6th

R. K. Talwar
Memorial Lecture - 2015

Growth, Poverty and Economic Transformation in India

by

Dr. Arvind Panagariya

17th July, 2015

Indian Institute of Banking & Finance

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About Late Raj Kumar Talwar

Raj Kumar Talwar, born in 1922, joined the Imperial Bank of India at Lahore in November 1943 as probationary assistant, immediately after taking his M.A. degree in Mathematics from Lahore University. He had an outstanding career in the Bank. He was Superintendent of Branches and Superintendent of Advances in the Bengal Circle of the State Bank of India and Inspector of Branches under Central Office. In 1961, he was appointed Deputy Secretary and Treasurer in the Bengal Circle. A year later, he moved to the Madras Circle in the same capacity. He became the first Secretary and Treasurer of the Hyderabad Circle when it was created in 1965. In January 1966, Talwar was appointed as Secretary and Treasurer of the Bombay Circle.

On 1st February, 1968 when he was appointed as one of the two Managing Directors of the State Bank, he became the youngest to adorn that office.

A new chapter in the banking industry began with professional bankers taking positions as bank chiefs when Talwar became Chairman of the State Bank of India on 1st March 1969. The youngest Chairman ever, he gave a sense of direction and a new orientation to the Bank as never before. Besides expanding the Bank's business manifold by extending its reach, his missionary zeal saw the State Bank take several initiatives in the areas of innovative banking, rehabilitation of sick industries, credit plans for rural development, etc. He ensured simplification of procedures for financing of small-scale industries and launched new schemes for the benefit of smaller enterprises, small businessmen and agriculturists. He also put in place systems to ensure proper end-use of bank funds besides comprehensive analysis of corporate balance sheet much before the Reserve Bank of India prescribed norms for credit analysis of large advances. It was again his rare vision and foresight that initiated the first ever organisational restructuring exercise of the State Bank in 1971, which withstood the test of time for well over three decades.

A highly principled banker, Talwar was known for his values, integrity, dynamism and professionalism. All through his career, he gave his best to nurture a culture of openness, frankness and transparency in the Bank and bitterly opposed arbitrary decisions. A man of exceptional attributes and indomitable spirit, with an abiding faith in the grace of the Divine and honesty and integrity as his guideposts, Talwar commanded respect both within and outside the Bank. To him, principles dear to his heart were above all else and never was he ready to compromise with them. When he left the Bank on 3rd August 1976, he was only 54. By then, hailed as one of the country's most distinguished bankers, Talwar had galvanized the Bank by his vision, dynamism and dedication. His was undoubtedly the golden era of the State Bank.

He decided to settle in Pondicherry but his connections with the corporate world did not cease as he served on boards of companies and headed the Industrial Development Bank of India for a couple of years in the late 1970s. He was by then more focused on spiritual matters. He lived a spartan life and was often seen moving around the town of Pondicherry on a bicycle. Talwar breathed his last on 23rd April 2002 at the age of 80.

Talwar's name is closely linked with the issue of customer service as he was the Chairman of the Committee on Customer Service (1975). Today whenever customer service related issues are discussed and debated, the far reaching recommendations made by the Talwar Committee are often quoted.

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Growth, Poverty and Economic Transformation in India

- Dr. Arvind Panagariya *

It is common place for a speaker invited to deliver a memorial lecture to open with the remark that he is deeply honoured by the opportunity offered. In the present case, while true, this would amount to no more than stating the obvious. For R. K. Talwar was the rarest of rare officers that India has ever produced. So spotless had been his personal and professional life that even an all-powerful emergency-era government, determined to remove him from office for refusing to do its unjust bidding, could not muster enough courage to do so. As distinguished banker Naraynan Vaghul tells us in his inspiring "Profile of Professional Courage" of Talwar, even after a CBI inquiry and a legislative amendment later, the then government could only bring itself to asking Talwar to take a leave of absence for the last 13 months of his tenure.

Of course, accomplishments of Talwar went far beyond a life of honesty, integrity and courage. He was one of the most eminent bankers of India. He received accolades as a manager, friend, leader and Guru from nearly all those who were lucky enough to get a chance to work with him. So I can say without exaggeration that today we honour an extraordinary individual and that I could not be prouder to be invited to deliver this Sixth R. K. Talwar Memorial Lecture.

I must confess at the outset that in choosing the subject of today's lecture, I am guilty of breaking a tradition set by my predecessors. Unlike me, every one of the previous five speakers has chosen to speak on one or the other aspect of banking in their lectures. The main reason why I have decided to charter a different course is that I can tell you nothing on banking that you do not already know. As a trade economist, I have deep appreciation of the principle of comparative advantage and try to not just teach but also practice it.

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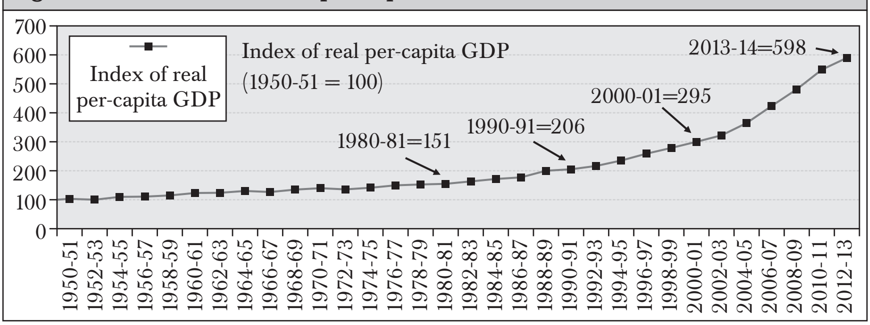
* This lecture liberally draws on my past work. Specifically, I would like to mention the following works : (i) JagdishBhagwati and Arvind Panagariya, 2013, Why Growth Matters : How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries, New York : Public Affairs; (ii) Arvind Panagariya, 2013, Indian economy : Retrospect and Prospect, 11th Richard Snape Lecture, Sidney : Productivity Commission; and (iii) Arvind Panagariya and Vishal More, 2014, "Poverty by social, religious and economic groups in India and its largest states : 1993-1994 to 2011-2012," Indian Growth and Development Review, Vol. 7(2), pp.202 - 230.

Why Growth Matters

To introduce the subject of the lecture then, allow me to begin with a stylistic account of India's economic progress since 1950-51. In Figure - 1, I depict the evolution of real per-capita income in India from 1950-51 to 2013-14 with the income in 1950-51 normalized at 100. During the first three decades, India grew at a snail's pace with per-capita income rising just 50% by 1980-81. In the following decade, there was some acceleration with another 50% added to the original per-capita income by 1990-91. The 1990s saw further acceleration, adding full 100% over the 1950-51 income. The fastest gain came in the new millennium, however, with full 300% added to the original per-capita income.

Movements in poverty mirrored these movements in per-capita income. Figures - 2 and 3 showing poverty rates during 1951-52 to 1973-74 and 1993-94 to 2011-12, respectively, capture this fact.[1] Poverty rates during the initial two and a half decades when per-capita income rose at snail's pace saw no decline. Good weather during these years would push the poverty rate down while bad weather would do the opposite with no decline in trend poverty. With extremely low initial per-capita income, slow growth meant that per-capita income remained low and no perceptible assault on poverty could be done.

Figure - 1 : Evolution of real per-capita income in India from 1950-51 to 2013-14.



Once growth picked up, however, per-capita income rose and poverty too began to recede. The sharper the rise in incomes the sharper was the decline in poverty. Figure - 3 depicts poverty rates in 1993-94, 2004-05 and 2011-12 in rural and urban areas separately and combined. Both rural and urban poverty fell between 1993-94 and 2004-05 as well as between 2004-05 and 2011-12. The decline was significantly sharper, however, during the latter period, which was characterized by substantially higher rate of growth. Moreover,

1. In Figure - 2, poverty ratios are computed at the Alagh-Lakdawala poverty line and in Figure - 3, the Tendulkar poverty line. Each figure holds the poverty line constant in real terms throughout the period covered.

poverty fell more sharply in rural areas thereby partially bridging the gap in poverty between the two regions. The association between growth and decline in poverty is unmistakable.

Figure - 2 : Annual poverty rates in India from 1951-52 to 1973-74.

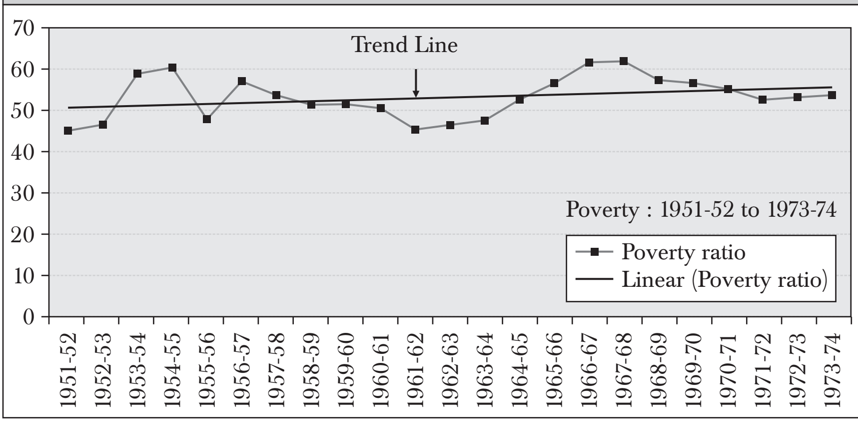
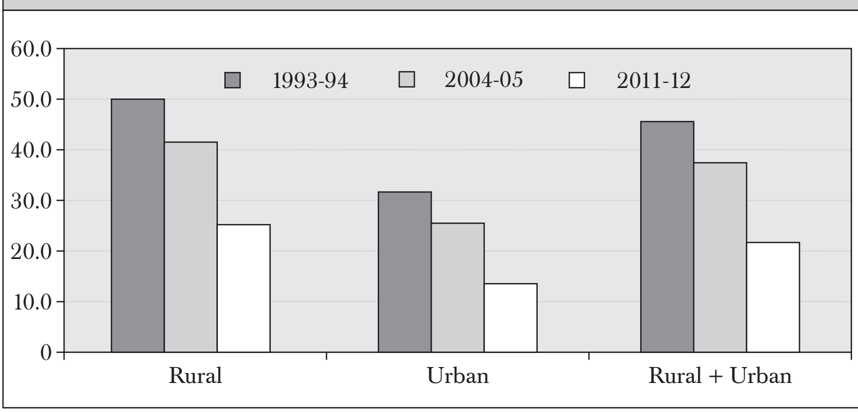


Figure - 3 : Poverty rates in rural, urban and all India in 1993-94, 2004-05 and 2011-12.



Skeptics sometimes argue that poverty may have fallen at the aggregate level but growth did not benefit all groups. They content that growth has left the disadvantaged and minority groups behind. But we show in Panagariya and More (2014) that nothing could be farther than the truth. Whether we group the data according to social, religious or economic criteria, poverty declines for every single group. Furthermore, the decline is invariably sharper during 2004-05 to 2011-12 when per-capita incomes rose faster than during 1993-94 to 2004-05. It also turns out that the percentage point decline is larger for groups with larger initial poverty levels so that there is convergence in poverty ratios between initially worse off and better off groups.

Why does growth turn out to be so crucial for poverty alleviation? There are two reasons for it. First, growth raises wages and pulls the poor into gainful employment. Accompanying increases in incomes give beneficiaries better access to food, education and health. Second, growth generates larger volume of revenues, making large-scale anti-poverty programs feasible. Accelerated growth beginning in 2003-04 allowed India to enact the Mahatma Gandhi National Rural Employment Guarantee Act and the National Food Security Act.

Growth Eliminating Poverty : A Digression to South Korea and Taiwan

Before elaborating on the experience of India, it is worthwhile to briefly digress to East Asia. South Korea, Taiwan and Singapore offer examples of countries that eliminated abject poverty nearly exclusively via growth during the 1960s, 1970s and 1980s. A set of policy measures led to rapid expansion of labour-intensive manufacturing in the 1960s onwards in all three of these countries. Reaching the annual rates nearing 15 percent per annum, this growth in manufacturing created jobs that pulled workers out of agriculture into gainful employment. Additionally, accelerated manufacturing growth led to accelerated growth in services. This process worked through two channels. First, manufactures used many services as inputs so that faster growth in them led to a rise in the demand for the latter. Second, rapidly rising incomes via faster growth in manufactures led to increased spending on services. Accelerated growth in services created additional well-paid job opportunities for low-wage workers in agriculture thereby accelerating their movement out of agriculture.

Table - 1 captures this process as it played out in South Korea between 1965 and 1990. Within 25 years, the output share of agriculture fell from 38.7% to 9.1% while its employment share fell from 58.6% to 18.3%. Correspondingly, the combined share of industry and services in employment rose from 41.4% to 81.7%. Alongside, real wages rose at an approximate annual rate of 9%. Consequently, Korea managed to entirely eliminate abject poverty by 1990. The experience of Taiwan closely tracks that of South Korea. Activist social programs in these countries came after much of the abject poverty had been eliminated. Even Communist China has relied nearly exclusively on growth to eliminate abject poverty with social safety nets beginning to receive attention less than a decade ago.

I offer these examples not to downplay the importance of social expenditures that are absolutely essential in a democratic society but to underline the point that the direct role of growth in combating poverty must not be underestimated. As I will argue below, while growth acceleration surely played an important direct role in bringing poverty down in India, this channel has not been fully exploited by the country. Growth in the country has been concentrated in capital- and skilled-labor-intensive manufacturing and services undermining the growth in good jobs for the masses.

Table-1 : Changes in Sectoral Shares in the GDP and Employment in South Korea

Year	Agriculture, forestry and fisheries	Mining	Manufacturing	Other
A. Gross domestic product by sector (as per cent of the GDP)				
1965	38.7	1.8	17.7	41.8
1970	25.8	1.3	21	51.9
1975	24.9	1.4	26.6	47.1
1980	15.1	1.4	30.6	52.9
1985	13.9	1.5	29.2	55.3
1990	9.1	0.5	29.2	61.2
B. Employment by Sector (as per cent of total employment)				
1965	58.6	0.9	9.4	31.1
1970	50.4	1.1	13.1	35.4
1975	45.7	0.5	18.6	35.2
1980	34	0.9	21.6	43.5
1985	24.9	1	23.4	50.7
1990	18.3	0.4	26.9	54.4

Source : Economic Planning Board, Major Statistics of Korean Economy, Various issues and Bank of Korea, Economic Statistics Yearbook 1962 [as cited by Yoo (1997, Table-2) from which this table is reproduced].

India During the First Three Decades : What Went Wrong?

It is useful to return to the early decades and ask what went wrong. Before I offer my own answer to this question, let me address two related myths. First, it is sometimes suggested that India's mistake lay in the wrong choice of objective : we opted for growth whereas we should have gone for redistribution. And, second, we failed to conquer poverty because we neglected elementary education. Consider each myth in turn.

Even a cursory reading of history would show that growth in itself was never the objective. The early leadership in India had thought of and written about growth as the instrument and poverty alleviation as the objective in clearest terms. As early as 1938, a fifteen-member National Planning Committee had been tasked with evolving the development strategy that would be implemented once independence was achieved.

In his monumental work, The Discovery of India, Jawaharlal Nehru reports on the deliberations of the committee in these words, "Obviously we could not consider any problem, much less plan, without some definite aim and social objective. That aim was to be to ensure an adequate standard of living for the masses, in other words, to get rid of the appalling poverty of the people ... To ... ensure an irreducible minimum standard for everybody the national income had to be greatly increased ... We calculated that a really progressive standard of living would necessitate the increase of the national wealth by 500 or 600 per cent. That was, however, too big a jump for us, and we aimed at a 200 to 300 per cent increase within ten years." The Planning Committee's ideas eventually influenced the design of India's development plans. If you read virtually any of the early plans, you will find that while poverty alleviation and equitable distribution remained true goals, growth, complemented by redistribution, remained the central instrument. The reason redistribution played limited role in the early years was that there were too few from whom we could redistribute and too many to whom we needed to redistribute. Revenues raised were meager and competition for them across many heads intense.

Turning next to the claim that India's failure to conquer poverty lay in its neglect of elementary education, the first point to note is that as an objective, the latter was very much an integral part of our development strategy. This is reflected in the Constitution, which lists primary education as the only directive principle of state policy with a specified deadline, 1960. Where the failure occurred in this area was in implementation. In part, this was due to insufficient financial resources but perhaps a lack of will to carry out the mandate in mission mode played a far more important role. South Korea too had very limited resources in the 1950s and 1960s but it took the matter on a war footing, ran multiple shifts including night shifts in schools and successfully raised the literacy rate from 22 percent in 1945 to 84.5 percent for males and more than 85 percent for females by 1966. It was successful in bringing not just children but also adults into the fold of literacy.

While the desirability of elementary education as a social goal is beyond question and is the key reason behind the 86th Constitutional amendment that makes it a fundamental right, its connection to growth is tenuous. The Soviet Union had achieved near universal literacy by the early 1960s. But its anti growth policies led to low and declining growth rates from 1970 onwards even in the face of high and rising investment-to-GDP ratio. Even in South Korea, rising literacy levels in the 1950s and early 1960s did not translate into high growth. It was only after the country switched to outward oriented policies in the early 1960s that growth accelerated. Closer to home, Kerala has had a long history of high literacy rates but states such as Tamil Nadu, Haryana and Gujarat have dominated it in growth. And India as a whole still remains far from achieving universal literacy and yet could grow at the average annual rate of 8.3% during 2003-04 to 2011-12 by adopting growth friendly policies.

None of this implies, of course, that education has no role to play in accelerating growth. Economists consider investment in human capital just as important for growth as investment in physical capital. Without civil engineers, we cannot build roads and bridges and without computer scientists, we cannot become a software powerhouse. The argument I have made is that, as with the Soviet Union in the 1970s and subsequently, investment in human capital would fail to translate into sustained growth if the policy framework does not reward efficiency and risk-taking.

This then was the central failing of the Indian policy framework during the first three decades. By adopting autarkic trade policies, we stamped out foreign competition and by adopting investment licensing we eliminated domestic competition as well. Producers lucky enough to get a license had an assured market since imports licensing restricted supply from abroad and investment licensing restricted supply from domestic sources. Facing neither the threat of losing the market nor the prospect of expanding it, producers had no incentive to improve quality. Unsurprisingly, the Hindustan Motors could continue to sell the same Morris Oxford Series III model of Ambassador car in the 1980s that it had introduced in 1958.

Strict investment licensing, reinforced by protection against imports, promised guaranteed monopoly profits, which were anathema under the prevailing socialist norms. Therefore, the government came to fix the prices of many of the products such as cement, steel, scooters and automobiles at levels that would rule out obscene profits. Price controls in turn produced shortages and had to be complemented by controls on distribution through permits. So queues and corruption emerged as natural responses. If you wanted an automobile, you had the option to either wait in a years-long queue or pay a bribe to jump the queue. And even then you received a vehicle of quality that no customer today would buy.

This regime was reinforced by the Small Scale Industries (SSI) reservation, which came to cover nearly all labour-intensive products in which India had a comparative advantage on account of its vast labour force. Allowed less than $100,000 in investment, the SSI enterprises were too small to either exploit scale economies or have an incentive to produce high quality products. So once again product quality suffered to the detriment of the consumers. Product quality also suffered further because of the prevailing policy of diversification that required manufacturers to indigenize the product by using locally produced inputs. Products could be only as good as the inputs used in them.

With neither scale nor quality, there was no chance that India could exploit its comparative advantage in labor-intensive products and generate export revenues in vast volumes. Export pessimism, passionately shared by all Indian economists of the day save Jagdish Bhagwati and T. N. Srinivasan thus found justification ex post. With export revenues so constrained, import controls seemed justified as well. The latter gave additional teeth to investment licensing since it was now necessary to ensure beforehand that machinery and raw material imports for the success of the proposed project would be available.

The policy regime turned so restrictive of imports that they fell to just 4.1 percent of the GDP in 1969-70 after having reached 10 percent at their peak in the 1950s. The proportion remained below 7 percent through much of the 1970s. And growth in per-capita income in India plummeted to just 0.3 percent between 1965-66 and 1974 75. India had witnessed its slowest growth during a decade in which the world economy was booming and outward oriented countries such as South Korea and Taiwan were registering near double-digit growth rates.

The Transition Decade of the 1980s

As the 1980s approached there was realization in at least some quarters of the government that controls had gone too far and that they were having seriously negative effects on India's prospects for combating poverty. That realization translated into some easing up of restrictions on investment and import licensing. Import liberalization was also made feasible by remittances from the Middle East, which created some modest space on the foreign exchange front. The process of liberalization accelerated in 1985-86 and 1986-87 under Prime Minister Rajiv Gandhi but it could not be sustained. Two measures that nevertheless could be introduced and made some difference during the second half of the 1980s were steady depreciation of the rupee and a set of export incentives that helped spur export growth.

The 1980s also witnessed a rapid expansion of fiscal deficit. On the one hand, this expansion complemented liberalization measures in spurring growth but on the other, it sowed the seeds of a macroeconomic crisis. From 3.6% during the preceding three decades, growth accelerated to 4.6% between 1981-82 and 1987-88 and to 7.2% during the following three years. But since cheap loans abroad had substantially financed fiscal deficits through the 1980s, foreign debt grew and by 1990-91, debt service payments came to account for one-third of what were meager export earnings in the first place. A spike in oil price following the invasion of Kuwait by Iraq and subsequent retaliatory action by the United States against the latter turned an already fragile balance of payments situation in India into a crisis.

Reforms Arrive, Growth Accelerates and Poverty Falls

By 1991, three factors had come together to pave the way for systemic reforms in place of what had so far been ad hoc measures by stealth. First, the Soviet Union, which had served as the model for the adoption of planned development in many developing countries including India, collapsed. Various republics of what became ex-Soviet republics went on to quickly embrace market led development. Second, China, a Communist country that was even more populous than India and had opened its economy steadily beginning in the late 1970s, saw its economy grow at near-double-digit rates during the 1980s. Finally, thinking among Indian policy makers had also been shifting and many had come to conclude that inward-looking trade policies and licensing system had outlived their utility. As luck would have it, 1991 also brought to the helm Prime Minister Narasimha Rao who saw an opportunity in the crisis and launched a major programme of systemic reforms.

The first set of reforms introduced by the Rao government ended investment and import licensing (except for consumer goods imports) and opened the economy to foreign investment. Many experts had predicted that once the economy was stabilized, reforms would come to a halt and business as usual will begin. But that did not happen. The government continued to liberalize trade and foreign investment, introduced major reforms in the financial sector, gave entry to private carriers in the domestic airline business, brought private players into telecommunications and launched a programme of dis investment whereby minority stakes in many public sector enterprises were sold to the public.

Reforms slowed down towards the end of the term of Prime Minister Rao and during the tenures of three immediate, short-lived successor governments. But they resumed in a major way after Prime Minister Atal Bihari Vajpayee came to office in 1998. Vajpayee government carried forward trade liberalization in a sustained manner and brought the highest tariff on industrial products down to 25% by 2004. It also ended import licensing on consumer goods imports in 2001 and raised foreign investment caps in many sectors. It opened life and general insurance to the private sector with foreign investment permitted up to 26 percent. The small-scale industries reservation was substantially ended.

The New Telecom Policy of 1999 paved the way for telecommunications revolution. Tele-density rose from just 2.8 per one hundred people in 1999-2000 to 76.5 percent in January 2015. Even rural India came to boast of two phones per household on average. The government also introduced major reforms in the indirect tax area replacing a large number of complex excise duties by a central value added tax rate. It also undertook outright privatization of several public sector enterprises.

In agriculture, the government initiated the reform of Agricultural Produce Marketing Committees (APMC) Act in the states through a model APMC Act. In the social sector, it launched Sarva Shiksha Abhiyan (SSA), accelerated the building of houses for the poor and initiated Prime Minister's Gram Sadak Yojana (PMGSY). The latter aimed to build all-weather roads to link villages to nearby cities. The government also built major highways and modernized ports. The golden quadrilateral project connected Delhi, Mumbai, Chennai and Kolkata via four lane highways in record time.

Vajpayee government also freed administered interest rates on many savings instruments. It pioneered the fiscal responsibility legislation. Successful monetary management brought inflation down to five percent. On the external front, the current account deficit remained low with the last three years of the NDA rule showing a modest current account surplus. Foreign exchange reserves rose from $29.4 billion at the end of March 1998 to $113 billion at the end of March 2004.

Accumulated reforms over a period of about a dozen years paid a handsome dividend. Growth accelerated beginning in 2003-04 and average 8.3% over the nine-year period ending in 2011-12. It was this rapid growth that allowed the major expansion of social spending. India saw the launch of the National Rural Employment Guarantee Scheme, expansion of the public distribution system and a rapid rise in expenditures on education. A measure of the importance of growth for social expenditure is that per-capita public expenditure on education achieved by the allocation of 4% of the GDP to that sector in 2013-14 would have required the allocation of 24% of the GDP in education in 1950-51.

Why "Make in India,""Skill India" and "Smart Cities" Initiatives?

Massive expansion of output and exports of labour-intensive manufactures such as apparel, footwear, light consumer goods and assembly activities played a crucial role in the early stages of miracle-level growth in each of South Korea, Taiwan, Singapore and China. In contrast, it is skilled-labour-intensive services and capital-intensive manufactures that have propelled high growth of recent years in India. Sectors that have flourished in India include software, telecommunications, transportation, finance, engineering goods, automobiles and auto parts, petroleum refining and chemicals.

This pattern has meant that India's share in the world merchandise exports has grown very slowly and remains just 1.7 percent today. In parallel, domestically, the share of manufactures in GDP has remained constant at the low 15 percent level since 1991 (17percent in 2014-15, according to the new GDP series). In turn, job growth in the organized sector has been considerably slower than in South Korea and Taiwan in the 1960s and1970s and China in the 1990s. The end result has been continued dependence of half of the workforce on agriculture despite a decline in the output share of the sector to below 15%. There has been limited rural-urban migration and urbanization has progressed extremely slowly.

Within industry and services, good jobs remain scarce. Of the half of the workforce they employ, only 11 percent has formal jobs : 7 percent in the public sector and 4 percent in the private organized sector. A solid 89 percent of the workers in industry and services rely on informal, unorganized sector jobs.

One may ask why is it important to create formal sector jobs. The answer is that these jobs typically pay significantly higher wages than informal sector jobs. Figure - 4, provided by Raginee Baruah, Rana Hasan, Nidhi Kapoor and Aashish Mehta from their ongoing research, illustrates this point. The lower line in this figure shows wages paid by firms in unorganized sector and the upper line those paid by organized sector firms. Two observations follow : wages rise with the firm size and, for a given firm size, organized sector firms pay higher wages. Of course, the largest firms pay the highest wages and they are all to be found in the organized sector. In India, firms in employment-intensive sectors have chosen to be small and stay in the unorganized sector. The most dramatic case is that of the apparel industry. According to 2010-11 data, 88% of the workers in this industry are employed in unorganized sector. Not only do these firms generate meager income and pay low wages, they are also largely absent from export markets. In turn, this explains the tepid performance of India in clothing and accessory exports when compared to China. As Figure - 5 shows, India exported one-tenth of clothing and accessories exported by China in 2013. Moreover, in 2013, India had not been able to catch up with even 1997 level of the Chinese exports of these products.

Therefore, to create well-paid jobs for those at the bottom of the pyramid, it is important that policy environment be made conducive to healthy growth of employment-intensive sectors such as apparel, leather products, electronic assembly, food processing and construction. While the immediate relief to the vast rural population must naturally come from crop insurance, reforms that help farmers receive remunerative prices for their produce and higher productivity, genuine inclusion in the long run requires creation of good jobs in industry and services. The economy must offer the farmers and their children the same opportunities in industry and services that lucky few have had in the past, allowing them to migrate to industry and services and bequeath better lives to their children and grandchildren.

Figure - 4 : Wages by firm size and by formal versus informal sector, 2010-11.

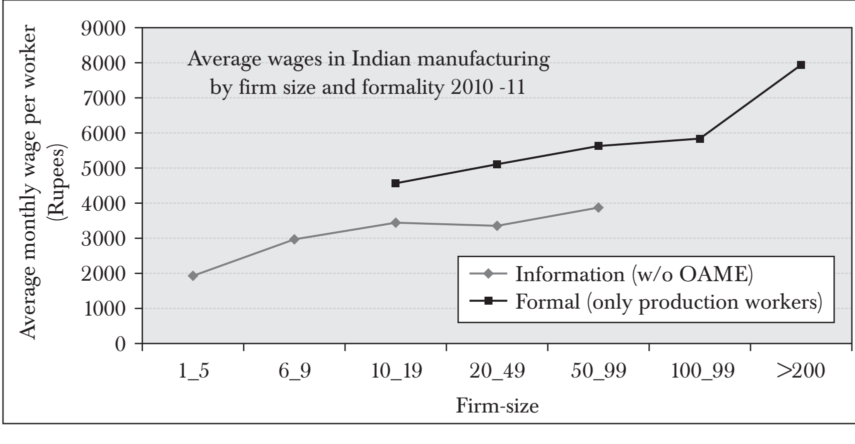
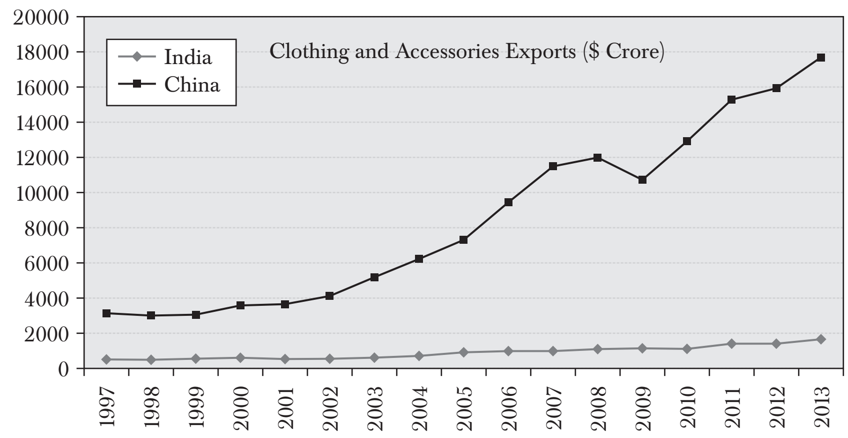


Figure - 5 : Total exports of clothing and accessories by India and China, 1997 to 2013.



It is in this context that initiatives such as Make in India, Skill India and Smart Cities, launched by Prime Minister Narendra Modi, assume special significance. These three initiatives, propelled by policy actions on land acquisition, labour-market reforms and reduced uncertainty on taxation, can potentially create a large number of good jobs for the masses and accelerate growth further. With China poised to exit the basic labour-intensive sectors such as apparel and light consumer goods, the timing for India could not be more opportune. India must aim to capture a significant part of the space in the world market for manufactures that China is poised to vacate.

In Conclusion

Let me conclude by stating that the prospects for India to become the third largest economy of the world in less than fifteen years are excellent today. Taking into account the real appreciation of the rupee, during the decade of 2003-04 to 2012-13, we have grown above 10 percent per annum in real dollars. At this pace, we can turn the current $2 trillion economy at 2014-15 prices into $8 trillion in fifteen years or less. That would place us well above Japan, the economy that currently ranks third.

Can we grow at the rate we grew during 2003-04 to 2012-13? The answer is a resounding yes. Our savings rate remains nearly 30 percent of the GDP with prospects to rise above 35 percent, a level reached in 2007-

08. We have a young population so that labour shortages will not be an impediment to growth. We also remain an open, competitive economy. Our per-capita income being low, we are far from the global technology frontier so that we have a lot of scope to catch up. Above all, we have a highly motivated and responsive government at the center and governments in numerous states that are in a race with each other to move the nation forward at brisk pace.

About the Speaker

Dr. Arvind Panagariya is Vice-Chairman, NITI Aayog and has been Professor of Indian Political Economy at Columbia University. He was a former Chief Economist of the Asian Development Bank and Professor of Economics at the University of Maryland at College Park. He had also worked with the World Bank, IMF and UNCTAD in various capacities. He holds a Ph.D. degree in Economics from Princeton University.

Dr. Panagariya has authored more than fifteen books. His book India : The Emerging Giant (2008, OUP, New York) was listed as a top pick of 2008 by the Economist magazine and described as the "definitive book on the Indian economy" by Fareed Zakaria of the CNN. The Economist magazine has described his book, Why Growth Matters, (with Jagdish Bhagwati) as "a manifesto for policymakers and analysts." Professor Panagariya's scientific papers have appeared in the top economics journals such as the American Economic Review and the Quarterly Journal of Economics while his policy papers have appeared in the Foreign Affairs and Foreign Policy. Until recently, he wrote a monthly column in the Times of India and his guest columns have appeared in the Financial Times, Wall Street Journal and India Today.

In March 2012, the Government of India honoured Panagariya with Padma Bhushan, the third highest civilian honor the country bestows in any field.

Past R. K. Talwar Memorial Lectures :

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