PRODUCTIVITY AND INCOME TRAPS:
LESSONS FROM INDIA

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In a steadily growing economy, GDP per capita rises continuously. However, countries caught in a ‘middle income trap’ cannot transition from resource driven growth, with low-cost labour and capital, to productivity driven growth. India is a labour intensive economy, and owing to its structural constraints, must remain so while seeking productivity gains. The World Bank classifies India as a lower middle income country, with its gross domestic product per capita of just $3,200 (on PPP basis). According to ADB, if India slows down to a per capita income of $17,800 – in 20 years’ time considering the 2005-2010 growth trend – it will be caught in its own version of a middle income trap.

The specificity of the Indian economy must underpin any serious efforts at enhancing productivity. For instance the informal sector (service sector dominated) accounts for around 85 per cent of all jobs in the economy and at the same time the output generated from unorganized sector accounts for almost half of the total GDP. The service sector led economy has skipped a phase in transition from an agricultural economy and now faces an employment challenge, which in an absolute sense, is far greater than any other country faces at this current juncture.

Indeed the growth experience of India has been different from many other economies of East Asia as well as Southeast Asia and consequently the country faces a unique set of challenges with regard to welfare. Output growth has not necessarily been productivity led, particularly over the last decade. Therefore, an assessment of the channels through which policy priorities can sustain high growth is vital while maintaining social objectives is critical. In this regard there is significant scope for sharing experiences with other BRICS member nations and identifying areas of cooperation and mutual gain.