

Make In India. Indians Need It

India's workforce will soar just as China's declines. Service sector's record makes it clear it's not up to this huge jobs challenge. Manufacturing is the only lifeline to reap demographic dividend

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The UN projection that India would overtake China as the most populous country on the planet during April has triggered much talk of India being poised for a demographic dividend. The most high-profile example of a demographic dividend is the East Asian

tiger economies – Hong Kong, Singapore, Korea and Taiwan – which posted astonishing growth rates in the 1980s.

Among the things that helped make the 'miracle' were their demographic transitions – falling fertility rates and rising working age populations. As the burden of providing for dependents declined, the workers could save more, which turned into more investment which in turn expanded jobs and accelerated growth, putting the economies on a virtuous cycle.

Bring women workers back

India is roughly similarly positioned. The fertility rate declined to replacement level last year, and with a median age of 28 years, significantly lower than 38 in the United States and 39 in China, India can boast of the largest workforce in the world for at least the next 25 years. The timing is helpful too. India's workforce will soar just as China's is set to decline. Is it then India's turn to produce a growth miracle on the back of a demographic dividend?

Alas, a demographic dividend is not inevitable. It will materialise if and only if India is able to generate jobs for the millions of youth who are flooding the labour market.

According to the Centre for Monitoring the Indian Economy, our unemployment rate in March was 7.8%. This is almost certainly an underestimate because of the huge 'disguised unemployment'. Hundreds of millions of people who are locked in agriculture and

India imports goods worth over \$100 billion annually from China. If even half of this can be made at home by productivity improvement, it will mean millions of jobs. Plus, even in a difficult world where global merchandise trade is under threat, there is still a huge demand for low-wage goods. India's share in global trade is so small that even a small increase in share can mean a big gain



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other informal sectors on low wages are counted as fully employed.

More distressingly, the female labour force participation rate in India is not only low compared even to other South Asian economies but is declining, suggesting that millions of women have opted out of the labour force.

Chase higher productivity

It's quite common for even people with post-graduate degrees to apply for low-level government jobs. Last year, Railways received over 12 million applications for 35,000 non-technical posts, setting off a stampede at the recruitment centres, which is a telling commentary on the size of the employment problem and the quality of education.

In a 2020 report, the McKinsey Global Institute estimated that by 2030 India needs to create at least 90 million new non-farm jobs to accommodate fresh entrants into the labour force as also workers who will move from agriculture to more productive non-agriculture jobs. If measures are taken to correct their historical under-representation, at least an additional

50 million women could return to the workforce, making the job creation challenge substantially bigger.

Where are jobs going to come from? The stereotype view, shaped no doubt by our high-profile software industry, is that the services sector has been a big job creator. That's a misperception. The software industry accounts for just a few million jobs in a nearly one billion workforce. The large majority of jobs created in the services sector have been the low wage, low productivity type in the informal sector – such as those of security guards.

Notwithstanding that disappointing record, there is a growing view that India should focus on the services sector because of the promise it holds for growth and for jobs going forward. The demand for services, it's argued, will grow as aging populations in rich countries will consume more services than goods. From the supply side, advances in digital technologies have made it possible to deliver even high-end services at a distance (think telemedicine), as amply demonstrated during the lockdowns.

Meet high demand for low-wage goods

India should certainly leverage on this growing opportunity by strengthening its human capital and skill endowment. But that's a long haul and can't be an effective solution to its intensifying jobs challenge in the short to medium term.

That makes manufacturing the only possible option for meeting the jobs challenge. Underlying the government's 'Make in India' campaign is the hope and expectation that India can replicate the China model of export of manufactures to the rich world. That will be a big challenge simply because the world today is a lot different from the one China faced when it opened up in the 1980s.

China leveraged on offshoring which was then gaining popularity as an efficient mode of production. Today with all the hostility towards globalisation, India is staring at 'friend shoring' and reshoring of production while at the same time advances in robotics and machine learning are rapidly eroding the comparative advantage of cheap labour.

Such despair is possibly misplaced. India imports goods worth over \$100 billion annually from China. If even half of this can be made at home by productivity improvement, it will mean millions of jobs. And as Arvind Panagariya of Columbia University argues in his book, *India Unlimited*, even in a difficult world where global merchandise trade is under threat, there is still a huge demand for low-wage goods. India's share in global trade is so small that even a small increase in share can mean a big gain.

The common lament today is that China will get old before it gets rich. India should try to avoid a similar fate.

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