

BREAK- ING THE MOLD

INDIA'S
UNTRAVELED PATH
TO PROSPERITY

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THE STANDARD DEVELOPMENT ROUTE



Start with agricultural reforms.
Enhance productivity and surpluses.



Absorb surplus agriculture
labor in low-skilled
manufacturing assembly.
Focus on exports for scale.
Move up the value chain.



Move labor to services and
manufacturing related services.

WHY DID CHINA SUCCEED AT MANUFACTURING?



Emphasized early education and skilled workforce



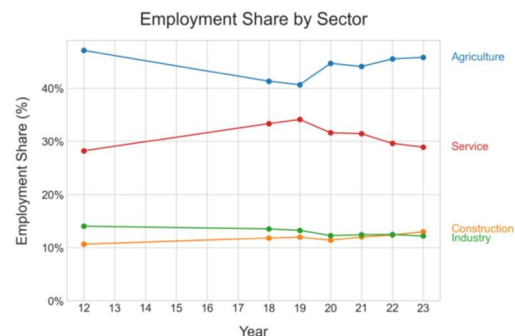
Government decentralization and competitive cronyism



Suppressing market and democratic forces

INDIA DID BETTER IN SERVICES

- Share of employment in manufacturing stagnant since 1980s.
- Services employment expanded until 2019.
- Is this pre-mature de-industrialization or a reflection of India's comparative advantage?



* Year refers to the ending year of the survey period from July to June, ie 2022 refers to the survey year from July 2021 to June 2022 following the Periodic Labor Force Survey (PLFS) periods.

- Periodic Labor Force Surveys : <https://dge.gov.in/dge/reference-publication-reports-annual>
- Construction disaggregated from Industry
- No PLFS data from 2013-2017



**REGARDLESS,
INDIA HAS A
PROBLEM:**

JOBS

- Unemployment numbers high, disguised unemployment even higher.
- Labor force participation low, female participation alarmingly so.
- Enormous numbers applying for government jobs.
- Yet, capital intensity of manufacturing increasing.

WHICH WAY SHOULD INDIA GO NOW?

Turn back clock to hop on to the low skilled manufacturing bus?

Or figure out what makes sense for the future?

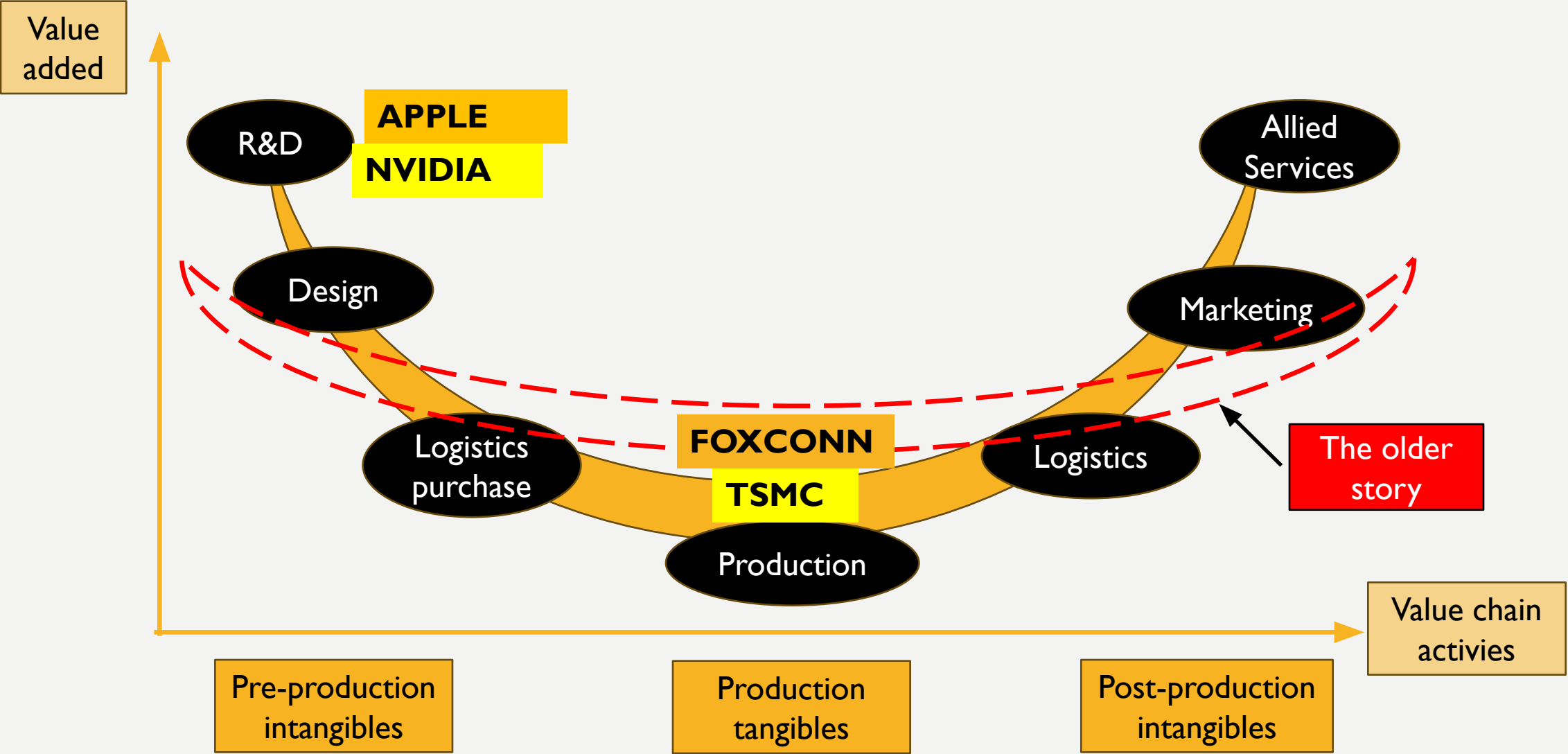
Determines how India uses its resources.

1. OLD PATH IS NARROWING

- Globalization backlash: nearshoring and on-shoring
 - Room for another China?
- No longer competing with the US in assembly and low-skilled manufacturing: competing with Indonesia, Mexico, Vietnam, China, and robots

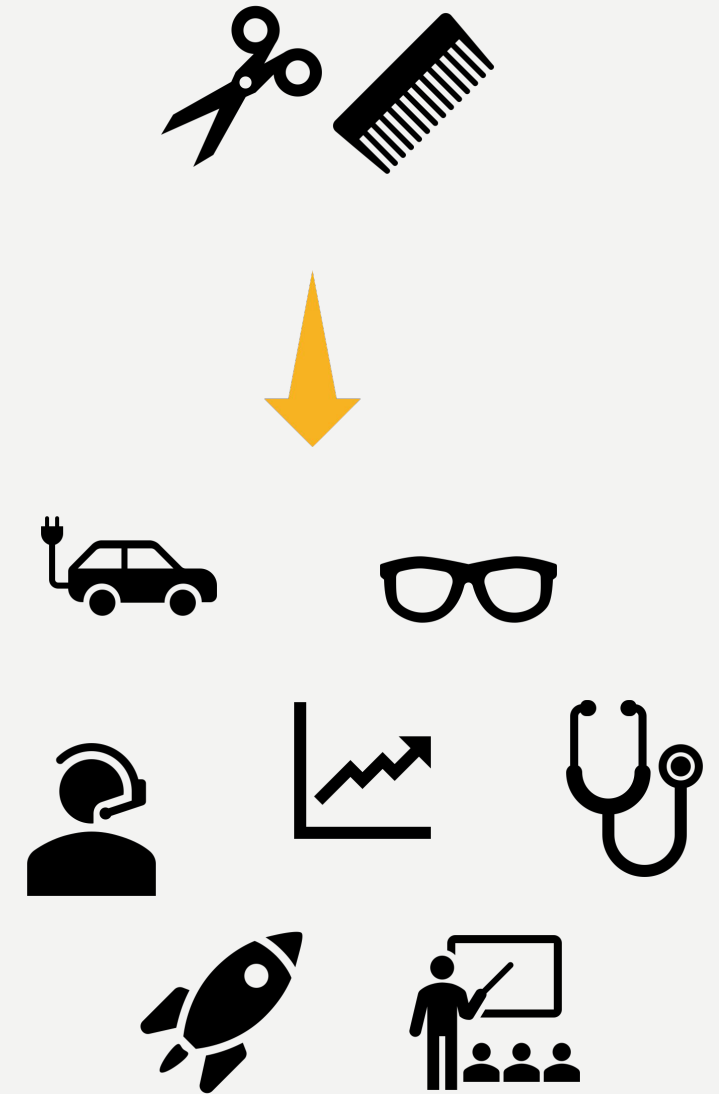


2. NEW PATHWAYS: THE SMILE CURVE



3. THE GROWING PROMISE OF SERVICES

- A haircut: fixed in time and space
- Modern services are not, especially after the pandemic. Differentiated by
 - Target customer:
 - Foreign
 - Domestic
 - Direct services
 - Links to manufacturing:
 - Embedded in manufacturing
 - GCCs
 - Enabling manufacturing





TILFI



AGNIKUL



ORCHIDS:THE INTERNATIONAL SCHOOL

DOES INDIA HAVE TO CHOOSE ?

- India does not do industrial policy well
- Therefore, not manufacturing or services but
 - Upgrading human capital vs focusing on physical capital.
 - Decentralize
 - Subsidies for chip foundries
 - Fostering innovation and creativity to capture high value added

WHAT ABOUT INDIAN DEMOCRACY: BUG OR FEATURE?

- Knowing when off track
- Protest to get good service
- Creativity and innovation
- Trust

WILL ALL THIS CREATE ENOUGH JOBS?

- Compete globally for higher end jobs with more capable human capital.
 - Last mile remedial education, corporate teaching, apprenticeships
 - Expand childcare, education, healthcare (some short, some longer term)
 - These will themselves entail job creation
- For every high end job, four others are created.
 - Driver, cook, security guard, and their arm's length equivalents

ENOUGH JOBS...CONTD?

- Labor intensive services using moderate skills
 - Strengthening local government,
 - Upgrading cities and public services,
 - Construction and tourism,
 - A global market for handicrafts.
- Enable manufacturing by fixing India's deficiencies, not just through subsidies.
- Rural and agri-based industry,

THE INDIA WAY

- Much to do.
- Chart an Indian way, building on India's strengths
- India will succeed if it emphasizes the ideas of the future, taking inspiration rather than living in the past

