, Indian factories are encumbered by numerous laws governing buildings, green cover, pollution norms, etc., that are globally uncompetitive. EMC authorities need to be able to relax these within the region. To ensure responsive governance, central and state governments also need to devolve requisite powers to the EMC authority so that it can provide all necessary approvals and permissions. Global examples have also shown that PPP models that attract private players to manage the region and build plug and play parks are a good way of speedy and high-quality

execution. The current government has shown the willingness to enable such a differentially regulated zone for financial services in GIFT city, and needs to do the same for electronics manufacturing regions. Reforming India's regulatory cholesterol across the country is a long and arduous road, but we can start by reforming the regulatory environment in geographically limited areas. Without thriving manufacturing regions, the ambitious goal set by the PM will remain just another manufacturing target we have no hope of achieving.

India has the potential to grow merchandise exports at 20% annually, as it did from 2001 to 2011



India's merchandise export performance since liberalisation can be broken down into three phases. In the decade from 1991 to 2001, India's exports grew at 9% by capitalising on new openness and freedom to participate in the global economy. **With this foundation, and further support from the Vajpayee-era reforms, the decade from 2001 to 2011 saw a staggering 21% export growth rate that propelled the economy and raised the living standards of millions.**

However, the decade from 2011 to 2021 has seen a sharp slowdown in export growth, with annual rates struggling to reach even 3%. Even as some commentators are pessimistic about India's ability to grow exports rapidly, India's own history shows that we can not only match global growth but outpace it.

The only way to grow exports in the long term is to focus on improving competitiveness. **Removing unnecessary hurdles such as trade barriers and allowing employment-intensive sectors such as apparel, footwear and food processing to flourish will be a step in the right direction.**

ET Government
Your Exclusive e-Governance Source

Employment Linked Incentive: A step in the right direction but garment industry needs more than fiscal support

Mihir Parekh & Nitya Srinath | Aug 28, 2024 at 12:02 PM IST

India levies high import duty on fabrics, especially synthetic fabrics (20% in India compared to 12% in Vietnam).

SUMMARY

- *Until we address all the issues, India's sub-optimal performance in garment exports, an area where India has a right to win on account of its factor endowments, will continue unabated and the vision of $100 billion exports by 2030 will remain a distant dream.*

India has set itself a bold target of $100 billion of exports in Textiles and Apparel by 2030. This is absolutely the right move. With one of the most labour intensive products - apparel accounting for 50-60% of this total, this target will help immensely in overcoming our greatest challenge – better jobs for 20 crore of our farm labour, women who want to be in the labour force, and unemployed youth.

Unfortunately, our track record indicates that this will prove to be a challenging task.

India's apparel exports remain range bound at $16-19 billion from 2015-22 even as Vietnam increased its exports by 70% ($20 billion to $35 billion) and Bangladesh nearly doubled its exports ($26 billion to $47 billion) during this period.

The Government of India recognises the need for change. It has decided to back its "vision" with some fiscal "action" as it launched the much-awaited Employment Linked Incentive scheme in the Budget for 2024-25. The scheme provides incentives to employees for taking up formal sector jobs even as it incentivizes employers to create capacities in labour intensive sectors (including but not limited to garment manufacturing). This is a step in the right direction and will go a little bit towards bridging the gap with Bangladesh and Vietnam.

However, to really understand this gap, we must look at the pure cost disability of an Indian garment manufacturer viz-a-viz the two countries. Let's take the example of a 1000 machine garmenting unit - large by Indian standards but quite small by international standards. It employs ~2000 people and manufactures ~60 lakh polyester T shirts per annum at a unit cost of ₹238 per T-Shirt. This is more than what it would cost to make this in Bangladesh or Vietnam by roughly ₹24 per T-Shirt, or 10%.

For some perspective, the net profit margin for such a unit is typically ₹10-11 per T-Shirt. Hence, at the factory gate itself, an Indian garment manufacturer faces a cost disability sufficient to render her uncompetitive without even accounting for preferential market access that Bangladesh and Vietnam enjoy in some export markets such as the European Union (EU).

This cost disability is largely driven by two factors: Firstly, India levies high import duty on fabrics, especially synthetic fabrics (20% in India compared to 12% in Vietnam). Local fabric also sells at the landed price of imported fabric leading to higher raw material cost for Indian garment manufacturers. Additionally, cumbersome trade and Customs' procedures coupled with Quality Control Orders (QCOs) on import of Man Made Fibre (MMF) inputs have ensured that cost of domestically produced MMF fabric is at least 20% higher than international prices. Given that finished fabric accounts for 50% of garment cost, the sub-optimal duty structure creates an unnecessary yet significant cost disability for the Indian exporter.

While the Indian Government tries to offset this disadvantage through Duty Drawback and Refund of State and Central Taxes and Levies (RoSCTL) Scheme, it would be much simpler to just rationalize the duty on fabrics. If the intent is to strengthen the synthetic textile ecosystem in India (the infant industry protection argument), there is ample evidence across the economic literature to show that such protection simply perpetuates the local industry to remain sub-scale and inefficient. Targeted incentives to help scale up the local MMF textile ecosystem will yield much better results than distorting prices in the value chain.

Secondly, India's minimum wage at 0.7 USD/hr (compared to 0.5 USD/hr in Bangladesh and 0.8 USD/hr in Vietnam) is further amplified by overtime rate at 2x the regular wage rate (Bangladesh and Vietnam overtime rates are 1.5x), stringent ceiling on overtime hours/week and lower worker productivity due to efficiency and quality disadvantages driven by lack of manufacturing scale (India's largest garment factories employ 2000–3000 workers compared to 10,000–20,000 workers in Bangladeshi and Vietnamese factories).

After accounting for the regulatory burden and scale-based inefficiencies, and incorporating statutory contributions, India's effective wage rate jumps to $1.4/hr and compares unfavourably with Bangladesh ($0.6/hr) and Vietnam ($1.1/hr). For an industry where labour accounts for 25-30% of total cost, this ensures that Indian garment exports remain uncompetitive.

This brings us back to the Employment Linked Incentive. While the incentive to the employer (up to ₹3000/man-month for 2 years under and part reimbursement of employer Employees' Provident Fund Organisation (EPFO) contributions for 4 years for first time employees), will address India's labour cost disability to an extent, it must be noted that, these are temporary fixes, come at a substantial cost, and most importantly, do not address the structural, and completely self-imposed, reasons for the disability in the first place viz. high barriers on raw material import coupled with high regulatory burden on hiring labour in India.

Until we address these issues, India's sub-optimal performance in garment exports, an area where India has a right to win on account of its factor endowments, will continue unabated and the vision of $100 billion exports by 2030 will remain a distant dream (rather than become an "aim" to be achieved as Jeetu Bhaiya would say in Kota Factory).

India is not capitalising on China vacating the global apparel market

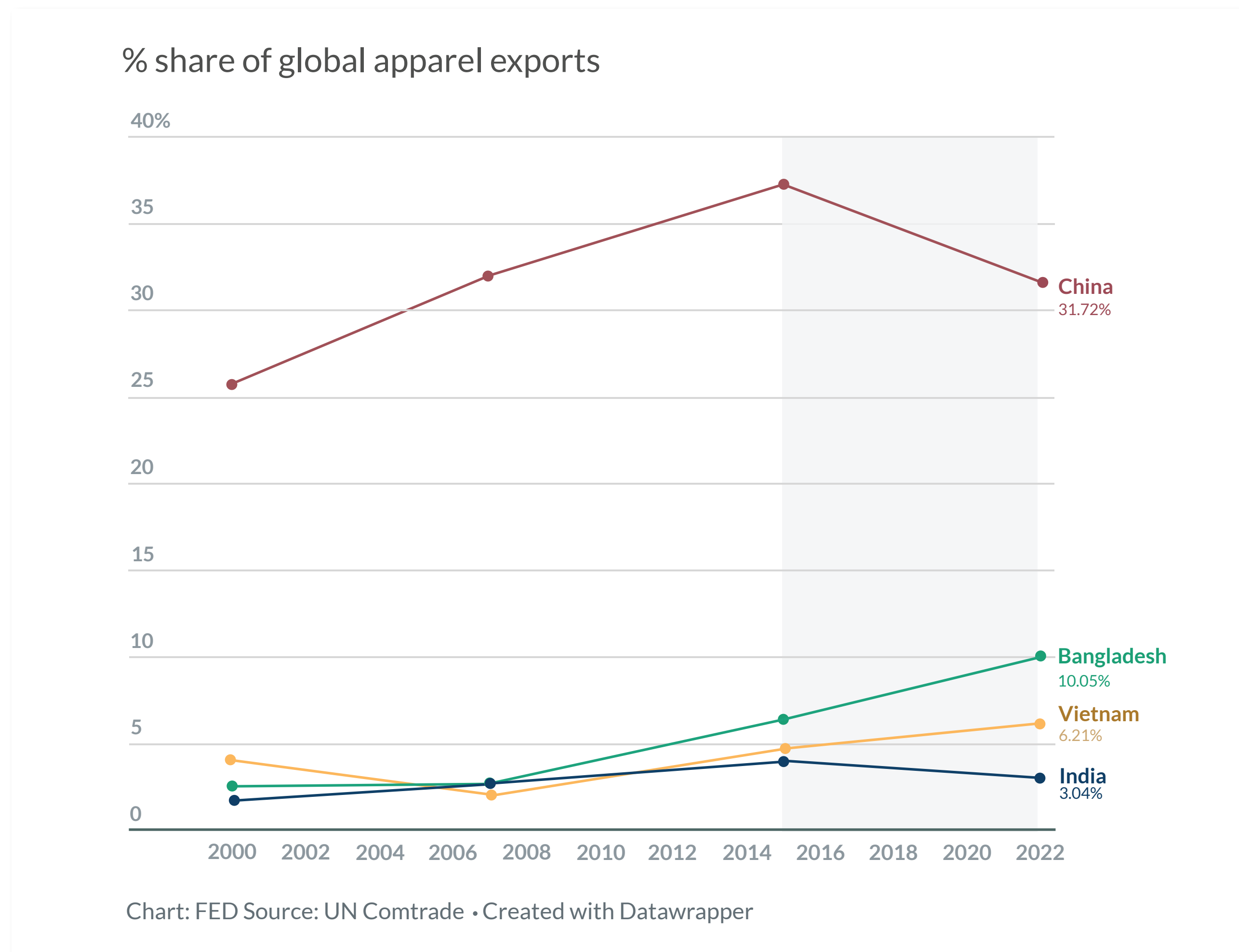


Chart: FED Source: UN Comtrade • Created with Datawrapper

In 2022, global apparel exports were more than USD 550 billion. Yet India only captured 3% of this market. What's more? Over the past decade China has been vacating this huge market because of a reduction in competitiveness as well as geopolitical factors. Over the same period, countries like Bangladesh and Vietnam have expanded their share of the global apparel market. **Bangladesh's apparel exports more than doubled from USD 26 billion in 2015 to USD 56 billion in 2022. Similarly, Vietnam went from USD 19 billion to USD 34 billion.** India, on the other hand, has barely crept up from the USD 16 billion of apparel exports in 2015. This has meant that India has actually lost market share in global apparel exports.

Why is the apparel industry important for India? First, it can create a large number of jobs. An apparel company will typically employ more than 5 times as many employees as a pharmaceutical company of the same size. **Second, it employs a lot of women. About 75% of the workers in large apparel companies are women.** It is about time we unlock the vast potential of our apparel industry.

mint Premium | OPINION

Minimum wage: It's likely to hurt the very workers it aims to help

Rahul Ahluwalia | 4 min read | 29 May 2024, 10:30 AM IST

The best way to protect workers, therefore, is to create as much competition as possible for their time and effort.

SUMMARY

- *It takes away the only advantage less skilled workers have: Their willingness to work for low pay. India must think twice before raising minimium wages.*

Mahatma Gandhi's quotes have gone out of style these days, but one of his most famous lines is a surprisingly useful tool to help understand why a mandated minimum wage is a bad idea: "Recall the face of the poorest and weakest man you have seen and ask yourself if this step you contemplate is going to be any use to him." Let's adapt this slightly. Think of the poorest person you or your family employs, earning the least wage. For most people reading this in India, that person will likely be a domestic help, car cleaner or security guard. Let's imagine, just for the purpose of this thought experiment, that you must pay each ₹1 lakh a month. Yes, this is a silly number, but bear with the exercise. It will be useful, pinky promise.

Okay, so would you personally still employ your help at ₹1 lakh a month? Most of us would not, and we understand that almost all maids and security guards (including our own) would be out of a job. Why only 'most'? Because workers in the very richest of households—big business families, CEO homes or others in that approximate category—will probably not lose their jobs. Not only are their employers rich, these workers probably also possess skills or advantages—say, being able to cook multiple cuisines or speak fluent English—that make their work more valuable. The advantage may just be as simple as having earned trust. Film star Salman Khan's bodyguard, as we have heard, already earns above the ₹1 lakh a month threshold and won't worry about losing his job. Now let's lower the minimum monthly wage to a more 'reasonable' number. Let's say ₹20,000. Many more domestic helps and security guards would keep their jobs. But, as with the ₹1 lakh floor, they will all have some advantage over those who lose their jobs, even if it is as simple as living close to an upper-class neighbourhood. The ones who lose their jobs will all be less skilled and less advantaged. If you're with me so far, you would have gained an intuitive feel for what any minimum wage can do—it will most hurt the people that it is intended to protect. Those without skills, i.e., and those without advantages. The sole advantage they have is their willingness to work for a low wage and a mandated minimum wage takes that away.

This is true at any threshold, no matter how low. It is as true at ₹20,000 as it is for ₹1lakh. It's true lower down the scale too.

If we mandate wages for interns, the least advantaged interns will have fewer opportunities to pick up skills or experiences in internships. Since they now cost money, people will be more careful, giving internships out only to those with connections or skills that are 'worth it.'

If the theoretical argument doesn't convince you, there is plenty of evidence to back the theory. A 2006 review of minimum wage research concluded: "A sizable majority of studies... give a relatively consistent indication of negative employment effects of minimum wages... [The] studies that focus on the least-skilled groups provide relatively overwhelming evidence of stronger disemployment effects for these groups." A review in 2022 echoes these findings.

If one doesn't trust reviews, there is evidence thrown up by the 'gold standard' of evidence—randomized control trials (RCT). An RCT set up to study minimum wages also concluded that "a higher minimum wage raised the wages of hired workers; However, there was some reduction in hiring and large reductions in hours-worked... firms hired more productive workers... adversely affecting less productive workers."

We also have non-academic evidence from macro trends. Thirty years into its growth journey, by 2011 China had moved about 35% of its workforce away from agriculture to manufacturing and services. Thirty years after 1991, we had only moved 13%.

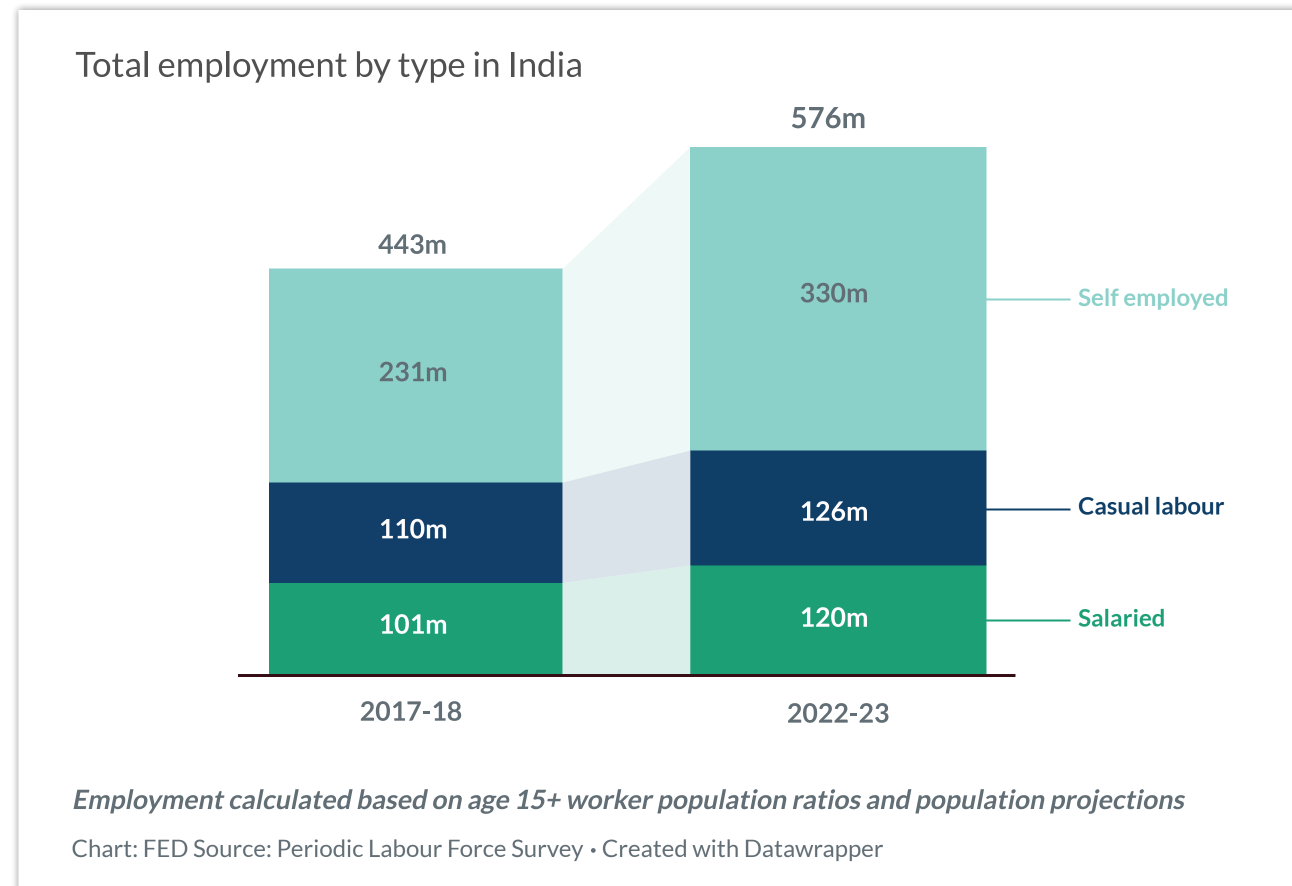
Our labour laws, which, among other 'protections,' mandate minimum wages higher than market wages, have been a big reason why manufacturing employment didn't increase. This massive difference leaves hundreds of millions of people poorer than they need to be. It leaves women at home or in the fields, instead of employed in factories, securing their economic independence, like they are doing in Bangladesh.

How can we actually help workers? Luckily, we have a strong alternative for worker protection that requires no government intervention, yet works wonderfully well if we allow it to work. It's called 'having a better option.' Imagine telling your household help or security guard that you will cut their salary in half. They will immediately find someone who will pay them the going market rate and start working for them instead.

The best way to protect workers, therefore, is to create as much competition as possible for their time and effort. This doesn't mean we abandon worker protection, but we must focus our policy on maximizing worker choice. Every country that has made the transition from poor to middle income or rich status has realized this. The sooner we also realize that maximizing worker choice is the right policy option, not limiting it, the sooner Indians at large will transition to a standard of living that's at par with the world's best.

DATA STORIES

Three-quarters of the increase in employment in the past 5 years has come from self-employment, and we need to talk about it.



130 million additional people have started working in the last five years, which is a good thing. **However, about 77%, or 100 million, of those are self-employed, which may not be a good thing. In India, self-employment is often linked to low-productivity sectors like agriculture, where 83% of workers are self-employed.** These workers typically earn only two-thirds of what salaried employees make. Coupled with the fact that real earnings for self-employed workers have stagnated over the past five years, the gap is only set to worsen.

As India's workforce grows, there is an urgent need to create more jobs. To its credit, this has been recognised by the government, which in the recent Union Budget introduced several schemes for workers and employers focused on job creation, like Employment Linked Incentives. **To get traction from these efforts, the government should also urgently prioritise and refocus on fostering an environment that encourages business growth by reducing regulatory cholesterol - unnecessary regulations and compliances that hinder expansion and job creation.**

mint Premium | OPINION

Bad laws are bad for business: They must be reformed, not ignored

Ankur Kothari & Yuvraj Khetan | 3 min read | 27 Jun 2024, 04:00 PM IST

By some estimates, formal enterprises must navigate more than 25,000 labour-related compliance requirements.

SUMMARY

- *The time that managers at small manufacturing units spend on rule compliance leaves little of it for business imperatives. This regulatory glass ceiling keeps investment and growth down. The government should play facilitator and quit treating private enterprise with suspicion.*

How many hours do you end up spending on regulatory matters?" we asked Agarwalji, a garment exporter. "Around 15-20%," he said, "approvals and inspections, labour audit, water, building certificate, new site formalities and so on. Every day, I spend a couple of hours going through some of these." Since this involved government officials, he couldn't delegate it; officers would insist that the owner be their single point of contact. This is not an exception, but a sad reality facing many manufacturers, specially MSMEs. Manufacturing MSMEs are at the centre of job-led growth in India. Firms up to 10 years old account for about 30% of all formal employment. Yet, most Indian manufacturers stay small and suffer from low productivity; firms that last 40 years only increase employment by 1.4 times from where they started. Similar firms in the US increase employment by seven times. One big factor holding MSMEs back is the burden of various local, state and central government regulations and approvals. According to a 2022 World Bank survey, senior managers in manufacturing firms, like Agarwalji, spend nearly 15% of their time dealing with government regulations.

This diverts time from business imperatives, creating a regulatory glass ceiling that discourages investment and growth. When we try to understand root causes, we see a combination of suspicion towards private enterprise and a deeply risk-averse bureaucracy. This results in rules that are too many, too complex and too process-heavy.

> ***By some estimates, formal enterprises must navigate more than 25,000 labour-related compliance requirements. This includes a web of central and state government licences, permissions, registrations and renewals. A recent report by TeamLease RegTech found that nearly 500 compliances are required to set up and run a small automotive manufacturing unit.***

The rules often focus on the wrong things, like asking for quarterly reports on raw material usage or specifying the creation of a 'managing committee' for canteens in a factory. Other rules even dictate how often factory walls need to be repainted. While many of these are not followed, selective enforcement will not create an ecosystem conducive to growth.

Bad laws need to be reformed, not ignored. We need to foster a sense of trust between businesses and the government. The latter, on its part, needs to implement fewer and better laws. The aim should be to promote competition and growth, rather than incentivizing firms to remain small and under the radar.

States can learn from each other. In 2014, Rajasthan amended its labour laws to introduce flexibility and incentivize MSME growth. The result? Output and workers per factory grew at twice the pace than the rest of India for the next two years. Plus, common-sense practices such as clear criteria for approvals, well-defined timelines and effective grievance resolution mechanisms will help reduce arbitrariness and uncertainty in the business environment.

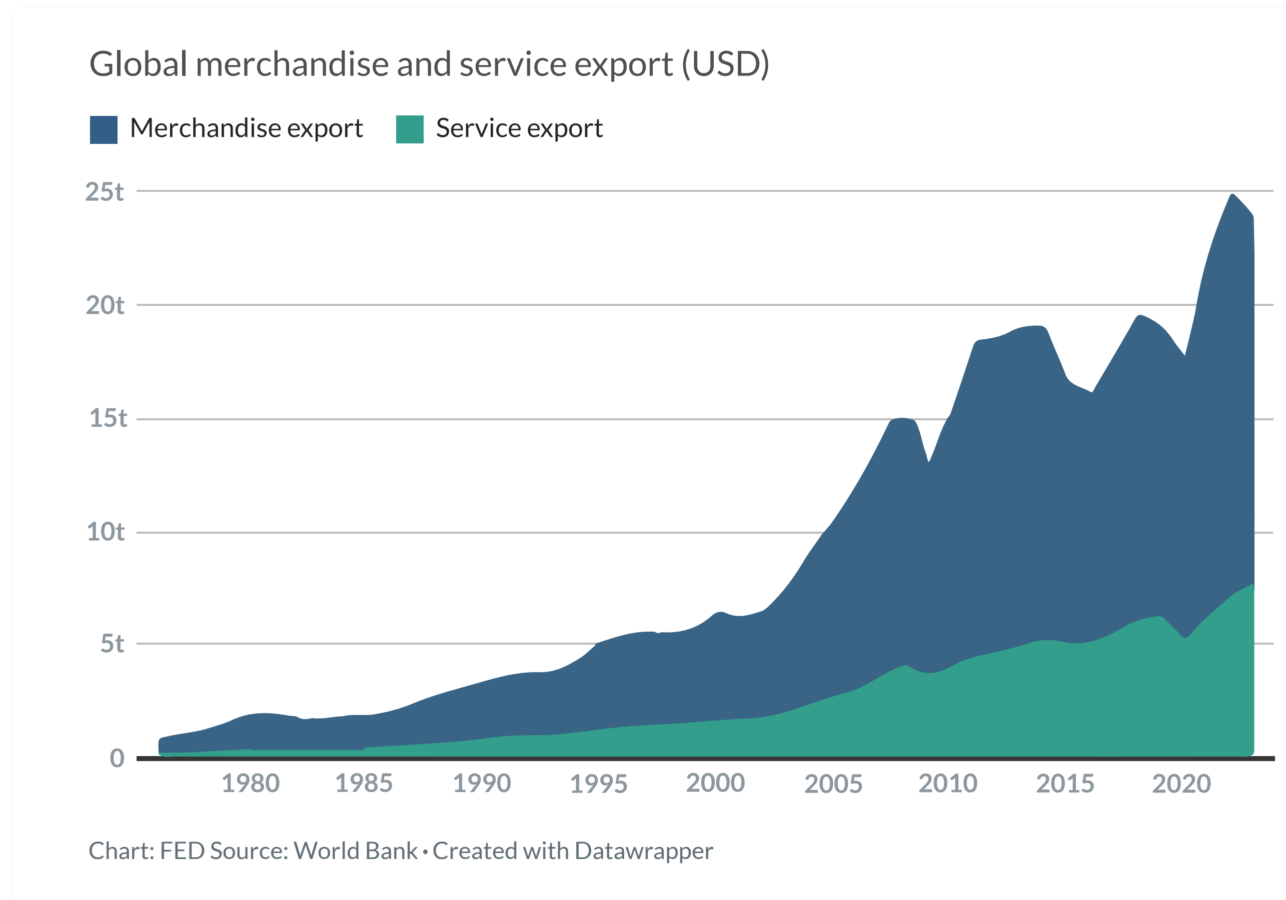
We must also build trust between bureaucrats and the political leadership. A 2010 survey of IAS officers found that 80% cited political interference as a reason for leaving the service. Outdated procedures were a key constraint. On the other hand, it has been observed that when bureaucrats feel confident that their decisions will not be subject to later inquiries, they work together with businesses to resolve issues.

> ***Investigations of bureaucrats (or politicians) should be based on clear evidence of wrongdoing, and not just on the impact of their decisions on private enterprise. Any decision will have winners and losers, after all. That assurance could empower bureaucrats to administer rules without stifling businesses. Indeed, states that perform better on many metrics, like Tamil Nadu or Gujarat, typically have better relationships between their politicians and bureaucrats.***

Investigations of bureaucrats (or politicians) should be based on clear evidence of wrongdoing, and not just on the impact of their decisions on private enterprise. Any decision will have winners and losers, after all. That assurance could empower bureaucrats to administer rules without stifling businesses. Indeed, states that perform better on many metrics, like Tamil Nadu or Gujarat, typically have better relationships between their politicians and bureaucrats.

As government regulation improves, compliance and enforcement will follow. Bureaucrats will have more resources to enforce fewer laws, while businesses will have fewer incentives to break rules. Bureaucrats and industry can work in sync. Effective grievance resolution can aid cooperation between the government and businesses. The government's role as a facilitator would then become clearer. Economic growth and job creation are imperatives. To achieve this, entrepreneurs must be treated not with suspicion but as responsible partners in the country's growth. The appropriate role of government is to create an environment where businesses are encouraged to do what they do best: create jobs and wealth. Fewer, simpler and clearer laws would be a step in the right direction.

Merchandise trade is still 3x larger than service trade



Until the mid-1990s, India made little progress in increasing its participation in the global economy. Since then, India has consistently expanded its share of global service exports from 0.5% to more than 4%. However, merchandise exports tell a different story. After rising to about 1.5% in 2011, India's share of global merchandise exports has largely stagnated. Why does this matter?

While services trade is growing with technological advances, merchandise trade remains three times larger. This presents both an opportunity and a challenge for India. The opportunity is substantial: a USD 24 trillion market for Indian goods. The challenge lies in the need for India to renew its export orientation through policies that improve the ease of doing business, lower trade barriers and leverage its comparative advantage in employment intensive manufacturing.

OUTLOOK BUSINESS
THINK BEYOND. STAY AHEAD.

Opinion | Reimagining SEZs to Drive Economic Competitiveness

Written by Rahul Ahluwalia, Ronak Pol | 17 September 2024, 4:57 pm

Ronak Pol and Rahul Alhuwalia

SUMMARY

- *India's 280 operational SEZs account for $163bn in exports, approximately 60 per cent of which are service exports, and provide employment to 3mn people*

In the recent Budget, the Finance Minister Nirmala Sitharaman announced a significant initiative aimed at creating "employment, skilling and other opportunities for 4.1 crore youth over a 5-year period with an outlay of 2 Lakh crore". The strategy focuses on revitalising the manufacturing sector, especially in labour-intensive areas. And while the Budget talks about different incentives the government aims to give to enable manufacturing, it is silent on reforms that can improve firm competitiveness.

Manufacturing in India faces multiple challenges such as restrictive labour laws, inefficient land utilisation, stringent environment regulation among others. Without addressing these issues to enhance global competitiveness, India cannot achieve the ambitious job creation targets outlined in the Budget.

A proven strategy for achieving global cost competitiveness is concentrating reform efforts in large industrial regions. China's special economic zones (SEZs), particularly Shenzhen, are celebrated examples of how region-level reforms can lead to long-term economic prosperity. In contrast, India's SEZs have not met similar success.

India's 280 operational SEZs account for $163bn in exports, approximately 60 per cent of which are service exports, and provide employment to 3mn people. By comparison, Shenzhen alone generates twice the export value and four times the employment.

This is because while China used its SEZs as regulatory sandboxes to drive competitiveness, SEZs in India offered no differential regulatory or governance benefits, focusing instead on tax and tariff benefits which were also quickly taken away. SEZs in China were used to facilitate rapid experimentation in reforms related to land use, pricing systems, labour markets, financial systems and privatisation. The Chinese granted legislative power to the Shenzhen SEZ, enabling swift policy action and incentive alignment at the local level. These reforms, coupled with tax breaks and reduced tariffs, attracted foreign companies and fostered joint ventures, fueling longterm prosperity.

In India, SEZs largely failed to deliver distinct regulatory or governance advantages, becoming vehicles for tax arbitrage rather than engines of growth. A closer examination of SEZ exports from FY06 to FY22 underscores this reality: Exports surged by 62 per cent between 2006 and 2012, while the rest of the country saw only a 15 per cent increase. However, when the 2012 Finance Bill curtailed these tax incentives, export growth in SEZs dropped sharply to 8 per cent, nearly converging with the national average of 6 per cent.

Furthermore, the SEZ Act prevented manufacturers within these zones from competing effectively in the domestic market. Thus, despite the initial optimism surrounding the SEZ initiative, it failed to address the underlying cost challenges of manufacturing in India. Although tax breaks temporarily alleviated these pressures, the removal of incentives led to stagnation in both manufacturing and export growth.

As we aim to enable labour intensive manufacturing in India, we have an opportunity to revitalise our SEZs as regulatory sandboxes that can boost manufacturing.

The concept of using SEZs to provide a globally competitive regulatory regime is not new for India. In 2020, the Government of India established the International Financial Services Centres Authority (IFSCA) in GIFT city by enacting the IFSCA Act of 2019.

This act transferred powers from regulators like RBI, Sebi and IRDA to an IFSCA, consolidating and streamlining the regulatory framework for financial services. Today GIFT city aims to compete with Mumbai, Shanghai and London, and our recent visit confirms that they are well underway to achieving this vision in the coming decades.

All we need is to expand on this approach and offer a globally competitive playing field to our manufacturers. For example, restrictive labour laws are widely recognised as a key reason for lack of competitiveness. While the new labour codes are trying to ease certain restrictions, they have yet to be implemented as governments (Centre and state) are worried about the political implications of such legislation.

However, politically it will be a lot easier to make changes at a relatively small scale instead of country- or state-wide, since existing entrenched interests will not be threatened as much. So, a simple amendment to Section 49(1) of the SEZ Act that allows SEZs to have differential labour regulations, can help not only pressure test reforms but more importantly unlock millions of jobs.

India's SEZ initiative, though initially promising, fell short due to ineffective implementation and policy shifts. By adopting lessons from successful SEZs globally and enacting targeted reforms, India can still convert its SEZs into dynamic industrial hubs. This transformation will support a robust, sustainable and inclusive industrial future, fostering long-term prosperity and resilience for the nation.

The best Indian industrial clusters are not yet globally competitive

Merchandise exports by cluster in the latest year available (USD)

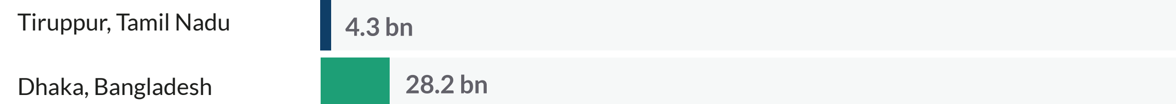


Chart: FED Source: FED Analysis • Get the data • Created with Datawrapper

Industrial clusters, known for their scale and density advantages, are often the most productive business hubs. In India's apparel sector, Tiruppur in Tamil Nadu stands as the leading cluster, with exports valued at around USD 4 billion. However, Dhaka, a global competitor, exports 7 times more at USD 28 billion. The electronics sector presents an even starker contrast: **Sriperumbudur, recently in the spotlight for assembling iPhones, exports about USD 9 billion, while Shenzhen, China's largest electronics hub, exports nearly USD 350 billion.** The question is, how can India transition from fostering local champions to producing global leaders?

The Indian government has rightly recognised the importance of nurturing industrial clusters to harness their benefits. **While previous policies focused on infrastructure and logistics, a greater emphasis is needed to make bureaucratic processes more responsive to industry requirements.** Empowering local cluster administrations to make swift decisions on approvals and clearances is essential. Moreover, these local bodies should have the authority to establish globally competitive rules and regulations, enabling Indian firms to compete on an international level. **By promoting both global competitiveness and local responsiveness, India can unlock the full potential of its industries.**

ET Government
Your Exclusive e-Governance Source

The inclusive policy we need for women's economic empowerment is promotion of labour-intensive exports

Written by Rahul Ahluwalia | Jan 17, 2024, 11:53 AM IST

WLFPR for working-age women in China, Vietnam and Japan is all between 70-75%. South Korea's WLFPR is 60%. Ours is 25%.

SUMMARY

- *WLFPR for working-age women in China, Vietnam and Japan is all between 70-75%. South Korea's WLFPR is 60%. Ours is 25%. What is the difference between our growth story and theirs?*

The second world war is widely held as a turning point for women's labour force participation rate (WLFPR) in the United States. A need for increased industrial production and the shortage of men took WLFPR from under 20% before the war to 35% by 1950.

Social mores had adjusted to the idea of women working, and the postwar economic boom helped WLFPR continue on to a peak of 60% by 1990. Greater participation from women in the workforce resulted in economic empowerment that made available a much greater range of professional, educational and personal choices for women.

While no one claims that the US is perfect for women, similarly few would deny that greater economic empowerment for women is desirable.

In India, our WLFPR has been going in the other direction. It used to range between 30-35% between 1990 and 2005, when higher proportions of our workforce, and women, were engaged in agricultural labour. As incomes increased, women reduced their participation in the agriculture sector.

However, the economy was not creating other more productive jobs that they could move to, leading the WLFPR to fall to a low of 18% in 2017-18. After COVID, labour in general, and women in particular, have returned to agricultural labour, increasing the proportion of our labour employed in agriculture and also our WLFPR, but we should neither consider this a positive development nor expect it to persist.

So WLFPR in India is low enough that we should be looking to take action on a war footing. We do not have a world war to help us increase economic empowerment for Indian women, so this leaves open the question – what should we do?

For an answer, we can look closer home, and closer in time, at the growth miracles of Japan, South Korea, China, and more recently, Vietnam, which were all in a similar situation – they had relatively high proportions of their workforce in agriculture, including high proportions of women participating in agricultural labour. However, as they transitioned to higher income economies, unlike India, they have all managed to maintain or increase their WLFPRs.

WLFPR for working-age women in China, Vietnam and Japan is all between 70-75%. South Korea's WLFPR is 60%. Ours is 25%.

What is the difference between our growth story and theirs? It is that every single one of these countries kick-started their growth with labour-intensive manufacturing exports in sectors like garments, footwear, electronics assembly and other such light manufactures, whereas we kick-started our growth with skill-intensive services and manufacturing exports.

This matters greatly for WLFPR because labour-intensive manufacturing sectors tend to preferentially employ women in large numbers. Anywhere between 70-90% of the shop floor in these sectors tend to be women, boosting WLFPR disproportionately. This is true even in India, where large apparel manufacturers or mobile phone assembly plants will typically consist of mostly women.

However, the scale at which these other countries have encouraged manufacturing exports in these sectors is what results in employment-creation in large numbers. For example, China's garment export industry was employing approximately 1.5 cr. women, while ours', at one tenth the size would be employing barely 15 lakh.

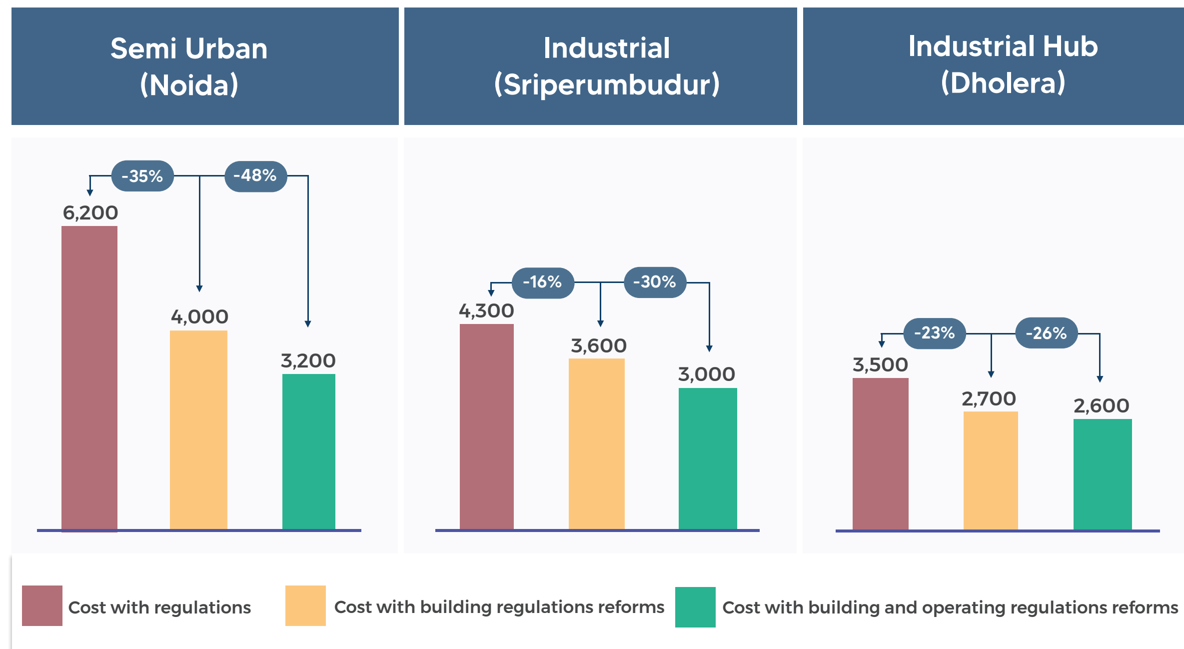
Some people believe that social and cultural norms are what hold back our LFPR. I would point them to a case even closer home – our neighbour Bangladesh, which is remarkably similar to us in culture and social norms.

To my mind, the message is clear. For broader economic growth, as well as for the economic empowerment of women, we must target rapid growth in labour-intensive exports. Measures targeted solely at women on the supply side, like cultural change and women's skilling will fail in isolation, as they have been for the past decade and a half. However, these measures, and a few more like large scale working women's hostels, need to be part of a broader strategy that also addresses the demand side – investors that can grow labour intensive exports from India.

The strategy will also need to address competitive disabilities of the Indian eco-system in labour intensive exports so that we can attract large manufacturing companies to set up in India and export from here. We need to reduce high tariffs for inputs, reduce rigidities in labour and-land markets, and increase ease and stability of doing business for global sourcing giants. It will also need to pull in anchor investors of global supply chains that can help the Indian export eco-system achieve massive scale.

Only in this way can we rapidly and sustainably help Indian women achieve the economic independence that is their right.

Impact of building & operating reforms on monthly per worker housing cost



Source: Author's calculation based on building and operating regulations

Note: Cost of land is calculated using market rates

Affordable housing near industrial hubs is crucial for enabling workers, particularly women, to enter the workforce and access higher-productivity jobs. **Our newly launched Worker Housing report highlights how governments can facilitate large-scale worker housing development. One key focus of the report is addressing regulatory barriers related to zoning, construction and operations that hinder the development of affordable housing.** For instance, we analysed the impact of regulatory reforms on monthly housing costs for workers in Noida, a major economic hub. Without reforms, the average monthly rent is approximately INR 6,200.

By implementing reforms to building regulations—such as liberalising floor area ratios, ground coverage and parking requirements—this cost could drop to INR 4,000. Further reforms targeting operational issues like taxation and utilities could reduce it further to INR 3,200, nearly halving the original cost. Our full report offers detailed insights into how these measures can promote affordable worker housing and drive growth in India's manufacturing sector. For key insights from the report, or to view the full report, scan this QR code.

The Statesman

Not quite unhinged, but are we getting there?

Not quite unhinged, but are we getting there?

YUVRAJ KHETAN

November 3, 2024 8:04 am

Yuvraj Khetan

Have you ever found yourself struggling to find a decent cabinet hinge? Or heard about a recent spate of cabinet hinge related disasters, turning it into a pressing problem for the public? Well, even if you haven't, the government is stepping in to help. A new 18-page quality standard, devised by a 26-member committee, will mandate various tests on cabinet hinges like slamming them shut 10 times (or a 100 more times if they have dampers). If you are satisfied with the current state of cabinet hinges, brace yourself for higher prices. The government claims these measures will "encourage manufacturers to improve quality. However, it is important to understand the unintended consequences of such policies.

Consider four important outcomes. First, price hikes. As manufacturers are forced to comply with these new standards, their costs will go up and consumers will face higher prices.

Second, fewer choices. Some manufacturers may find it too expensive to comply and simply stop producing hinges altogether, eliminating options that buyers were previously happy with. Third, reduced innovation. With such detailed specifications, it will become more costly and risky for manufacturers to innovate. Some new designs might fail these specific tests, even if they are superior products overall. Fourth, increased lobbying. Large manufacturers have the resources to influence government standards, ensuring the rules favour their products. Smaller companies, on the other hand, are left unable to compete.

The unspoken justification for such regulations, known as Quality Control Orders (QCOs), is to restrict imports and boost domestic manufacturers. But this reasoning falls short. Take the same cabinet hinge as an example. While it might appear that domestic hinge producers are being shielded from foreign competition and given room to grow, the broader impact on the manufacturing ecosystem tells a different story.

Cabinet makers, who rely on hinges as an essential input, will lose access to the best quality hinges at the best prices, which may come from imports. This will make domestic cabinet makers less competitive globally and severely limit their growth, because in sector after sector the global market is 10-20 times the size of the Indian market. In turn, slower growth in the cabinet industry will reduce demand for cabinet hinges the very product the government is trying to support. Moreover, long-term protection for domestic hinge manufacturers will reduce their incentive to innovate and compete with global leaders, leaving Indian consumers with poorer products as well.

A recent QCO from the Ministry of Steel illustrates this issue. The QCO mandates that certain steel products (including imports) meet domestic standards unless they are being manufactured for export. So, while Indian steel sellers can freely make products to meet the needs of foreign buyers, Indian steel buyers

are not allowed the same freedom to choose products from abroad at competitive prices. If your product uses steel as a raw material, forget about competing in the global market. This becomes even more problematic in today's world, where supply chains are global, and businesses often need to source specialised parts from various countries.

Unfortunately, these interventions have been on the rise. By some estimates, QCOs have increased six-fold in the past decade, covering around 600 products. Earlier this year, the government announced a plan to increase coverage to 2,500 products. These regulations are not just confined to industrial goods either-recent QCOs have targeted consumer goods like toys, footwear and air coolers.

At this point you might think that consumers, unlike businesses, do need government help to evaluate product quality. However, a closer look reveals that consumers already use multiple ways to assess quality without government interference. The first is brands. Most of us rely on trusted brands that have built reputations for delivering quality products at reasonable prices. Even if we have not personally tried a product, we trust the brand because others have vouched for it.

The second is product reviews, Online platforms like TripAdvisor, Amazon and Google Maps provide user reviews that give consumers real-world insights into product quality. If these reviews fail to be reliable, customers will take their business elsewhere. The third is independent rating agencies. If enough consumers are willing to pay for someone to investigate and rate a company's creditworthiness, then a solution such as ICRA or S&P Global Ratings will emerge. And this is not restricted to finance, other companies offer food-related certifications such as "Fairtrade" or "Non-GMO" that have also been created by consumer demand.

Any government intervention should be judged not by the intention of the policymaker but by the outcome of the policy. Government enforced quality standards have clear negative outcomes in terms of higher prices, fewer choices, stifled innovation and an unfair advantage for large corporations. When consumers and businesses spend their own money on products or services, they look for the best quality their money can buy. This has led them to come up with a variety of ways to assess quality that are responsive to their preferences. Government-imposed quality standards are a solution in search of a problem.

India and Vietnam have grown rapidly through exports...

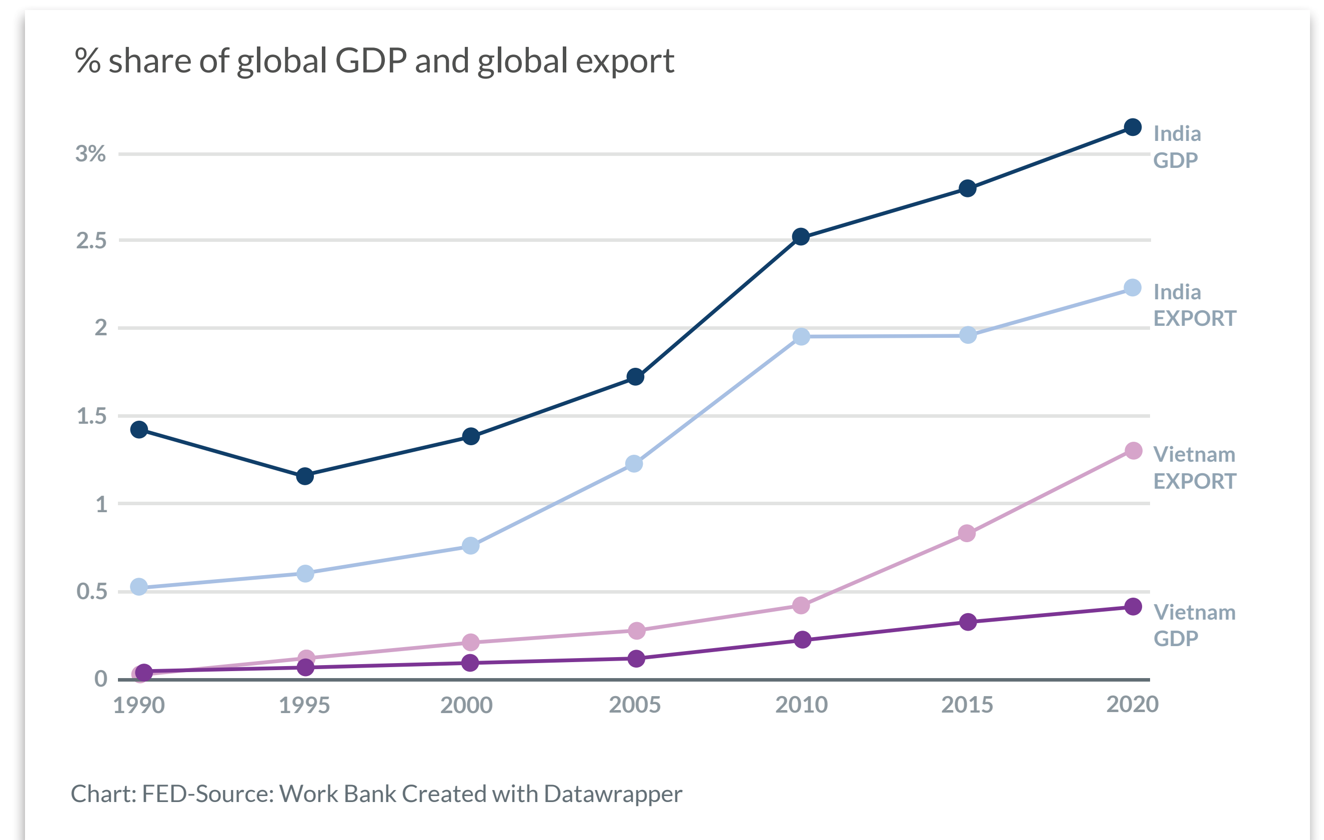


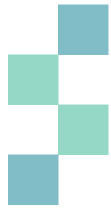
Chart: FED-Source: Work Bank Created with Datawrapper

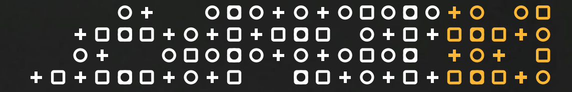
Exports and rapid growth go hand in hand. **India's most recognised period of economic growth after the 1991 reforms was driven by a significant increase in exports – they went from 7% of GDP to 25%. Since then, Vietnam has also grown rapidly by taking advantage of its labour force to make and export goods.**

In fact, over the past 60 years, economies have only been able to consistently raise living standards for their people by targeting high growth via exports.

The idea is simple: selling to rich customers in global markets is much more fruitful than selling to relatively poor customers in the domestic market.

India too needs to double down on increasing exports, with a specific focus on unlocking manufacturing exports that can provide employment to large numbers of people.





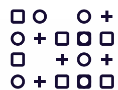
BEST OF GROWTH IS GOOD

Podcast Episodes

At Foundation for Economic Development (FED), we believe the evidence clearly shows that economic, GDP-measured growth is critical to improving everyone's standard of living; that it is the single-biggest determinant of human development outcomes such as improved health, education, and employment. Growth is good! It enables everything we cherish - employment, equity and even gender equality! This podcast features insightful conversations with leaders from industry and academia, who share their different perspectives on India's economic growth trajectory, and what we must do to grow further.

Here, in the 'Best Of FED – 2024', we feature our best (and lengthiest) episodes, though it was incredibly hard to pick just five out of 11 very insightful conversations.

Read on, but don't forget to watch the full episodes, and check out the full playlist on Spotify.



Description:

Ajay Shah, economist extraordinaire and author of the finest primer on public policy in India - 'In Service of the Republic' - believes everything is everything! It's more than just the 'catchy' name of his insightful podcast with Amit Varma. Ajay explained when he joined us for our own humble endeavour – Growth Is Good - that while the phrase is borrowed from Bruce Springsteen, it speaks to a deeper philosophy held by Ajay and Amit. *"The whole world adds up to something together. We wanted to give a flavour of that interconnectedness about the world".*

His conversation with FED Director Rahul Ahluwalia was a lot like that — everything! They touched on a myriad of topics, from looking at the private sector's flagging appetite for investment to categorising industrial policy into four pillars (and why he's unenthusiastic about all four) to what we can learn and what we must not learn from the China and Japan growth stories.

Read the edited excerpts below, but do watch the full episode on Youtube.

To watch the full conversation, scan this QR code

RA: I've started this a few times by asking everyone about their personal connection to economic growth. What brought it home to you?

AS: This is what I got from growing up with my father. My father walked the entire arc of the 20th century. He ran away from boarding school and came into Gandhiji's Quit India movement in 1942. He came ticketless from Karachi to Bombay and slept at the railway station — that sort of madness. Then, like all thinking people of the mid-20th century, he joined the Communist Party. He was a full-time party cadre till 1955. So, he fully knew that way of thinking. And then, through the years, he turned around and thought deeply about the world. He also understood how the Indian experiment with socialism was going terribly wrong. So these are all the stories I heard in my childhood that growth is the real story, and growth is built in the private sector and in firms. The Indian state is a cancer of central planning and lack of rule of law.

My father was one of the few Indian economists who had an early understanding of how broken the central paradigm of socialism was. He died in 1984, but I got my formative years with him, and the books. So I read Milton Friedman's Free to Choose, Capitalism and Freedom, Essays in Positive Economics, and Hayek's 'The Fatal Conceit'. These are the things I read when I was in my half-pants.

RA: What is, according to you, the road to growth? What is the most important thing that India should be doing, should have been doing to grow?

AS: The closest I get to a bumper sticker is that what is wrong with India is too much central planning and too little rule of law. The government is meddling in the economy in thousands of details. Government meddling is characterised by arbitrary power in the hands of a few people. When you put these two together, we have created too much of a risk of expropriation in the eyes of the private sector. And that has given us a collapse of investment.

I do not talk much about building public goods and state capability. It's all true and it's needed.

But I always want to remind all of us that when India had a great growth episode, from 1991 to 2011, it wasn't like there was any state capability, or much rule of law. It was a pretty horrible Indian state. So we should not have rosy visions about becoming Norway, and then you will get growth. Growth has to be ignited in a poor country with a ramshackle and shambolic capability of the state, and you will get to Norway later.

RA: Right now, there is a very prominent narrative about industrial policy, about the government taking a more active role in promoting certain industries. How do your ideas square with that vision?

AS: There's a spectrum of possibilities around industrial policy. The government may like to give subsidies to certain industries, which they believe are good for the country. It can be an explicit payment of a subsidy, say 50% of the money required to build a semiconductor fab, or it can be like a production-linked incentive (PLI), or it can be tax breaks. There are different ways to do it. I classify all of this under 'subsidies' – we take hard-won taxpayer resources and put them into a few chosen industries. Or it can include protectionism, where we go anti-foreigner, and we start saying that foreigners are bad.

Then, you get into the concept of defining an Indian firm. If Sundar Pichai is the CEO of Google, does it make it an Indian firm? You get into a racist view, which is pillar two, where you say we will support Indian firms.

Pillar one is a neutral treatment in subsidies for Indian and foreign firms. Pillar two is the idea that Indian firms are better. Then, pillar three is that the government will control the technology. We will tell you how something has to be done. It often originates under the guise of technical standards. There is more than a whiff of central planning in pillar three. Finally, pillar four is a government that will build monopolies. So, they'll build an Air India.

These are the four levers that are in play all over the world. Pillar one is subsidies; pillar two is protection of national champions and a certain definition of ethno-nationalistic values; pillar three is technical standards – the government will tell you about technology, whether they believe diesel is good or green hydrogen is good; finally, pillar four is a government that says, let's skip this whole pretence of a market economy. We'll build the company ourselves. So, these are the four forms of industrial policy. And I'm unenthusiastic about all four.

To watch the full conversation, scan this QR code

Description:

Our guest for October is one of the strongest proponents of countries striving for GDP growth as a means of improving human lives at scale. Lant Pritchett's arguments for growing the size of the pie are incisive and empirically driven, based on his work at the World Bank. He's done a lot of work in keeping alive the attention on the importance of growth by adding to the scholarship on how it is the strongest determinant for human development outcomes such as reducing child mortality or enhancing the standard of living of oppressed communities such as Dalits in India.

Read the edited excerpts below, but do watch the full episode on YouTube.

RA: What is your personal connection to economic growth? Usually, for Indian folks, there's a lot of 1991. We saw it pre- and post-liberalisation, but you're the first person I've had here who grew up in a rich country. When did you first notice that growth is important?

LP: I grew up in the west of the United States where things are pretty prosperous. But when I was 19, I went as a Mormon missionary to Argentina. Argentina, in 1978, was in the middle of a severe episode of inflation. I had always been predisposed to believing that economic activity was important. But by being in a foreign country, seeing other people's livelihoods, and how fragile those were with respect to the macroeconomy, because no matter how prudent you were personally, with inflation of 150%, your wages could deteriorate in weeks. So, just a huge amount of time and effort was devoted to economising against inflation risk. Workers would get paid and go straight to the store.

It highlighted that not just growth but stability and having reliable incomes were super important to people in a way that, having grown up in a situation where my father always had a pretty good job, was hard to realise. Professionally, when I was working at the World Bank on social issues, we were looking at the cross-national determinants of child mortality. I knew GDP was important. I had no idea how important it really was. We were writing this paper about the relative importance of government spending versus GDP, on child mortality. We came to the conclusion that it was literally all GDP. If you asked what explains whether countries have high or low child mortality, the data said GDP matters, women's education matters, and these two factors alone explain 95% of the variance.

RA: What are the arguments for growth, and what evidence have you found to be the most powerful? Because I know from you that these two things are not necessarily the same. Evidence doesn't necessarily convince people.

LP: You could care about income going to the poor; so you'd care less about economic growth if the rich were getting richer. Some people believe that all of the growth happens to the rich. If that were true, it would be a persuasive argument against economic growth being a priority. But it's not! People are misled in a couple of ways. They hear about the

growth at the top being big in absolute terms. The rich are getting richer, and the poor are staying poor. Half of that's true. The rich are getting richer, but that doesn't mean the poor are getting poorer.

We have good data on the distribution of income, and hence, we can look at the evolution and what we call growth incidence curves. How much did the 10th percentile grow, how much did the 40th percentile grow, and how much growth was at the top? So even if the top is growing more, it doesn't mean the poor are growing less. It's not a fixed-size pie. It's expanding. The U.S. experience inadvertently affects people's view of the whole world because a lot of the media is in the U.S. Many academics, even from India, are based in the U.S. In the U.S., growth has been largely concentrated among the rich. The growth incidence curve is very steep, but that influences discussions worldwide, including in places like Chile, where the opposite has been true. The growth incidence curve has been really pro-poor. Yet, the political discourse in Chile is dominated by discussions about rising inequality.

RA: We often say that exports are exceedingly important for a poor country. Because you're connecting to a high productivity value chain, it helps people gain skills, etc. Are there things you would encourage people to try and think about if they're doing a growth diagnostic?

LP: Ricardo Hausmann's work with others on the complexity of your exports is a fundamentally important insight. Rich countries mainly export complex products. It requires a lot of capabilities to make that happen. So an important part of a growth diagnostic for a country that sees exports as critical, is am I moving my country into domains of the product space that I can acquire the capabilities to do and are dense? The key question for countries is, what can I embed my domestically available factors in and sell it to the rest of the world? And how do I keep moving up? If I'm exporting this, what's nearby in an economically relevant sense that I can also do? And what capabilities do I lack to do that?

India is very different from most other countries. Based on Hausmann's measures, India has enormously complex exports relative to its GDP. That's good news in some ways because Hausmann's model predicts future high growth for India as it expands. But it also might be a little worrisome that this apparent complexity is happening because we're doing a tiny little bit of export of that and a tiny little bit of export of that. I'm using ready-made garments as an example because your neighbour next door, Bangladesh, has obviously ridden ready-made garments up, but appears to have ridden it to its unhappiness.

It's a classic story. We discover a new industry. A few firms can do it. Those capabilities expand in the ways that Alfred Marshall described as being in the air in an industry town. Therefore, they get on this growth trajectory. But it's going to hit a limit. The world isn't infinitely elastic with respect to absorbing Bangladesh's ready-made garments. You can pay so much attention to feeding the needs of that one industry that you fail to develop others, whereas India has the opposite problem.

They use the metaphor of unicorns as relatively large new firms. India has lots of Shetland ponies. It has lots of firms doing super high capability things but in a smallish way relative to the size of India and India's export needs or the world...

To watch the full conversation, scan this QR code

Description:

Our guest for this episode, a private equity investor turned philanthropist, has a neat analogy for how he looks at philanthropy. He's done the 'debt' part of his philanthropy - set up a world-class university where he can see the impact he's creating. He's now looking at more 'equity' opportunities in philanthropy. These are causes where the likelihood of success is lower, and attribution for the success, if it happens, is impossible; but where the potential 'return' on investments can be massive in terms of positive impact.

Ashish Dhawan is the Founder-CEO of The Convergence Foundation (TCF), whose portfolio consists of 13 mission-driven organisations, including FED, that work at the system level to move the needle on complex issues and create impact at scale. Ashish likens this high-risk philanthropy to "not playing defence, but going for the big hit. When it comes to philanthropy, my philosophy is equity 100%. Because I know, when I look at the chart over 10 years, 20 years, 30 years, 50 years, 100 years, you've outperformed by a mile."

Read the edited excerpts below, but do watch the full episode on Youtube.

RA: What is your personal connection to economic growth? Growing up, in the early stages of your career, how did you even identify this phenomenon as important, interesting, or significant?

AD: So I grew up in Calcutta, and I could see an economic decline in front of my eyes. The Communist Party had taken over. Jyoti Babu was the Chief Minister, and businesses were leaving Calcutta. Calcutta used to be the thriving commercial capital of India, but I could see every leading businessman was sending children outside to Delhi or Bombay, and many actually just left lock, stock and barrel. Bad policies led to economic decline and neglect of private business. So I could see why economic development is important because you could see the repercussions, given that the state had started to stagnate. Well-being didn't improve; we were stuck in this poverty trap. I could see that in front of my eyes growing up over the first 18 years of my life.

Then, I went to college in the US. I was at Yale, where I studied math and economics. I read Angus Maddison's book and his data very early on. I loved macro and the idea of countries developing and catching up. ASEAN was doing reasonably well, but Latin America stagnated because of populist policies. So I got interested in the development of countries, their economic trajectory, and the impact of that on overall well-being, as well as why growing the size of the pie was the most important thing as opposed to just redistributing the pie.

My development in philanthropy was initially much more focused on human development and education, but I then realised that economic growth fundamentally is the driver of human development; it's highly correlated, and one feeds into the other. I think Lant's (Pritchett) paper was, in a sense, the nail in the coffin. I didn't imagine the correlation was so strong across so many countries. It made me think hard that on the philanthropic side, one had to do much more to support economic growth.

RA: It's been 12 years since you ventured into philanthropy. You came in with this equality of opportunity approach. Over time, what has shifted in your thinking?

AD: I was a big believer in education. Your trajectory

in life is a function of where you're born, your family, your community, etc. Even despite education, you can be stuck in your zip code, but for some, it provides the opportunity to break out. If you work hard, you can get into a good college and be on a different life trajectory. So we started with setting up Ashoka University, and now more than 50% of students get aid to attend Ashoka.

At the same time, I also worked on Central Square Foundation (CSF), which has been a 12-year journey focused on building a strong foundation. Foundational literacy and numeracy showed us that students started to fall behind in class three, which is that critical grade when you switch from learning to read to reading to learn. We said we really have to work on grades one, two, and three. We were lucky that the Prime Minister made it into a national mission, which unlocked the budget for state governments and increased political salience. The states have been the drivers of this mission, and the approach of structured pedagogy has helped, but it's a long journey. So that was the beginning, and for the first many years, that's all I worked on.

I was lucky that some of my time freed up and I began to think about other things one could be doing and felt that in addition to providing equal opportunity for all, there was a chance to work on the direct levers of economic growth. You were the first to push me to look at exports because we all know from East Asia that exports have been critical to accelerated economic growth. Apart from exports, there were other areas we also started to look at: women's economic empowerment, creating a better investment climate for India, not just ease of doing business but also investment promotion, facilitation, etc., looking at innovation and R&D which at some point will help companies move up the value chain, also looking at urban centres of economic growth.

RA: And looking back, was there a specific catalyst that pushed you into this, or was it your general sense of looking for the biggest lever? Because that's something you always do, you're always looking at the maximum leverage.

AD: Even in human development, working systemically is critical. The Government of India is already spending 9% of GDP; it's 300 plus billion dollars on education, health, livelihoods, benefits, etc. How do we make that more effective, is much higher return on investment (ROI), because philanthropy is just a drop in the bucket. The government is the main actor, and markets play an important role.

So, thinking about how one can work with the government or markets to drive improvement through philanthropy is critical. The model that emerged is to demonstrate, do pilots, build evidence that something works, and then advocate. So, work on policy and then on implementation. We know that state capacity in India is such that providing support for 5-10 years and staying the course is critical because even with these policies, you need to iterate them as you go forward. Then I started to think that an even higher ROI is if we can play a small role in getting India on a rapid and sustained economic growth trajectory, which is inclusive and provides equal opportunity. If India can grow at 8% a year for the next 25 years, which is really what the Viksit Bharat narrative is about, then we can become a developed nation in 2047.

So, a similar approach can be applied to support accelerated economic growth in India, which ultimately has the highest ROI. Because if you can grow the size of the pie, all things improve. It's a rising tide that lifts all boats – improved education and healthcare, lifting millions of people out of poverty. We know China didn't rely on RCTs (randomised control trials) to drive economic growth; it was this big focus on 10% growth. How do I get my export engine firing at 15-20%? That's what lifted 700-800 million people out of poverty. Just redistribution wouldn't have done it. Growing the pie was the most important.

To watch the full conversation, scan this QR code

Description:

Our guest for this episode has just authored one of the most highly acclaimed books on India - "Accelerating India's Development: A State-Led Roadmap For Effective Governance". In this fascinating one hour conversation, Karthik Muralidharan gives us an introduction to the key messages of his book - the idea that the government can do more by improving the quality of its spending, or the 'pipes of public service delivery' as he calls it, instead of focusing on the share of budget spent on key sectors, and by removing the frictions that plague Indian industry and hamper productivity, rather than offering all kinds of subsidies and incentives to a few marquee investors.

He also airs his worry that the book may give the impression that he's a statist since most chapters talk about enhancing state capacity to accelerate growth. However, in this conversation with Rahul Ahluwalia, founder-director at the Foundation for Economic Development (FED), Karthik explains that "by focusing on what I want the government to do, I'm sending a strong implicit message to what it should not do."

RA: So, one question that I ask many people is, what was your own personal connection with the economy? How did you come to understand its importance? How did you come to appreciate that there is such a thing?

KM: I'm a child of liberalisation. I was born in 1975, turned 16 in 1991. The pivotal event in my life was getting a scholarship to go to Singapore. The dominant thought when you reach there is, this place was poorer than India in 1965. And 25 years of sensible policies had just transformed the country. The key to that was obviously economics. Economic growth just made everything possible, in terms of improving people's lives, improving the quality of public infrastructure, the quality of public facilities.

There's this famous quote by Bob Lucas, who won the Nobel Prize in '95. In his '88 paper on the mechanics of economic development, he says, once you start thinking about the differences in income, you can't think about anything else. So, effectively, I was living that quote in my head, before I had ever read the paper. Since then, I've been hooked on to economics.

RA: There's no end of praise for your book, 'Accelerating India's Development: A State-Led Roadmap for Effective Governance'. You started with research on public service delivery, but the book is a broader synthesis of many different things. So why don't you just lay out that thesis.

KM: When you take stock of the Indian economy, we have many things to be proud of. But we also suffer very fundamental challenges in the delivery of, basic education – we've got 50% of kids completing primary school in rural India without being able to read; 35% of children are stunted; we have 13 of the 15 most polluted cities in the world. The motivation of the book in some ways reflects what Rakesh Mohan, who was one of the architects of the '91 reforms, said in a review of 25 years of the reforms, that the path to accelerated growth for India is being limited in every way by weak governance, in the delivery of essential public goods and services. One way to tell the story of the Indian

economy is that we've got a top 10% that drives the economy, with high productivity in high-wage jobs, and with successful businesses.

The good news is that the top 10% of India's income distribution is still 140 million people. That's a large enough population to be dynamic in innovation in new businesses and startups and be able to staff global capability centres. That's why we have momentum, and we'll do 6%-7% annual GDP growth this way. However, to fire on all cylinders, we want to equip the bottom 50% of India's income distribution – who're seen as labharthis or beneficiaries of government schemes – with the necessary skills, human development and enabling conditions so they're able to lift themselves out of poverty and contribute to India's growth story.

To achieve this human development, the default discourse is that we need to increase the budget. But we don't have the money. The norm of 6% of GDP on education comes from high-income OECD countries with a tax-GDP ratio of 30%-35%. India is at 17%-18%. Second: most of our government-as-usual spending is incredibly ineffective in delivering outcomes. So, the unifying theme of high-quality research, a lot of it my own over the past 20 years, has been that investing in better governance is often ten times more cost- effective than simply spending more money on programs.

RA: There is a particular category of frictions you introduce when you're trying to do good. You're trying to protect the farmer but you introduce massive frictions in the farmer taking decisions that would actually benefit them and benefit the economy. MSMEs is another example. You've mentioned a lot of such examples in the book. Just talk a little bit more about that.

KM: So much of our perversity happens because of the excessive siloing of government departments. Our pathologies in economic efficiency come about because we are trying to protect workers from vulnerability in the economy. But instead of protecting workers, we try to protect jobs, which is where the fundamental source of misallocation comes, because economies are dynamic creatures. Companies will come, companies will go, sectors will come, sectors will go. And that reflects changes in both technology and taste. If you look at the top 10 listed companies in the US stock exchange, highest market cap, I think none of them or only one of them existed 50 years ago. I think if you look at the top 50, less than 20%, and that speaks to what Schumpeter famously called creative destruction. That's how economies stay dynamic.

In India, let's think about the spillovers from our electricity policy, where we want to provide free electricity to farmers. But historically, governments have tried to cover that by overcharging industrial use. What does that do? It makes your industry less competitive, which would mean that you're not creating the jobs. If you were creating the jobs, you might not have needed the subsidy in the first place. That's an example of these intersectoral linkages. I'm not saying we shouldn't spend on farmer welfare. But if we can reform that to income support that doesn't incentivise continuing inefficient activity, it will actually unlock productivity.

To watch the full conversation, scan this QR code

Description:

Our guest for this episode is an employer who went beyond merely railing about the excessive compliances that Indian businesses must put up with. Manish Sabharwal, Vice-Chairman at TeamLease RegTech, remembers the number by heart – 26,134 – the number of different reasons an Indian employer can be put in jail. So do so many people from the industry, academia, and the government. 'Jailed for Doing Business', a 2022 report by TeamLease and the Observer Research Foundation (ORF), was the kind of seminal document that brought home the exact scale of India's regulatory cholesterol, which inhibits innovation and entrepreneurship at every stage of a business's life cycle.

In this hour-long conversation with FED Director Rahul Ahluwalia, Sabharwal admits that his earlier attempts at influencing policy outcomes for the Indian industry were overly philosophical. "But reform only happens when you make your ask specific, finite and actionable," he says in this episode. Sabharwal has many actionable asks. They all circle back to shedding our regulatory weight, cutting down on bureaucratic excesses, and turning India into a lean and mean administrative machine that empowers businesses instead of limiting them.

"The job of the government is not to set things on fire. It is to create the conditions for spontaneous combustion."

RA: What is your personal connection to economic growth? How did it start coming home to you that this is a phenomenon that matters?

MS: The latent one is childhood. Anybody born and brought up in Kashmir has to wonder, would there be terrorism in Kashmir if the youth had as many jobs as Silicon Valley? Politics, religion, identity, all of it is complicated, so I'm not sure even if you had that, it would matter, but it does cross every Kashmiri's mind – if it was not an economic wasteland, would you have terrorism there? But, I think the most important one was going for my MBA to the US in August 1994. By September, I was asking myself, these Americans aren't smarter than us; why are they richer than us?

Why does Joe 'Six-pack', who watches college football and drinks beer, make $55,000 a year, and why does Ram Bharose, who works 18 hours a day, make INR 55,000 a year? I realised that the pathology is not at the level of the individual. Productivity is embedded in the cities, institutions, infrastructure, and universities, so it was pretty clear that economic growth was not the individual's fault at a certain level.

RA: Such an interesting time, right? 1994, when that shift in institutions was happening here. Going there and seeing that there's such a massive difference in wealth would have raised the question. What helped you answer it?

MS: India made two reckless choices in 1947. The political one has paid off spectacularly. India has created the world's largest democracy on the infertile soil of the world's most hierarchical society. 3 million people in India win an election, 22 million people stand for elections, and we were the first country to give universal franchise at birth.

In parallel, there was this stupid 1955 Avadi resolution, the second five-year plan from 1956-61, which handicapped the private sector and essentially handicapped our capital without labour and our labour without capital.

Our per capita GDP was roughly the same as South Korea's in 1960, and as recently as 1990, we had a higher per capita income than China. However, both countries unleashed their human capital to combine it with their other resources. That's why people in India need to understand that we don't have a land, labour, or capital shortage. What's important is how human capital combines with land and capital. In India, this was distorted by the state, and by bureaucrats who didn't know what they were talking about! They pretended they had the information they didn't and made decisions about where to put a factory, which sector to enter, how to hire people, which technology to use, and which distribution system; nobody has that information sitting in Delhi or a ministry.

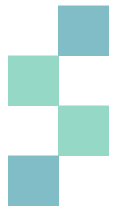
Patel called the civil services our steel frame because people thought India would break apart. As somebody born and brought up in Kashmir, I wish Patel had won over Nehru because, obviously, Patel was right. But on civil services, I wish Nehru had won over Patel. Nehru used to describe the Indian civil service as neither Indian nor civil nor a service. The steel frame has become a steel cage. So, after 35 years of reform, I don't think either infrastructure, human capital, or financial markets are binding constraints. The only binding constraint is regulatory cholesterol.

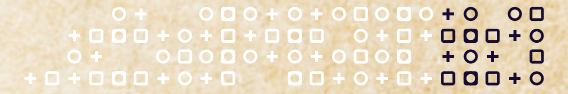
RA: It's a fantastic term (regulatory cholesterol). It immediately evocatively draws to mind what the problem is. So many people agree with this. What's stopping us?

MS: I erred for the first 5-10 years in asking for change but keeping it at a very philosophical level. People intuitively understand the concept of regulatory cholesterol. But reform only happens when you make your ask specific, finite and actionable. We only did that three years ago when we built a database. So now we've given a list to people who matter to say there are 67,000 compliances, 6,700 filings, and 26,410 ways for an employer to go to jail.

However, if you have 26,000 ways to go to jail, why isn't anybody going to jail? The only reason to have these criminal provisions is to encourage corruption.

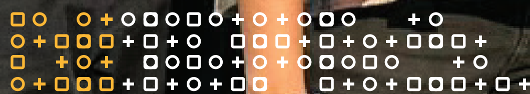
We have 120 guys in regulatory affairs at TeamLease whose job is to take care of this stuff so it doesn't impact me or the organisation. But for an MSME, a labour inspector showing up, and this compliance burden is a dagger in the heart.





YEAR-END REFLECTIONS

2024 was a riveting policymaking year for us! Here's a snapshot of the work memories our team cherishes, and what they're looking forward to in 2025.



Ronak Pol

Team Lead

2024 has been a year of immense learning and personal growth for me at FED. I'm particularly energised by our work on electronics, where we worked closely with the Industry and Ministry of Electronics to drive critical reforms in labour, tax, tariff and environment regulations. Looking ahead to 2025, our focus will be on operationalising these reforms to strengthen India's position as a globally competitive manufacturing ecosystem.

Yuvraj Khetan

Programme Manager

In 2024, I had the opportunity to engage directly with workers to better understand their perceptions of manufacturing jobs and the transformative impact of securing a first job, especially for women. In the coming year, I look forward to publishing our report on this topic, aiming to make it easier for more people to enter the workforce and be a part of India's growth story.

Nitya Srinath

Senior Programme Associate

The past year at FED has been incredibly rewarding, providing me the opportunity to contribute to impactful initiatives like the SAFE Accommodation project with NITI Aayog and the Textile & Apparel Vision 2030 project with AT Kearney. These projects tackle critical challenges to unlock India's vast manufacturing potential. I'm excited to continue transforming these visionary ideas into tangible, on-ground realities!

Shubham Chaturvedi

Team Lead

Working in Punjab on Tourism and supporting in monitoring Uttar Pradesh's One Trillion Dollar Economy (OTDE) Initiative at the CM Office level enriched my understanding of GDP dynamics, strategic planning, and sector prioritisation. I look forward to sharing key insights to support the government in policymaking and exploring how our organisation can assist other states in their economic growth journeys.

Ishita Jain

Senior Programme Associate

It is exciting to see the momentum we've built for electronics manufacturing reforms in under a year! Plus, the ideas, energy and passion that the people at FED bring to the table, is truly inspiring!

Ojasvi Chandel

Programme Associate

In 2024, my work on Destination Management Organizations (DMOs) in Amritsar and at the national level was driven by a focus on creating good jobs and maximising value through tourism. This year, I look forward to examining how existing labour regulations inadvertently hurt the most vulnerable workers and proposing reforms that lead to the creation of jobs.

Yukti Madaan

Senior Project Associate

I got the opportunity to work on the UP Government's 'One Trillion Dollar Economy' mission which allowed me to engage with multiple stakeholders, and dive deeper into the core sectors of the economy. I look forward to seeing our work help drive economic growth and job creation in the state.

Harshit Rakheja

Communications Manager

Being at FED has been a wonderful initiation into ideas of economic policymaking that can help India achieve its true growth potential. I've enjoyed bringing FED's ideas on economic policy to a wider audience through our newsletter, podcast and op-eds, and wish to build on the foundation that we've built.

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