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Challenges to inclusive and sustainable growth: Some lessons from India

Summary of her keynote lecture given at ISS on 31 May 2016

Both China and India show remarkable macro-economic numbers since 1990: a steady growth in GDP. However, when we unpack these growth-numbers for India we see that India's structural change has been inadequate:

- The growth of employment has stagnated in a period of rapid GDP growth (especially since 2004/05). Since 1991 we have seen very small growth in employment in the organised sector.
- Informal workers remain dominant in the Indian labour market, even within the public sector: the total share of informal workers (with very low or zero social security) is around 96 per cent of the workforce.
- Female work force participation – which was already low – has declined, especially in agriculture.
- There is a huge amount of unrecognised work - mainly among women. If this unpaid, but socially necessary work is recognized, then a higher proportion of Indian women work compared to men, but in unpaid activities.

The Indian growth process has failed to generate adequate structural change, and has failed to create employment, especially better quality employment. The Indian growth process has been associated with sharply increased inequalities across and within regions and sectors. It has relied on existing systems of social discrimination and exclusion such as gender, caste, ethnic origin, language etc. to benefit from segmented labour markets and cheap exploitation of natural resources, and has therefore perpetuated these inequalities. Finally, the Indian growth process is environmentally unsustainable. There are huge problems of pollution, over-exploitation and degradation of nature, in addition to climate change. But India is not alone – we can see similar problems in many other developing countries.

The approach of the government of India has to change. Policies to reduce inequalities require:

- A combination of growth-enhancing macroeconomic policies with redistributive social policies (e.g. ensuring that wages grow along with productivity; or progressive income taxes and redistributive social transfers).
- Universal public provision of basic needs (housing, water, electricity, social services). Universalism is important to prevail unfair exclusion and to create a stronger public demand for good quality public services.

These policies are also relevant to most other emerging economies and developing countries.

In addition, the approach of international policies should change. At the moment, the international environment is not conducive to inclusive and sustainable growth in emerging markets and developing countries.

- Global finance should not be an impediment to economic progress. Therefore, volatile flows should be regulated so that cross border flows actually support long term finance for development, and the international financial system should generate

stability. It should also enable and support more inclusive macroeconomic and policies, and should not create (unjustified) demands for fiscal austerity.

- Trade agreements (WTO and regional agreements and new mega-regionals) should ensure enough policy space for developing countries, so that the inclusive and sustainable growth in developing countries will not be hampered. The opening up of a market should protect the interests of fragile sectors that are essential for the development of a developing country.
- Concentration of Intellectual Property Rights prevents developing countries from accessing or generating relevant knowledge. Developing countries should be allowed free use of IPRs for the development and manufacturing of goods for their own market.
- Investor-State Dispute Settlement mechanisms put the interests of private companies above human rights and citizens' needs. Therefore, ISDS mechanisms are not suitable elements of international Trade Agreements.

Changing the global context is a necessity. More than aid flows, developing countries require major changes in existing rules and in the global financial, trade and economic architecture. This will also benefit advanced economies, by generating new sources of demand and vibrant markets in developing countries, as well as reducing global inequalities and strife, that are generating other problems like forced migration. In the absence of change, many developing countries are forging new paths and alliances that will shift geopolitical patterns further in a variety of ways.

If we do not pro-actively change things for the better, things will change on their own for the worse. Business as usual will not work!