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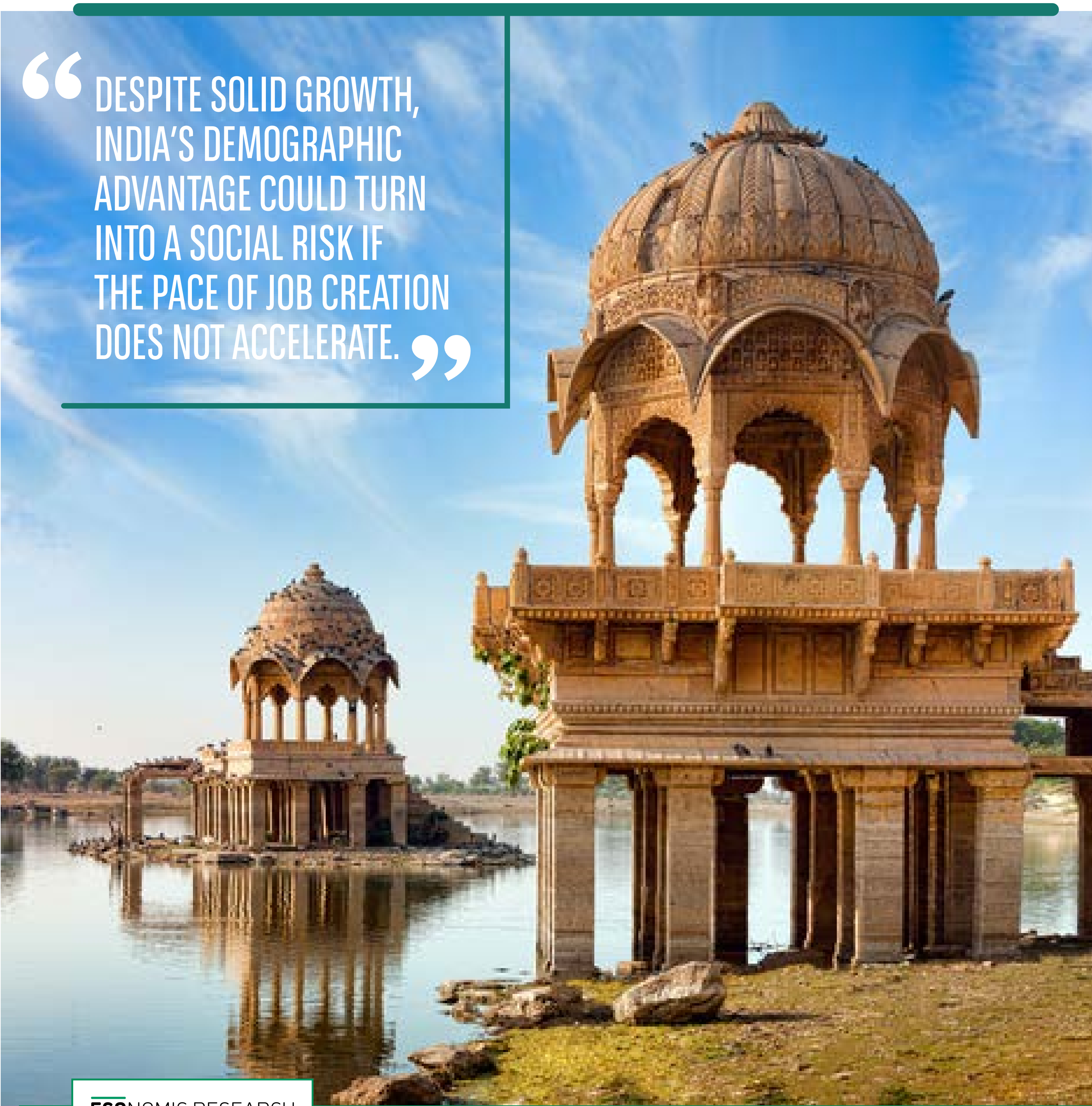
ECOCONJONCTURE

> "DESPITE SOLID GROWTH, INDIA'S DEMOGRAPHIC ADVANTAGE COULD TURN INTO A SOCIAL RISK IF THE PACE OF JOB CREATION DOES NOT ACCELERATE."



ECONOMIC RESEARCH

BNP PARIBAS

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INDIA: GROWTH IS STRONG BUT INCOME AND EMPLOYMENT LEVELS REMAIN LOW

For the fiscal year 2023/2024, which ended at the end of March 2024, economic growth in India reached 8.2%, the highest rate among Asian countries. Over the past twenty years, growth reached 6.3% per year on average. Yet, despite this performance, India's GDP per capita remains low. In addition, income inequalities have increased and unemployment rates are high (especially among young people), despite higher education levels. The low levels of income and employment can be explained by the employment structure, which remains concentrated in agriculture, a sector with low value added. Despite the major reforms adopted by the Modi government to stimulate development of the manufacturing industry, the sector did not create any jobs over the period 2012-2019. One reason for this is the low level of foreign direct investment (FDI). FDI is mainly concentrated in services, especially IT services. But the services sector alone cannot absorb the abundance of labour. Although India is now the second largest exporter of IT services, jobs in this sector remain fairly marginal at country level (1.5% of total employment). Only joint development of the manufacturing and services industry can help India to create sufficient jobs.

INDIA: GROWTH IS STRONG BUT INCOME AND EMPLOYMENT LEVELS REMAIN LOW

For the fiscal year 2023/2024, which ended at the end of March 2024, economic growth in India reached 8.2%, the highest rate among Asian countries. Over the past twenty years, growth reached 6.3% per year on average. Yet, despite this performance, India's GDP per capita remains low. In addition, income inequalities have increased and unemployment rates are high (especially among young people), despite higher education levels. The low levels of income and employment can be explained by the employment structure, which remains concentrated in agriculture, a sector with low value added. Despite the major reforms adopted by the Modi government to stimulate development of the manufacturing industry, the sector did not create any jobs over the period 2012-2019. One reason for this is the low level of foreign direct investment (FDI). FDI is mainly concentrated in services, especially IT services. But the services sector alone cannot absorb the abundance of labour. Although India is now the second largest exporter of IT services, jobs in this sector remain fairly marginal at country level (1.5% of total employment). Only joint development of the manufacturing and services industry can help India to create sufficient jobs.

GROWTH IS ROBUST, BUT THE POPULATION IS NOT YET BENEFITING SUFFICIENTLY

GDP per capita still low and inequalities remain high

Despite solid economic growth, the level of GDP per capita remains relatively modest, income inequalities have increased over the last decade and unemployment remains high, particularly among young people. India's demographic advantage could turn into a social risk if the pace of job creation does not accelerate.

Over the 2012-2024 period (excluding years marked by the pandemic and the subsequent recovery), GDP growth in volume reached an average of 6.9% per year. Over the same period, GDP per capita was 5.8% per year on average, which allowed the poverty rate to fall from 40.4% in 2004 to 12.9% in 2021, according to the World Bank.

However, GDP per capita remains low, especially compared to other Asian countries. In 2023, measured by purchasing power parity, it was 2.5 times lower than China, 1.5 times lower than Vietnam and 1.7 times lower than Indonesia, according to IMF estimates.

In addition, even though the poverty rate has fallen, the concentration of wealth has increased significantly over the past 10 years. According to the latest analysis carried out by Kumar Bharti, Chancel, Piketty and Somanchi (2024), the top 1% wealth share increased threefold between 1961 and 2023, from 12.9% to 39.5% of total wealth. 29 percentage points went just to the top 0.1%, compared to 18.8% ten years earlier.

High unemployment

Although the employment rate has been rising over the past two years, it only stood at 37.9% in March 2024, which is still below its pre-pandemic level (39.8% in March 2020), according to the Centre for Monitoring Indian Economy (CMIE).[1] This modest employment rate can be explained by the low level of labour force participation among women and young people.

1 The employment rate is the proportion of the employed population in the working age population.

REAL GDP PER CAPITA AS % OF INDIA'S

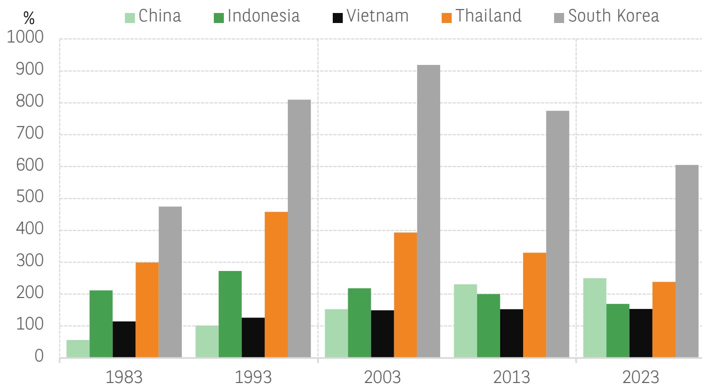


CHART 1 SOURCE: WEO, IMF, BNP PARIBAS

REAL GDP PER CAPITA IN PPP

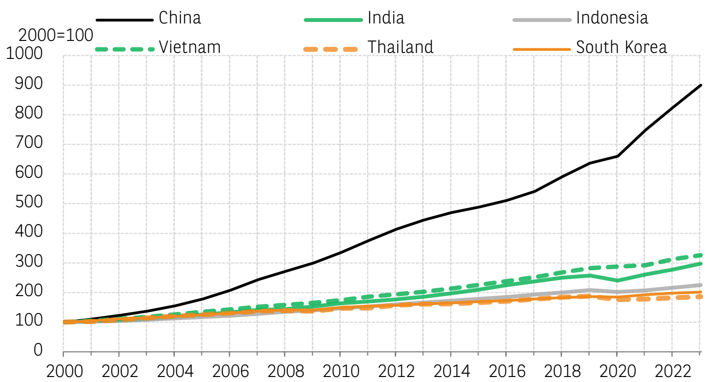


CHART 2 SOURCE: WEO, IMF, BNP PARIBAS

According to the latest Periodic Labour Force Survey (2022/2023), the employment rate for women reached only 35.1% compared to 76.4% for men. This rate could even be overestimated according to the International Labour Organization (ILO), which estimated it at only 24.1% in 2023 (compared to 73.8% among men). In addition, it has fallen by 3.2 percentage points in ten years, according to the ILO.

The unemployment rate is particularly high among young people. According to the CMIE, in December 2023, it stood at 45.4% for 20-24-year-olds and 15.5% for 25-29-year-olds, while the national average was 8.1% in April 2024. Moreover, according to the latest ILO employment report, the unemployment rate is particularly high among young graduates. This rate reached 28.7% in 2022 among higher education graduates, compared to 11.5% for secondary school graduates. Young people with the best qualifications are in jobs in high-value-added sectors, but these jobs remain very insufficient given the number of young graduates on the labour market who are turning down job offers for which they are overqualified and offering a much lower salary than they hoped for. Their discouragement is resulting in a very high level of unemployment. According to the ILO, the proportion of those who are neither in employment, nor seeking employment, nor in training reached 23.5% in 2023, a level close to that of Indonesia (22.3%), which is also characterised by a rapidly growing young population, but well above the level in other Asian countries (10.2% in Malaysia, 11.3% in Vietnam and 13.3% in Thailand).

Precarious employment remains very high

Not only is the unemployment rate high, but job quality also remains precarious.

According to the ILO, the proportion of informal employment (all sectors of activity combined) stood at 89% of total employment in 2022, slightly higher than in 2018. Employees in the informal sector generally have low-value-added jobs that are therefore low-paid, do not receive the minimum wage and do not have any social security cover. Informal employment accounts for 99% of total employment in agriculture, 86.7% in industry and 77.3% in services.

In fiscal year (FY) 2023/2024, around 93 million of the 471 million workers identified by the ILO (or 19.7%) benefited from the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) programme, which guarantees 100 days of wage employment for each agricultural worker. Although down from a peak reached during the pandemic, the number of rural workers who benefited from this work assistance programme is still 7% higher than the pre-pandemic level. However, for FY2024/2025, after an increase set by the government at between 3% and 10%, the average daily salary is only 289 rupees (USD 3.46). By way of comparison, the daily wage in agriculture is between 449 and 542 rupees (in agricultural areas).

Wage disparities remain very significant depending on States (wages vary from 100% to 300% of the base wage) and sectors of activity. According to the ILO, the average monthly wage, estimated at 19,783 rupees for the entire economy in 2023, is 2.2 times lower than the general average for agricultural workers and 2.2 times higher for IT workers.

EMPLOYMENT AND UNEMPLOYMENT RATES

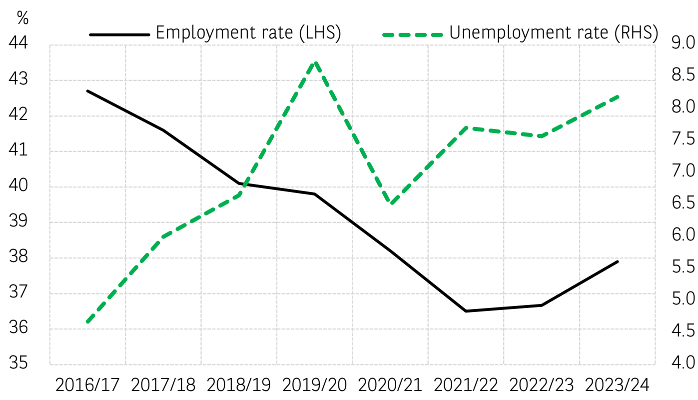


CHART 3 SOURCE: CMIE, BNP PARIBAS

YOUTH UNEMPLOYMENT PER DEGREE

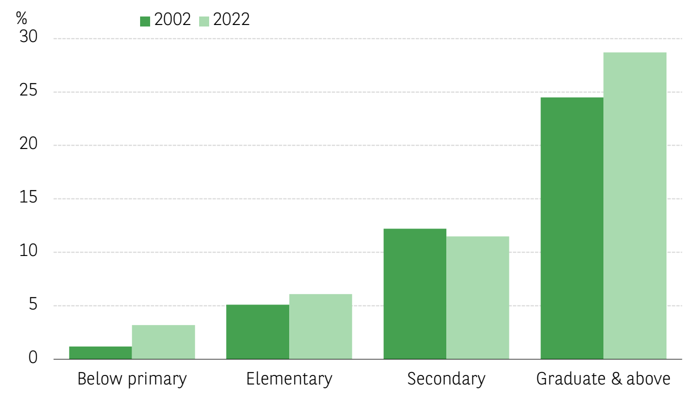


CHART 4 SOURCE: CMIE, BNP PARIBAS

WHAT MIGHT EXPLAIN THIS SITUATION?

Two factors can explain the low level of employment and income in India: first, growth has been accompanied by very low job creation and second, employment has remained concentrated in low-productivity and therefore low-income sectors.

The pace of job creation has been too slow

Over the period 2000-2022, Indian growth can be broken down into three sub-periods, but regardless of the period under consideration, it has always been primarily driven by capital accumulation. Except for the period 2019-2022, employment growth was extremely low or even negative.

CONTRIBUTIONS TO GROWTH	2000-12	2012-19	2019-2022
Real GDP growth	6.9	4.9	3.4
Contribution of labour quantity to growth	0.3	-0.6	1.0
Contribution of labour quality to growth	0.5	0.3	0.3
Contribution of capital to growth	4.7	3.8	2.9
Non-IT capital	0.9	0.6	0.5
IT capital	3.8	3.2	2.4
Contribution of total factor productivity (TFP)	1.5	1.4	-0.7

TABLE 1

SOURCE: THE CONFERENCE BOARD TOTAL ECONOMY DATABASE, APRIL 2023

CHANGES IN THE EMPLOYMENT RATE	2000-12	2012-19	2019-22
Change in employment rate*	0.01	-0.5	0.6
Change in labour force participation rate**	-0.8	-1.5	3.4
Change in working age population (15-64-year olds)	0.7	0.9	0.1

TABLE 2

SOURCE: NSO, ILO

*: The employment rate is the proportion of the employed population in the working age population.

**: The labour force participation rate is the ratio of the population employed or actively seeking employment to the working age population.

Between the two sub-periods 2000-12 and 2012-2019, the breakdown of growth changed (*Table 1*). Over the two sub-periods, the contribution of capital to growth remained high (although slightly lower over the period 2012-2019 due to the fall in the investment rate combined with corporate deleveraging strategies). By contrast, the contribution of labour to growth has decreased. Growth in labour quantity has decreased and growth in labour quality has slowed. According to the ILO, the employment rate fell by 0.1 percentage points (pp) over the period 2012-2019; the employment growth rate was lower than the growth rate of the working population (*Table 2*).

Over the period 2019-2022, the contribution of labour recovered. Growth in the quantity of labour has returned to positive territory and is high enough to allow the employment rate to rise by 0.6 pp. However, it should be noted that according to The Conference Board's estimates on the decomposition of economic growth, the contribution of labour quality remained low.

Employment remains concentrated in low value-added sectors

The change in the structure of the Indian economy has not been accompanied by an equally significant change in the distribution of employment by sector of activity.

The agricultural sector is still the main source of employment

A very large proportion of employment remains concentrated in the agricultural sector, where productivity and wages are low. The percentage of employment in this sector was 43.5% in 2023, three times more than it represents in terms of value added (14.5%). In addition, the proportion of agricultural employment increased during the COVID-19 pandemic (although at a slower pace) while, over the period 2000-2019, this proportion had fallen, albeit at a slower pace. In 2023, this proportion remained 2.8 pp above its pre-pandemic level (*Table 3*).

AVERAGE ANNUAL GROWTH RATES OF EMPLOYMENT AND VALUE ADDED

	Average annual employment growth				Average annual growth in value added			
	2000-12	2012-19	2000-2019	2019-2023	2000-12	2012-19	2000-2019	2019-2023
Agriculture, forestry and fisheries	-0.4	-2.2	-1.1	8.9	2.9	3.3	3.0	4.6
Manufacturing	2.9	-0.3	1.7	3.0	7.5	7.4	7.5	3.5
Construction	9.2	1.9	6.4	6.4	9.4	4.1	7.4	3.2
Services	3.0	2.7	2.9	1.1	7.2	8.2	7.5	2.1

TABLE 3 SOURCE: NSO, ILO

In addition, employment in industry (labour-intensive, with productivity levels and therefore wages higher than those recorded in agriculture) remains modest. The proportion of employment in the manufacturing sector was only 12% of total employment in 2023, and has fallen by 0.5 percentage points over the last five years, according to the ILO. By contrast, manufacturing employment stood at 28.7% in China (in 2020) and 21.4% in Vietnam. However, economic history has taught us that it is difficult for a country with a high population, relatively high population growth and what are known as middle-income countries (such as India) to create enough jobs without developing its industry.[2] The development of industry stimulates activity in the services sector, not the other way around. According to Dan Su and Yang Yao (2016), manufacturing is the key engine of economic growth for what are known as middle-income countries and creates an important basis for high value-added jobs. A direct transition from agriculture to services activities would not create enough jobs to meet the needs of a country like India.

India is a textbook case where the services sector, although expanding, is not able to absorb the entire workforce, especially those migrating from the agricultural sector. Services require specific skills and a higher level of education, which limits access to a large proportion of the population. It also seems that the education system is not meeting employers' expectations in terms of skills, even though young people are now more qualified than before. As a result, despite the upward growth trend in services, the proportion of employment, although up (+7.4 pp in twenty years), has remained modest (31.9% of total employment in 2023), due to significant productivity gains in this sector (value added growth was 7.5% per year on average over the period 2000-2019, compared to 2.6% for employment).

STRUCTURE OF GROSS VALUE ADDED AND EMPLOYMENT PER SECTOR

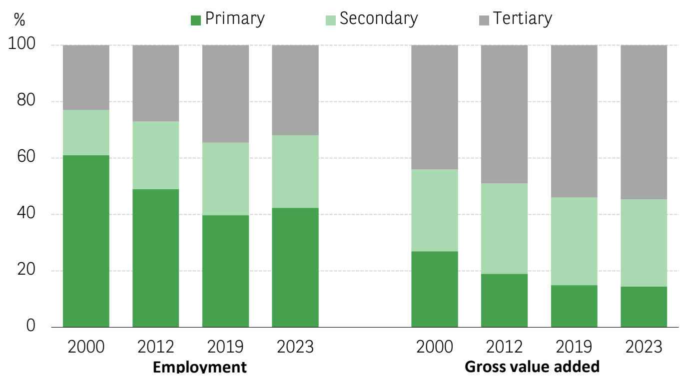


CHART 5 SOURCE: ILO, CEIC, BNP PARIBAS

The manufacturing sector is barely growing

One of Narendra Modi's stated goals was to make India the new global manufacturing hub, by developing its manufacturing sector. But to date, despite regulatory measures (opening up of many sectors to foreign companies) and fiscal measures (lowering corporate tax rates in 2019[3] and adopting profit incentive programmes, in particular for labour-intensive sectors from 2020, known as 'Production Linked Incentives Schemes for the manufacturing sector'), the share of the manufacturing industry in the country's total value added has barely increased in the past ten years. It stood at just 17.3% in FY2023/2024 (compared to 18.3% five years ago). In addition, apart from specific business segments, such as automotive, pharmaceuticals and textiles, activity is barely growing in other sectors.

The difficult development of the manufacturing industry reflects the country's lack of integration into global trade, which can be explained in particular by a much more protectionist trade policy than that adopted by other Asian countries. And there are still major tariff and non-tariff trade barriers in place. According to the WTO, the average rate of customs tariffs imposed by India on imports from partner countries is 18.1%, compared to just 8% in Indonesia and 2.3% in China. In addition, over the past decade, India's customs duties have risen (+3.7 pp) while other countries in the world have fallen (-0.6 pp). And lastly, India has signed relatively few trade agreements compared to other Asian countries. However, the government is seeking to change its strategy and move away from its desire to protect its country from foreign competition, in order to accelerate development of its industry.

2 *Manufacturing as the key engine of economic growth for middle-income economies*, ADBI May 2016.
3 The government reduced the corporation tax rate from 30% to 22% for all existing companies and set it at 15% for companies in the manufacturing sector incorporated after 1st October 2019 and starting their activities before 31 March 2023.

India's market share is still small and has not ultimately increased a great deal over the past decade. In 2022, exports of goods only accounted for 1.8% of global exports, compared to 1.6% in 2012. By comparison, China's market shares were 14.5%, according to UNCTAD. India's largest market shares are in grain, cotton, textiles, carpets, gemstones and metals. Market shares in the capital goods sector ("electrical machinery and equipment" in the Indian nomenclature) remain low (0.7% of global exports in 2022) and have only increased by 0.2 pp in ten years. It should be noted however, that the weight of exports of this type of product in Indian exports increased from 3.7% to 5.8% between 2012 and 2022, and that the trend is likely to continue or even accelerate, taking into account the many announcements of investments by major foreign industrial groups in recent years in the IT equipment sectors, in particular integrated electronic circuits and microprocessors. In addition, India has taken advantage of trade pressures between the US and China to become a more significant partner for the US. Although between 2019 and 2023, the share of US imports from India saw little growth (+0.4 pp), to reach 2.8% of total US imports (by comparison, and although declining sharply, imports from China still accounted for 14.1% of US imports in 2023), the share of imports of electrical equipment and machines in the broad sense from India increased by 2 pp over the same period (2.6% of total imports of this type of goods). However, Narendra Modi's 'Make in India' initiative remains limited thus far.

Services industry at the forefront

While manufacturing is struggling to grow, services have seen strong growth, and India is now the second largest exporter of IT services after Ireland. Yet jobs in IT services remain modest in terms of labour supply.

Strong growth

The services sector is still the key engine of Indian economic growth: over the past 20 years, the share of the services sector has increased by 8.3 pp to reach 54.6% of the total value added in FY2023/2024.

Within the services sector, the largest sector apart from trade (10.5% of GDP in 2023), the IT services sector recorded an increase in value of 4.1 pp in ten years, to reach 8.3% of GDP in 2023.

Over the past 10 years (including the years of the pandemic), the average annual growth rate in services (+6.5%) exceeded that recorded in agriculture (+3.6%) and industry (+5.6%). This momentum was reflected in a sharp increase in exports of services (+8.4% per year), higher than exports of goods (+4.6% per year on average). In 2022, India's global market share in this sector stood at 4.4% (+1.2 pp in ten years). It is mainly in IT services that India has a comparative advantage.[4] Its comparative advantage is low in transport services and limited in tourism activities.

In 2022, India's exports of IT services accounted for 32.1% of its total exports of services (according to UNCTAD and the World Bank). The IT services business has posted very impressive growth (+13.3% per year on average over the last ten years), thanks to government support measures and foreign direct investment (FDI).

India is now the second largest exporter of IT services after Ireland. In 2022, this sector's export market share stood at 10.7% of global exports (compared to 22.2% in Ireland).

However, this market share fell between 2011 and 2019 before recovering from 2020 onwards. In 2022, this share was still 2.5 pp below its 2012 level. Over the same period, the shares of Ireland and China increased by 10 pp and 5.5 pp, respectively. India's comparative advantage in IT services exports decreased between 2012 and 2022 (*Table 4*).

In contrast, in the "other business services sector", which includes consulting services, technical-commercial services and R&D activities, India's market share increased by 2.5 pp in ten years, reaching 7.1% of global exports. In 2022, India ranked third for exports of these types of service, behind the US and the UK. In particular, it overtook China and Germany (which lost in market share what India gained in ten years). India mainly exports professional and management consulting services, with a market share of 13.6% in 2022. But these types of service require highly targeted skills from employees that newly graduated students do not necessarily possess, which could limit development.

Massive government support for development of IT services

The development of services has been supported by government policies. As early as 1991, in its extensive economic liberalisation programme, the government lifted restrictions on foreign investment, simplified privatisations and created a more favourable environment for business development. As of 2005, special economic zones (SEZs) have been created and many of these have been designed specifically for the IT industry. IT companies located in the SEZs benefit from full exemption from income tax for the first five years of business, followed by a 50% exemption for the following five years and a partial exemption for the following five years under certain conditions. In addition, exports of services from SEZs are exempt from goods and services tax. And lastly, imports of capital goods, IT equipment and all goods necessary for the operation of IT companies, are exempt from customs duties, thereby reducing their operating costs. According to NASSCOM (National Association of Software and Service Companies), around 50 to 60% of companies in special economic zones come from the IT sectors in the strict sense and IT-enabled services.

From 2015, the government also introduced financial incentive programmes (across the country) to develop exports of services (Service Exports from India Scheme, SEIS). Eligible companies (including those from IT sectors) that are not located in SEZs receive duty credit scrips for between 3% and 7% of the value of their net foreign exchange service exports. These credit scrips may be used to pay customs duties and other taxes related to the import of goods and services by eligible companies. This enables exporters to reduce their import costs and as a result, increase their competitiveness.

In addition, a comprehensive Indian digitalisation programme was launched in 2015 to transform India into a digital society. The aim of the programme was to improve internet connectivity in rural and urban areas, promote online government services and encourage the adoption of digital technologies in businesses.

4 According to Ricardo, a country has an advantage in specialising in producing goods or services for which it has the highest relative productivity compared to that of its partners.

REVEALED COMPARATIVE ADVANTAGES[5] (RCA) IN EXPORTS OF SERVICES BY COUNTRY AND SERVICES

		China	France	Germany	India	Ireland	Singapore	Spain	UK	US
Transport	Rank	1	5	2	10	37	3	19	13	4
	2012	0.8	0.8	0.9	0.1	0.2	1.4	0.5	0.4	0.5
	2022	2.3	1.7	1.7	0.2	0.1	2.3	0.9	0.4	0.6
Tourism	Rank	25	5	8	14	37	23	2	3	1
	2012	1.0	0.9	0.6	0.5	0.2	0.6	2.1	0.5	0.9
	2022	0.1	1.1	0.5	0.8	0.1	0.3	2.8	0.9	1.0
ICT	Rank	3	8	6	2	1	9	13	5	4
	2012	1.0	0.8	1.2	4.0	4.8	0.6	1.2	0.9	0.6
	2022	1.5	0.6	0.8	2.4	4.4	0.6	0.7	0.7	0.5
Other business services***	Rank	3	5	4	8	9	6	13	2	1
	2012	1.2	1.4	1.3	1.5	0.9	1.0	0.7	1.3	0.8
	2022	1.0	1.1	1.0	1.6	0.7	1.2	0.9	1.6	1.1

TABLE 4

SOURCE: ITC, RBI, BNP PARIBAS

The rank is that derived from RCA calculations for 2022.

***: include business consulting services, technical-commercial services and R&D activities.

Although the rate of internet use remains modest, it has increased significantly over the past decade. In 2024, 52.4% of the population had access to the internet compared to 13.5% ten years ago. At the same time, the government has implemented major training and education programmes ("Skill India") that aim to strengthen the technical and digital skills of the workforce in order to increase the supply of skilled workers in IT services. The government has also encouraged public-private partnerships for the development of technological infrastructure, including the construction of data centres, improving internet connectivity and promoting innovation.

In 2019, the government also adopted a "National Policy on Software Products" (NPSP) initiative, with the aim of positioning India as a global leader in software production. In particular, it aimed to promote start-ups through funding facilities and a more favourable regulatory framework.

Low and highly sector-focused FDI

The significant development of the services sector compared to the manufacturing sector cannot just be explained by government support programmes. The manufacturing sector has also benefited from lower taxation, financial incentive programmes and the establishment of SEZs.

Another explanation for the development gap between these two sectors is the influx of foreign investment. Foreign direct investments (FDIs) remain essential in the development of an economy as they increase capital stock and enables the transfer of technology and expertise.

However, apart from the automotive sector (6.2% of FDIs received over the past five years), FDIs in industry are extremely low, even though investments in renewable energies rose significantly last year (7.2% of FDIs received during FY2022/23).

FDIs received by India were mainly concentrated in services and in particular in IT services (on average 24.8% of FDI received over the past five years) and to a lesser extent in other types of services (financial services, insurance, banking, R&D), which received 14.7% of FDIs inflows over the past five years, and trade (8.1% of total FDIs received).

But since 2022, FDIs inflows received by India, already structurally weak, have fallen even further, both nominally and in relation to GDP. In FY2023/2024, they only reached 0.8% of GDP (-0.4 pp compared to FY2022/2023), the lowest level posted since 2013.

5 The RCA of country *A* for service *i* ($RCA_{A,i}$) is defined by: the ratio of the share of exports of service *i* by country *A* ($X_{A,i}$) in its total exports of services, to the share of global exports of service *i* ($X_{W,i}$), by the world in global exports of all services combined. The higher the value of the RCA, the greater the country's comparative advantage in exports of this service.

$$RCA_{A,i} = \frac{X_{A,i} \Big/ \sum_{j \in p} X_{A,j}}{X_{W,i} \Big/ \sum_{j \in p} X_{W,j}}$$

INDIA'S MARKET SHARES IN WORLD TRADE

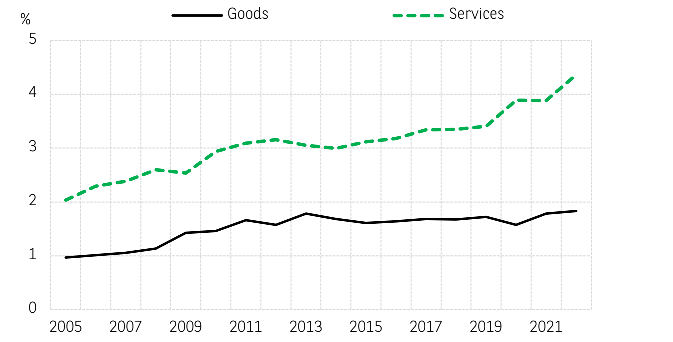


CHART 6 SOURCE: ITC, BNP PARIBAS

EXPORT OF SERVICES FROM INDIA AND THE WORLD

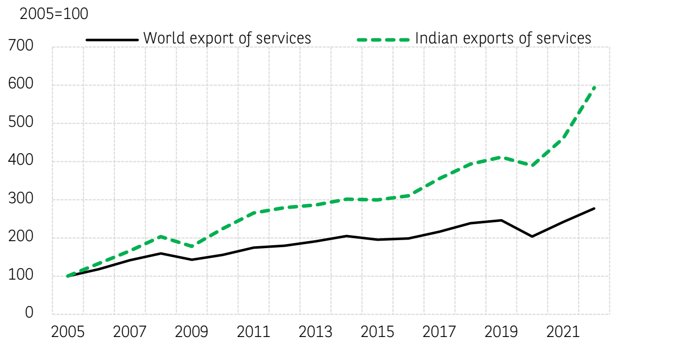


CHART 7 SOURCE: ITC, BNP PARIBAS

IT EXPORTS

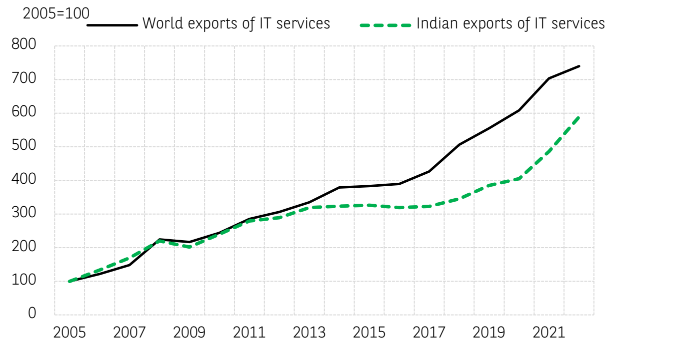


CHART 8 SOURCE: ITC, BNP PARIBAS

EXPORTS OF OTHER BUSINESS SERVICES***

***: profesional and management consulting services, technical trade related-services, R&D

CHART 9 SOURCE: ITC, BNP PARIBAS

IT MARKET SHARES IN WORLD TRADE

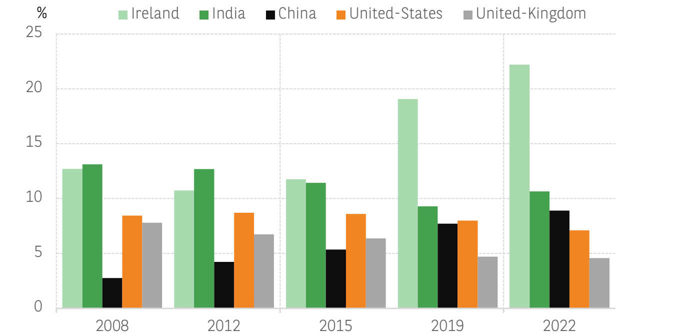
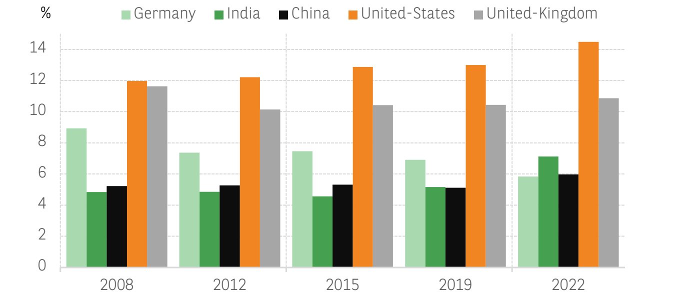


CHART 10 SOURCE: ITC, BNP PARIBAS

OTHER BUSINESS*** SERVICES MARKET SHARES IN WORLD TRADE



***: profesional and management consulting services, technical trade related-services, R&D

CHART 11 SOURCE: ITC, BNP PARIBAS

By way of comparison, over the period 2015-2019, FDIs received by India had reached an average of 1.8% of GDP, which was already lower than that of Vietnam (4.4% of GDP) and Malaysia (3.6% of GDP).

The low level of FDIs in India can be explained by structural constraints on the economy. Restrictive trade policies, infrastructure that is still failing (although significantly improving over the past five years), and constraints on the labour market and business environment, are all factors limiting India's appeal compared to other countries in the area. However, these factors cannot explain the decline seen in the past two years. This can be partly explained by a return to "normal" by investments in IT services after a sharp increase during the pandemic. But this explanation is not entirely satisfactory as investments have fallen in services as a whole and also in industry (excluding renewables). Another explanation put forward is a less favourable international monetary and financial environment (decrease in global liquidity due to monetary tightening in advanced countries). But this explanation is not entirely convincing either, as, according to data published by UNCTAD, India only received 5.7% of the total amount of FDI to emerging countries in 2022 (2023 data are not yet available), compared to an average of 6.3% over the period 2015-2019. By comparison, the share of FDIs received by China reached 20.6% of total FDI received by emerging countries in 2022.

This decline is all the more surprising since, over the same period, the number of announcements of new investment projects ("greenfield projects") increased. According to UNCTAD and FDI Intelligence, the number of greenfield projects have been even higher than those of other Asian countries for the last two years (including China). The question is whether these announcements will be reflected in new investments.

Historically, completion of projects depends on many factors, but the main barriers in India concern land acquisition and administrative constraints on any investment in general.

In 2013, the government adopted a reform to facilitate land acquisition for infrastructure projects and industrial development ("the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act"). But the acquisition of agricultural land by industrial companies remains difficult because farmers are reluctant to sell their land. In 2014, when Narendra Modi came to power, he wanted to amend the law by removing the need to obtain the agreement of 70% to 80% of landowners (depending on the type of project). But not having a majority in the upper house of Parliament, this amendment was rejected, even though it was adopted in the lower house. The Prime Minister had hoped to submit this amendment again after the 2024 election, but it now seems unlikely to succeed in view of the election results. The parties in his coalition will not be willing to vote in this amendment to the law.

Employment in IT services remains modest

The ILO estimates that jobs in the Information and Communication Technologies (ICT) sector in 2023 amounted to 6.7 million, or 1.5% of total employment. But strictly speaking (excluding telecommunications), employment stands at 5.7 million according to the ILO (1.2% of total employment) and at 5.4 million according to the Ministry of Electronics and Information Technology. By comparison, employment in IT (excluding telecommunications) accounted for 4.8% of total employment in Ireland, according to the ILO.

FDI INFLOWS IN EMERGING COUNTRIES

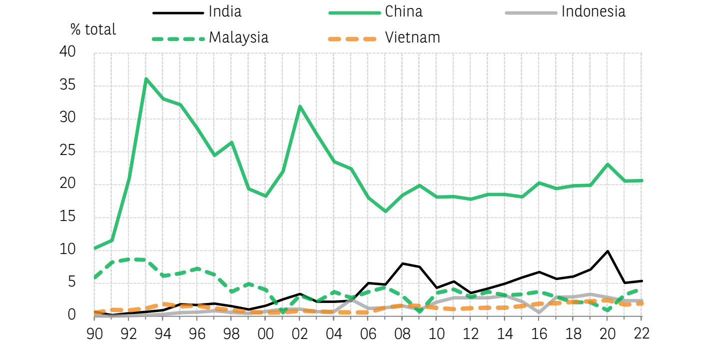


CHART 12 SOURCE: UNCTAD, BNP PARIBAS

FDI AND GREENFIELD PROJECTS

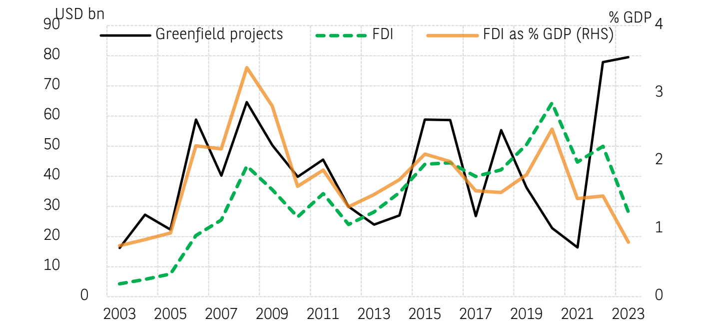


CHART 13 SOURCE: UNCTAD, RBI, BNP PARIBAS

FDI INFLOWS PER SECTOR OVER THE PERIOD FY2000-2024

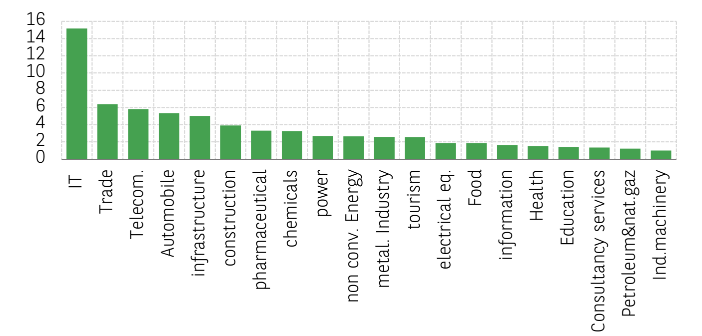


CHART 14 SOURCE: DFPOIIT, BNP PARIBAS

The rate of job creation in the ICT sector has grown at 13% per year over the past five years, well above the rate seen across all services (+5.1% per year on average) or in any other industry.

According to the ILO, 7 to 8 million young people will enter the labour market every year over the next decade. According to the CMIE, in order to maintain a stable unemployment rate, the country needs to create 8 million jobs each year. But according to the National Skill Development Corporation (NSDC), to absorb the workforce currently seeking jobs, i.e., those seeking to migrate from agriculture to higher-paying sectors and/or those working in informal sectors, job creation needs could be between 8 and 10 million per year.

The niche in terms of job creation made up by IT activities (between 0.5 and 0.6 million net job creations per year depending on the coverage chosen) is largely insufficient for the job-seeking workforce, even though pay for jobs in that sector is relatively higher than average wages. In addition, according to NASSCOM estimates, activity slowed slightly during the 2023/2024 fiscal year. In addition, according to the Naukri JobSpeak Index, job offers in the software and Business Process Outsourcing and Information Technology Enabled Services (BPO-ITES), have been less abundant over the last year.

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In addition to being the most populous country on the planet, India is one of the countries in Asia with the highest population growth. The dynamism of its young population is often cited as one of the key factors in sustaining economic growth. According to UN forecasts, the proportion of the working age population (15-64-year-olds) is expected to continue rising until the middle of the century. But despite impressive growth, the pace of job creation over the past decade is just not enough to create jobs for new entrants and those in precarious jobs. To succeed in building on its demographic advantage and increasing its level of GDP per capita, India needs not only solid but also labour-intensive growth. The government needs to successfully develop industry and services together, in order to enable transfer of the labour force from agriculture to industry and services.

The reforms undertaken by the Modi government over the last ten years are heading in the right direction, but they are still not enough. If the country fails to increase the level of employment, its demographic advantage could become a real social risk. However, unlike its two previous mandates, the newly elected government no longer has a majority in the lower house of Parliament. For the next five years, the Prime Minister will have to liaise with the members of his coalition (National Democratic Alliance), which could jeopardise the adoption of reforms (such as that relating to land acquisition), which are however, essential for development of the manufacturing sector. He could also reduce infrastructure expenditures, to spend a larger proportion of his budget on social expenditures. Even if the latter is necessary to reduce inequalities, lower public investment could adversely affect the country's attractiveness and, ultimately, job creation.

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