

‘Reduce friction around ease of doing business’

Integrating Indian Eco Into A Single Mkt Will Be Huge Benefit: IMF Chief Economist

Sidhartha & Surojit Gupta | TNN

IMF chief economist Pierre-Olivier Gourinchas is optimistic about India's growth prospects. In an interview to TOI, Gourinchas talks about a range of issues, from raising productivity to bridging inequality through a billionaire tax, and impact of AI on jobs. Excerpts:

How do you view India's growth rate since there is a view that it is getting carried away?

India has been doing quite well. In 2023-24, growth was stronger than expected. The World Economic Outlook projection for this year is around 6.8%. India can continue to grow around 6.5% in the medium term. These are very, very solid growth numbers. It's much easier for a smaller country to generate high growth, but for an economy of India's size, it is pretty impressive.

India wants to grow at 8-10% for a sustained period. Is that possible in current global context?

A number of things need to be done to grow at a much faster rate. There is a question of how quickly you can mobilise labour inputs. If you want to grow faster, and you want it to be sustainable, you have to increase productivity. You cannot do it just by having more workers and more capital — that gives you a shot in the arm, but it doesn't lead to sustained growth. To increase productivity, you have to reduce any frictions around the ease of doing business, investing and innovating. India has a relatively high growth rate, but it's starting at a fairly low per capita income compared to some other Asian economies. Another way to achieve higher productivity is improvements on the technology frontier. The hard way is to reinvent the wheel, which takes time. The other way is to learn as much as you can from foreign technology. External openness is very

important as FDI brings plant and technology. Third part of productivity improvement is skilling the labour force. India has a very skilled layer of workers, but it can do better. There are also reforms of the large domestic markets as it can be a good training ground for making sure that there is innovation and competition, that firms are not protected in a way that allows them to be inefficient, that there is enough competition domestically. Labour is another advantage for India because of the demographic divi-

in global markets. Integrating the Indian economy into a single market will be a huge benefit. On top of that, you can push exports of services by training a large number of skilled Indian workers in STEM, computer science.

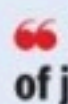
How to create more jobs?

There's a bit of a false dichotomy. At the end of the day, productivity always creates jobs. Initially, you may for instance, think about improving productivity in the farming sector. It's very likely that productivity

Photo: Piyal Bhattacharjee



India can continue to grow around 6.5% in medium term... It's much easier for a smaller country to generate high growth, but for an economy of India's size, it is pretty impressive



One dimension is exposure of jobs to AI, which is low... Second is when you look at those that are exposed, question is if AI is going to replace them or AI is going to enhance what they're doing?



Pierre-Olivier Gourinchas | CHIEF ECONOMIST, IMF

dend. A first order task is making sure the educational system, vocational training are at scale so that you can bring a lot of workers who are not in the labour force and you can reduce informality. Digitalisation will also be helpful.

On debate over manufacturing or services...

Why do you have to choose? I understand you have a budget for doing various things, do you do production-linked incentives or something else. There is room for merchandise exports to grow as India is fairly low on that front. It is important to make sure that you have firms that are competing and are able to come down the cost curve. Here, the role of the domestic market is very important. China implemented an export-oriented strategy but was in part driven by a very high level of competition in the domestic market, which to some extent was protected from abroad. Fierce competition between Chinese firms forced them to improve and become better and then engage

gains are going to release labour into other sectors of the economy. That's something that should be welcomed. The question is more about ensuring social safety nets and dealing with retraining, giving pathways to the young to get them jobs that have higher earning potential.

How serious is AI threat?

India is one of the countries we looked at using micro data. One dimension is exposure of jobs to AI, which is low. It reflects the high share of farming in employment. The second dimension is when you look at those that are exposed, the question is if AI is going to replace them or AI is going to enhance what they're doing? AI is not an opportunity for enough people in India, but for those who are exposed to AI, more of them are in the good category. To build on that you would want deployment of AI, development of AI and training as a lot of workers in that space can benefit. This points to opportunities. The danger is if AI moves faster than India getting ready to embrace it.