

## Arbitration Hub that challenges arbitration!

The govt frequently challenges global arbitration awards but still hopes India can emerge as a global centre for arbitration

**INDIA'S 3-CRORE-PLUS** pending cases in various courts, and the decades it takes to get justice, is both a source of immense hardship for those unlucky enough to have legal trouble as well as one of the main reasons for India's low Doing Business rankings. While the government-Supreme Court standoff is seen as one of the reasons for this, it is just a small part of the picture. Indeed, if the standoff has delayed filling up judges' posts in the Supreme Court as well as various high courts, it doesn't explain why there are around 4,000-odd posts empty in the subordinate judiciary which are not appointed by the central government. The real reasons include lack of money to build more courts, not enough digitisation etc.

Given this, it is not surprising that the government—and not just this one—has been keen to push arbitration and conciliation as an alternative means of dispute resolution. Since there are enough retired judges as well as domain experts, and the arbitration doesn't have to be done in court rooms, this is an obvious solution. Earlier this week, the Cabinet cleared the setting up of the New Delhi International Arbitration Centre Bill. As part of this, not only will an international arbitration centre be set up in Delhi but also the Centre will set up a Chamber of Arbitration that will empanel arbitrators and maintain a permanent panel; an Arbitration Academy to train arbitrators may also be established. Over time, it is entirely possible that, as the government plans, India could become a leading centre for global arbitration; indeed, once there is global arbitration, even if the law does not allow foreign lawyers to practice in Indian courts, this should open up a lucrative window of practice for them.

There is, though, a fly in the ointment, and that is the attitude of the government towards arbitration. The government is, today, one of the biggest litigants in the country so, should it desire, by acting in a sensible manner to begin with, a large part of the problem will be taken care of. More worrying, however, is the attitude towards arbitration, especially that done internationally. In several cases like Reliance-ONGC and Antrix-Devas where the government (or PSU) has lost an arbitration case, instead of paying up, the government has challenged this in a local court; ideally, arbitration awards should be implemented immediately, and only challenged under extreme circumstances. Indeed, in the Tata-Docomo case, where the government was not even a party, it argued that while it was true that an arbitration court had asked Tatas to pay Docomo damages based on a contract they had signed, since the contract was not permitted under Indian law, the damages couldn't be paid. Fortunately for Docomo, the Delhi high court said that even if paying the damages meant the Tatas were violating the Fema law, the contract was sacrosanct and, if need be, the Tatas could pay the Fema penalties as well. And in several cases involving Cairn Energy and Vodafone, the government stand has been that the cases cannot even be arbitrated; in some others involving Reliance Industries, the government tried to delay the appointment of arbitrators on one ground or another. If the government is not going to respect international arbitration, it is difficult to see how international investors are going to be convinced that India is a viable location for arbitration.

## Where is the NMC?

End reliance on stop-gap medical watchdogs

**IT IS DIFFICULT** to see why the government says in a recent press release that the Indian Medical Council Bill 2019 will "ensure transparency, accountability and quality in the governance of medical education in the country." Were it indeed so, why should the Bill simply provide for the extended supersession of the Medical Council of India (MCI) by the Board of Governors (BoG) for a further two years, with effect retrospectively from September 26, 2018, and for increasing the board strength from 7 to 12? If the BoG is the solution, then surely it should be instituted to provide regulation to the healthcare and medical education sector permanently, instead of being given periodic extensions? To be sure, the government did well to shut down the MCI—the erstwhile regulator's was a terminal case of graft malignancy, so much so that a Parliamentary Standing Committee noted that the "MCI cannot be remedied"—and replace it with the BoG via an ordinance. Yet, the BoG was never meant to be the end. Indeed, the government had proposed the National Medical Commission (NMC) Bill, which was introduced in the Lok Sabha on December 29, 2017, and referred to a Standing Committee of Parliament on January 4, 2018. The Standing Committee presented its report in Parliament on March 20, 2018. More than a year after, the Bill is still hanging fire, and with the BoG's term ending only in September 26, 2020, it would seem that the government believes that the NMC is unlikely to come any time before that.

The problems with the MCI have been known for a long time—it was labelled a "den of corruption" by the Delhi High Court in 2001 and the allegations of graft being in the body's DNA, with its former president Ketan Desai at the centre of these allegations, have been around since the late 1990s. However, bumbling governments at the Centre, over the last couple of decades, have only relied on hackneyed stop-gap solutions instead of administering a curative. The UPA, after Desai's arrest on graft related charges in April 2010, first promulgated an ordinance to put in place a BoG to supersede the MCI for a year, and later, in July 2010, enacted a law to extend the BoG's term till May 2013. The MCI was reconstituted in 2013 after the BoG's term ended, but that was marred by the fact that Desai managed a nomination to the Council from his home state, Gujarat; he later had to resign. In May 2016, the Supreme Court set up an oversight committee to guide the MCI, with a tenure of one year. At the end of its term, the committee submitted a scathing report on the deep rot in MCI and how it summarily defied the committee's directives. In July 2017, the Centre insisted on a second oversight committee that resigned in protest, against the MCI ignoring its directives, before its term ended.

The NMC Bill, as was presented in Parliament, was not without points of concern, but it still was a radical change from the past—it was designed to bring in experts from non-medical domains that have intersections with healthcare regulation from a patient's point of view. Yet, given the Standing Committee report was submitted a year ago, with a rich array of recommendations to correct the flaws in the Bill, the fact that NMC is nowhere on the horizon yet seems like allowing festering.

## Energising EMPLOYMENT

A report by IRENA shows the renewable energy sector created 11 mn jobs in 2018

**A RECENT REPORT** BY the International Renewable Energy Agency (IRENA) says around 11 million jobs were created by the global renewable energy sector in 2018. The report highlights the various sectors—solar, biofuels and hydropower—to assess the employment generation by the sector; 3.6 million jobs were created in solar PV industry, 2.1 million in biofuels (6% increase from 2017) and hydropower. Asia accounts for 60% of the total global employment generated, with China generating the highest—around 39% of the total global employment. The report says that 32% of the new jobs because of renewables growth went to women.

India's largest renewable-sector employment generation was in the labour-intensive hydro-power segment, with 17% of the global hydro-power employment generation being from the country. India could perhaps tackle its unemployment problem via the renewable energy sector—the report puts India in the top 10 countries that are generating renewables employment. A report published in 2017, *Greening India's Workforce: Gearing up for expansion of solar and wind power in India*, says, in the rooftop solar segment, a more labour-intensive area, 24.72 job years per mega-watt (MW) were created. In comparison, ground-mounted solar accounts for 3.45 job years per MW, and wind power for 1.27 job years per MW. For India, it makes sense to focus on labour-intensive renewables segments. Post-installation, the worker should be absorbed as an employee for maintenance and should not seep back into unemployment. Tying the jobs vision, or at least a part of it, to the renewables vision will reap rich dividends for India. Indeed, given the country's ambitious Paris commitments, jobs could bloom in thousands in the solar and hydro sector if the right policy environment is provided.

● NO PROOF REQUIRED

IS IT POSSIBLE THAT GDP GROWTH WAS OVER-ESTIMATED BY 250 BPS/YEAR BETWEEN 2012 & 2016 AND NO ONE KNEW ABOUT IT, INCLUDING THOSE TASKED WITH MAKING GROWTH AND POLICY PRESCRIPTIONS?

# Reinterpreting GDP growth—again!

**FORMER CHIEF ECONOMIC** Adviser to the Ministry of Finance, Arvind Subramanian (hereafter AS) contends in a working paper at the prestigious Harvard University that India's GDP growth between 2012 and 2016 (period II) likely averaged somewhere between 3.5 and 5.5%, yielding an average growth of 4.5%. Given that the official GDP growth for this period was 7%, there is an average overstatement in the official GDP statistics of around 2.5 percentage points (ppt) a year. You can search far and wide, in journals and in newspapers, but no one, absolutely no one, has made such a calculation and assertion as AS has done for any non hyper-inflation economy for such a long period of time (except for one China estimate—see below).

Co-incidentally, AS's assertion is similar to the contention of two Hong Kong based economists that for the nine year period 2008-2016, official statistics reported GDP growth for China was higher by an average 1.7 ppt a year. However, there is one paper by History and Economics Professor at the University of Pittsburgh, Thomas Rawski, that asserted that cumulative GDP growth in China averaged just 3% over the four years 1998-2001 compared to the official estimates of 8%+. Rawski based his calculations on electricity consumption and his estimates were soon discarded by experts who used trade data to demolish his thesis. The question remains whether the same fate awaits AS's estimates.

We examine AS's computational method below, but first, a few general comments. One had thought that post Election 2019, politics would not encroach upon the substantive mis-measurement conclusions reached by AS. Unfortunately, there are still journalists and "experts" congratulating themselves that their election-oriented assertion that the Modi government had presented lies about the economy has now been proven right by AS's paper.

Two points need emphasis. For the period studied, 2001-2016, is there any additional data that AS now has that he did not have when he was CEA from Oct. 2014 to June 2018? The answer is no and while we all have doubts about all forms of data (in India, China, the US and the world), the fact remains that there are no known revisions of the data post 2018 (and post 2017) for the data used by AS. Given this fact, the question obviously arises that if no new information is avail-

**SURJIT BHALLA**

Contributing editor, Financial Express  
Twitter: @surjitbhalla Views are personal



able, then what is the point of AS's contention regarding mis-measurement of GDP growth for the period 2012-2016?

The second point relates to GDP revisions involved with the base-year change from 2004-5 to 2011-12. This is a routine exercise, undertaken for most economies (especially developing economies) of the world from time-to-time. The normal occasion for this revision is the availability of new household survey data on expenditure (or components of income). The consumer expenditure survey data for 2017-18 is expected to be released shortly; so brace yourself for another round of base-year revisions over the next year or two.

However, it is relevant to point out, and AS is well aware of this fact, that 2014-15 base year revisions had important components of "structural change" in data collection and interpretation. In particular, balance-sheet data from the Ministry of Corporate Affairs (MCA) was used to estimate value added in manufacturing and service industries. Previously, CSO used the index of industrial production and the Annual Survey of Industries (ASI) data (available with a two-year lag) to estimate value added in industry. For an important part of the service sector (wholesale and retail trade (WRT) accounting for 10-15% of GDP) the CSO used the previous growth rate in employment as observed via the Employment and Unemployment Surveys. For example, CSO used employment growth trends for 1999-00 to 2004-5 to assume WRT employment (and hence value added) trend between 2004-5 and 2011-12. It turns out that this estimation led to gross overestimate of the WRT sector since employment growth was less than 1% between 2004-5 and 2011-12, a big decline from the near 3% annual employment growth observed between 1999/00-2004/5.

All of this was well known by all statistical experts when they sat down, in multiple committees, to design a new method for estimation of GDP for industry and services. It is important to emphasise that international

experts from the UN, World Bank and IMF were involved in the review exercise and most of which was completed before Modi became PM in May 2014. The CSO report and method was finalised in January 2015, when AS was already 4 months in office. Since all major economists were privy to this revision method (along with the National Statistical Commission—again, all appointees of the Manmohan Singh government!) it is a bit unexpected for AS to now claim that he had doubts about the new method of estimating GDP. For the period 2011-2016, there is the whole statistical world (and UPA) approving of the new method—and AS has now positioned himself against these experts and himself (pre-2019 AS). To finish this line of argument, what would have been most useful is if AS had documented the source of the new data (information) and how this new data has changed his interpretation of reality. Note that GDP revisions undergo revisions, around the world, of 10-50 basis points, but a revision of 250 bp, annually, is unheard of, at least since Rawski made a parallel attempt two decades ago.

What about the statistical method that AS uses to reach his conclusions about gross-estimation? Perhaps mindful of Rawski's fate (AS has written a laudatory book on China's GDP growth) AS's estimation is based on four major variables—export and import growth, real credit growth and electricity consumption. He chooses two time-periods—2001-2011 and 2012-2016. I have absolutely no disagreement with his choice of time-periods. The High Level Advisory Group (HLAG) to the Commerce Minister, which I had the privilege and honour of heading, used precisely these break points to measure trade

performance in the world, the reason being that world trade literally fell off a cliff in 2012. Between 2001 and 2011, world exports grew at double digit levels (in nominal dollars) and collapsed to -1.5% pa in the 2012-16 period. In real terms, the fall in world exports was from 4.6 to -1%.

The world has changed in many ways since 2011; world trade is down, drastically, and world inflation is now at 3% levels (distributed roughly at 1-2% levels for the developed world and around 2-4% levels for the developing world). In a detailed research note, I will be examining the AS methodology regarding GDP over-estimation in some detail. For the moment, let me point out a few salient facts which suggest that AS may not have got it correct in his over-estimation prediction of 250 bp of annual growth.

*Manufacturing—Value-added vs IIP growth:* In period I, the two growth rates are virtually identical: 7.7 vs 7.3% pa. In period II, value added in manufacturing increased at 7.2% pa and IIP increased at only a 3.1% rate. If the MCA data for period II are considered problematic, and IIP correct, then there is an over-estimation of 4.1% per year. With a weight of 15%, this will lead to an over-estimation of GDP of 60 bp per year in period II.

*Wages in manufacturing (ASI data):* Real wage per day growth was only 0.4% an annum in period I, which accelerated to 2.2% pa in period II.

*Agricultural wage growth:* For (unskilled) ploughmen, this accelerated from 1.9% in period I to 3.3% in period II; for (semi-skilled) rural carpenters, the acceleration was much sharper—from 0.9% to 4.5%.

Real wage growth is an important component of GDP growth, and both ASI and rural wage growth indicators suggest that the second 2012-16 period (spanning both UPA and NDA) contributed a higher portion to aggregate GDP growth. Trend in wages conflicts with AS's derivation of over-estimation of GDP growth. A meaningful analysis of AS's assumptions, and cross-country estimation methods, deserves serious investigation—especially a comparison of how other countries performed for the two growth periods.

### LETTERS TO THE EDITOR

#### GDP mis-estimation

Former CEA Arvind Subramanian's revelation that India's GDP growth was grossly overestimated nailed the government's lie. According to the eminent economist, GDP growth during 2011-12 to 2016-17 was actually 4.5% rather than the 7% flaunted by the government data. It was a telling argument by him that the growth numbers did not match or correlate with key indicators of economic growth such as electricity, consumption, automobile sales, investment and index of industrial production and export earnings, among others. It was common sense that the growth rates could not be high as claimed by the government when demonetisation and GST had debilitated economic activities. If the claimed growth were real, unemployment rate would not have been all-time high. It is now quite clear that the government exaggerated the growth numbers to create the 'feel-good' factor in the run-up to the election. BJP was never tired of telling the nation that ours was a 'fast-growing' economy and claiming credit. It is better to accept reality sooner than later. Instead of treating it as a prestige issue and rebutting Subramanian's well-reasoned thesis, the government should be open to corrections. Now that the election has been won, partly by false propaganda, the government should have no difficulty in acknowledging the incorrectness of the growth numbers.

— G David Milton, Maruthancode

● Write to us at feletters@expressindia.com

## India's WTO ASCM conundrum

Immediate removal of export subsidies would hurt India, eight-year phase out period under special and differential flexibilities must stay

**SAMUEL JOSEPH RAHUL MAZUMDAR**

Authors are with EXIM Bank, India Views are personal

**RECENTLY IN DELHI**, a few WTO economies met to discuss trade rules in the context of least developed and developing countries. The G20 is going to meet again this month to discuss, amongst others, this issue.

The last few years have been contentious for India as developed countries, led by the US, have upped the ante. Widely used incentives given to Indian exporters have been challenged on the grounds that India has exceeded the time period within which these benefits could be given. These kinds of export contingent subsidies are prohibited under Article 27 of the WTO Agreement on Subsidies and Countervailing Measures (ASCM) for their trade-distorting effects. The basic tenet is that a subsidy that alters the allocation of resources within an economy should be subject to discipline. Under this, select least-developed and developing countries, whose gross national income (GNI) per capita is below \$1,000 a year (at the 1990 exchange rate), are allowed to provide export incentives to any sector with a share below 3.25% in global exports. However, they must stop these if the figure is breached for three straight years.

Given that India's GNI has continued to remain above \$1,000 since 2015, the Merchandise Exports from India Scheme (MEIS), which is extended to 7,914 tariff lines, has come under scrutiny. Phasing out subsidies impacts India's competitiveness, especially of SMEs accounting for 40% of exports.

As far as product share of exports is concerned, ASCM says that if the export

share of a product is at least 3.25% in world trade for two consecutive calendar years, subsidies have to be phased out for that product. India's textile exports crossed the 3.25% mark in 2010, requiring export incentives to the sector to end by December 2018.

Rough estimates show that 1,063 of 6,110 HS code 6-digits products exported by India have already exceeded 3.25% share in world exports—however, not all necessarily receive subsidies. Taking off subsidies in the case of agriculture products and textiles could impact the sectors significantly—around 33% products by value in agriculture and 88% in textiles have breached the share.

While the dichotomy between developed and developing is a foregone conclusion, amongst the developing economies too there is a stark contrast. For example, in 2017, the per capita GNI of India was just \$1,800, much below that of China (\$8,690). The figures get more dismal for India, with 21.2% of the population being classified as poor, against 7.9% in China. The extent of poverty in India led to almost 15% of the population remaining undernourished, compared to 8.7% in China. In the 2017 HDI Report, India occupied the 130th position, while China ranked 86th.

Most importantly, India needs to continue to up the ante and confront the dichotomy amongst nations. The special and differential treatment flexibilities under WTO, which include various export subsidies to developing countries, are being disputed by the US, EU, and Japan. Benchmarking development assistance against GNI alone, and not

including human development, would defeat the aim of the Development Assistance Committee of 1961, which was convinced of the need to help the less-developed countries extend loans and grants on concessional terms.

Secondly, India needs to continue to impress upon the WTO to have an 8 year phase-out period for export subsidies, from the time a country crosses the GNI threshold, which would be the same benefit as what accrued to countries that had benefited from the same at the time the WTO's ASCM was implemented in 1994. This would allow Indian exporters in particular to prepare accordingly.

Lastly, policymakers need to work on a contingency plan to replace existing export incentive schemes, with WTO-compliant, production-oriented schemes targeting R&D and modernisation. This could be in the form of establishing technology upgradation funds or capital incentive schemes. At the same time, embedded taxes and unrebated levies outside GST, like electricity duty, duty on petroleum products, and raw materials in agri and allied activities, should be rebated. In fact, the MEIS can be transformed into an embedded duty neutralisation scheme.

Though India is amongst the largest market globally, its social parameters are not encouraging. Much required is such change in the WTO framework—which is almost 25 years old—as would take cognisance of these contradictions. The new government may also like to resolve the WTO conundrum by introducing appropriate solutions in the new trade policy.



US-CHINA RELATIONS

# After tariffs and Huawei, will Hong Kong be the next flashpoint?

Pro-democracy activists in Hong Kong say that the US Congress should reconsider the Hong Kong Human Rights and Democracy Act. They also hope that the US-Hong Kong Policy Act of 1992 is re-evaluated, which treats Hong Kong as “fully autonomous”

HONG KONG IS in the spotlight once again, thanks to Hongkongers—and no thanks to China. The current imbroglio in Hong Kong, of protests that snowballed into violence, is over a proposed extradition Bill (sans public consultation) that Chief Executive Carrie Lam’s government (elected in 2017) wants to expedite. If passed, the Bill will allow extraditions to China. Hong Kong’s critics fear this will erode Hong Kong’s judicial independence, and fear China’s opaque legal system and capital punishment.

Last weekend, more than a million Hongkongers, a seventh of the population, gathered peacefully to protest. When the government did not buckle down, Hong Kong businesses and pro-democracy parties called for a general strike on Wednesday.

On that day, the protesters gathered in large numbers, blocking roads to Hong Kong’s Legislative Council (LegCo, the unicameral legislature) to protest against the second reading of the Bill. The violence that followed, with the police resorting to water cannons, rubber bullets, tear gas shells and the protesters running for cover, has since been chronicled by television worldwide. Reports say that 72 people have been injured.

While Lam called the strike “an organised riot,” the *China Daily* called out the “opposition camp and its foreign masters” for politicising the Bill. But those on the opposite side of the fence saw it differently, hailing it as a collec-

tive effort for democracy in Hong Kong.

The protests came ahead of Hong Kong’s 22nd handover anniversary (July 1, 1997) when the city state reverted to China after 150 years of British rule. Hong Kong became a Special Administrative Region (SAR) with a high degree of autonomy, own legislature and judicial independence, and its capitalist system intact for 50 years, until 2047. But what will happen after 2047—likened to “year 2047 problem”—is an open question.

Since 1997, there have been several flashpoints between China and Hong Kong. So much so that the waters of the newly opened Hong Kong-Zhuhai-Macau bridge (the longest sea bridge in the world connecting Hong Kong and mainland China) run deep. Neither is

the (extradition) Bill as simple as it appears, nor is the Bill the only friction and cause of protests.

That the Bill is not as simple as it appears is the leitmotif of the protesters. In fact, and strangely so, it was a Valentine’s Day tragedy in Taipei that sparked the government’s interest in the Bill. Earlier in February this year, a Hongkonger strangled his pregnant girlfriend (in Taipei) and fled to Hong

Kong. The government stepped in to propose that fugitives be transferred to jurisdictions that Hong Kong lacks an agreement with, such as Taiwan, Macau and China.

Although the extradition was proposed on a case-by-case basis, Hong Kong’s Chief Executive is widely seen as pro-Beijing, “hand-picked” as it were. The government announced 66 hours of debate and a final vote on June 20, but

to no avail. The general reading was that the Bill was nothing but a caveat, a pretext to arm-twist dissenters, protesters, opposition and pan-democrats into submission. Activist Nathan Law (founder of pro-democracy party Demosisto) described the Bill as that which would normalise and legalise cross-border kidnapping.

Since 1997, Hong Kong is no stranger to sporadic unrest. In 2003, Hongkongers protested against a security law that purported to prohibit treason, secession, sedition and subversion, citing its proclivity for misuse. In 2013 came Occupy Central. In 2014, came the student-led Umbrella Movement. Both protested the manner in which the Chief Executive is elected (by an election committee manned by pro-Beijing loy-

alists), that which Hongkongers dismiss as “fake suffrage.”

In 2016 came the Fishball Revolution (fishball noodles is a popular street food) targeted against street hawkers. Hongkongers were up in arms as street hawkers have been an intrinsic part of Hong Kong’s social landscape and everyday life. In 2018, the pro-independence Hong Kong National Party (HKNP) was banned. And in 2018, the *Financial Times Asia* news editor Victor Mallet’s work visa was not renewed. Mallet had chaired an event at the Foreign Correspondents’ Club (FCC) where Andy Chan, the founder of the HKNP, had spoken. This was the first instance when a member of the press was expelled from Hong Kong after 1997.

So, what are the ramifications of these protests? For one, after tariffs and Huawei, Hong Kong has the potential to be the latest flashpoint in US-China relations. Pro-democracy activists in Hong Kong say that the US Congress should reconsider the Hong Kong Human Rights and Democracy Act (proposed by Chris Smith and Marco Rubio, Congressional Executive Committee on China in 2015). This would “empower the US President to hold Beijing accountable” and not deny visas to activists associated with Occupy Central and Umbrella Movement. Activists hope that the US-Hong Kong Policy Act of 1992 is also re-evaluated. This Act treats Hong Kong as “fully autonomous”—a re-evaluation would assess Hong Kong’s autonomy.

In the US, there appears to be bipartisan support for Hong Kong. In a statement to the press, House Speaker Nancy Pelosi (Democrat) indicated that the Democrats look forward to reconsidering the Hong Kong Human Rights and Democracy Act. Senate Majority Leader Mitch McConnell (Republican) has also expressed his reservations about “...Beijing’s grip on their (Hong Kong’s) imperiled autonomy.”

Just two decades ago, for China, Hong Kong was nothing short of a diplomatic coup, the poster-child of China’s grand political experiment “one country, two systems.” This was an experiment that China believed could not only showcase how benign China was, but also serve to coax Taiwan into its fold.

But the upheavals in Hong Kong in the last 20-odd years raise questions whether the “one country, two systems” experiment was hogwash for “one country, one system.” If anything, despite China’s copious economic gifts to Hong Kong, and irrespective of the outcome of the protests, it appears that China’s political experiment of Hong Kong being a “model” for Taiwan is going awry, unravelling with Hong Kong aspiring its own political destiny.

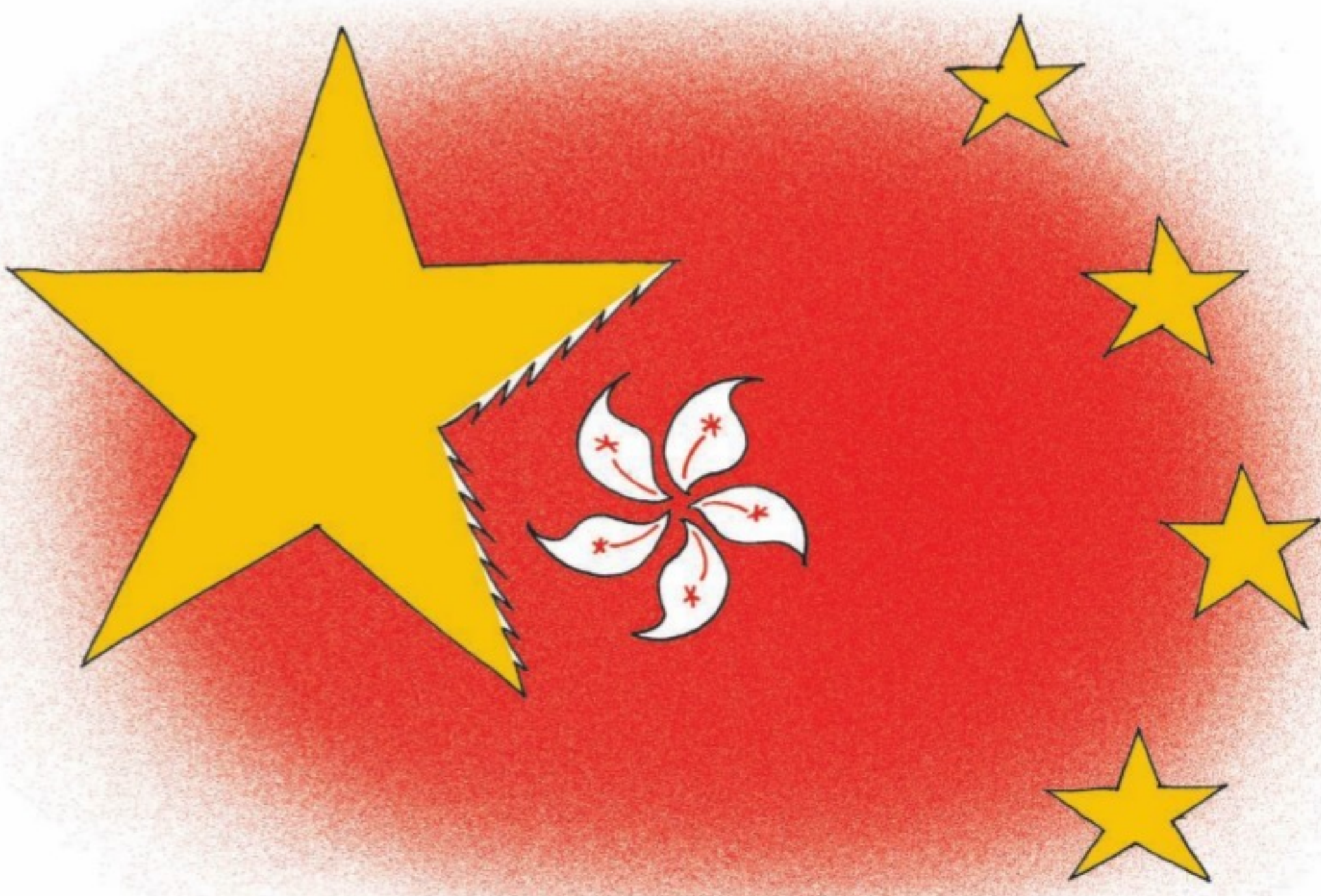


ILLUSTRATION: ROHNIT PHORE

ANURAG VISWANATH

The author is a Singapore-based Sinologist, and adjunct fellow at the Institute of Chinese Studies, Delhi. Views are personal



DATA DRIVE

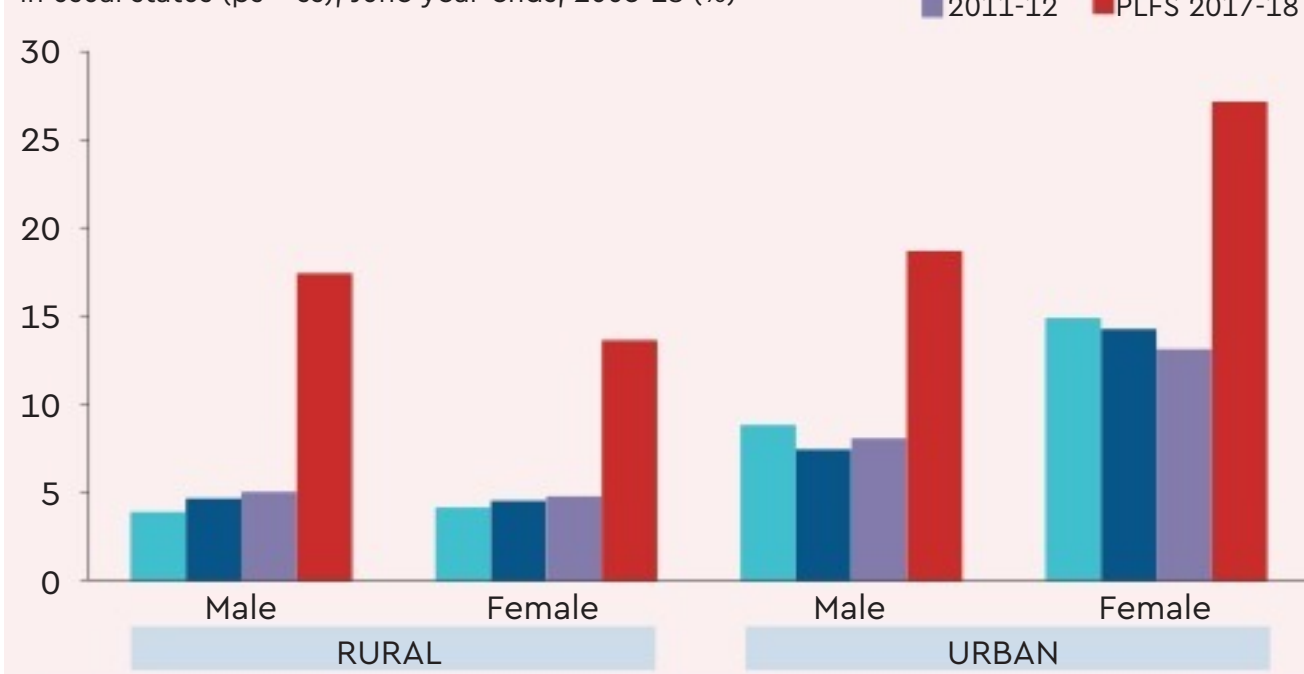
## Where are the jobs?

THE PERIODIC LABOUR Force Survey conducted by the NSSO shows that, of India’s labour force of 487 million, about 458 million are gainfully employed—i.e. 29 million of the labour force is unemployed, making for an unemployment rate of 6%. The NSSO job data reveals a few interesting aspects. While the labour force participation rate (LFPR) was 39.5% in June 2012, it came down to 36.95% in June 2018, which meant the number of unemployed increased by 18 million between 2012 and 2018, despite the number of people looking for jobs falling by 260bps over the period. What’s worse, the female labour force contracted by 13 million and the youth (15-29 years) PLFR fell by 650bps. The slide was more pronounced in rural areas.

One of the positives that the NSSO data throws up, as per a Kotak Institutional Equities analysis, is that though agriculture remains the main employment provider despite accounting for a relatively smaller share of the GVA, employment, particularly in rural areas, is moving away from it and towards services. A host of factors are likely responsible, from improved rural infrastructure to availability of credit. Another positive is the shrinking informal employment and the rising formal employment—while casual employment slid by 510bps, salaried employment rose by 480bps. A part of the slide in informal employment can perhaps be explained by the effects of the demonetisation and GST shocks.

### High unemployment rate among youth

Unemployment rate among the youth (15 to 29 years) in usual status (ps + ss), June year-ends, 2005-18 (%)



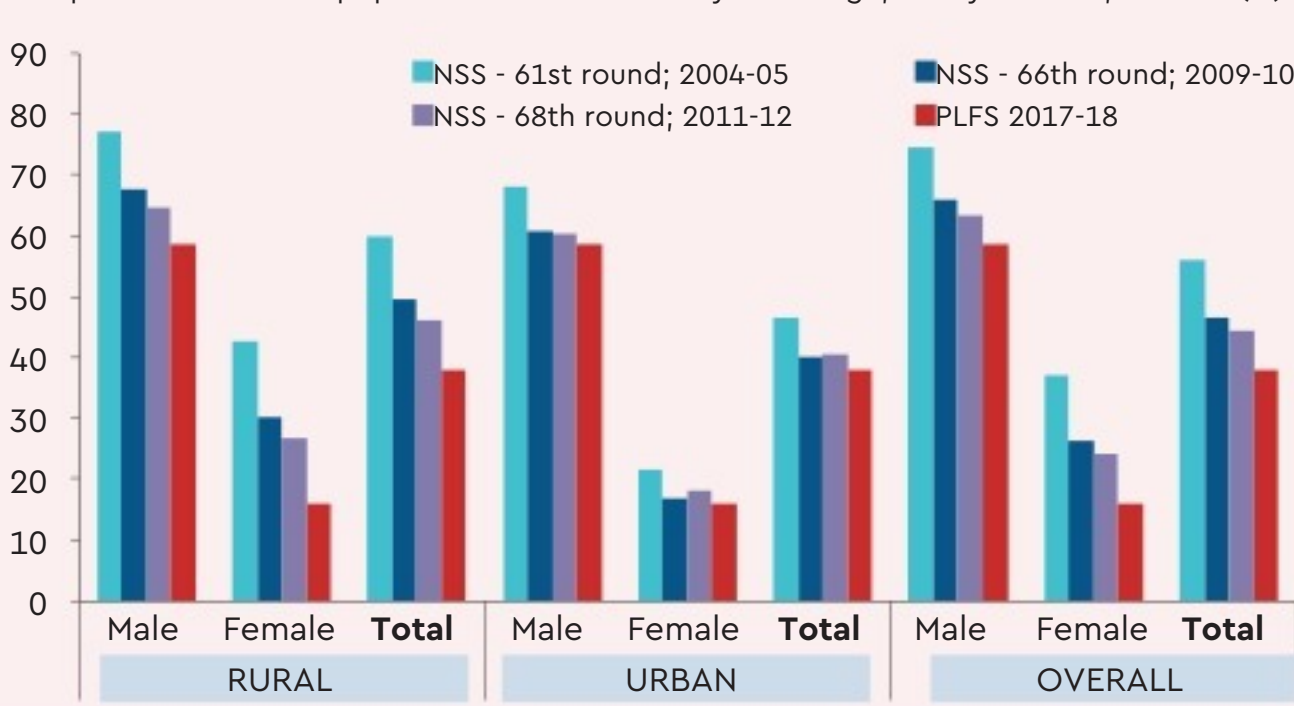
### Unemployment has increased sharply according to the latest survey

Unemployment rates according to usual status (ps + ss), June year-ends, 2000-18 (%)



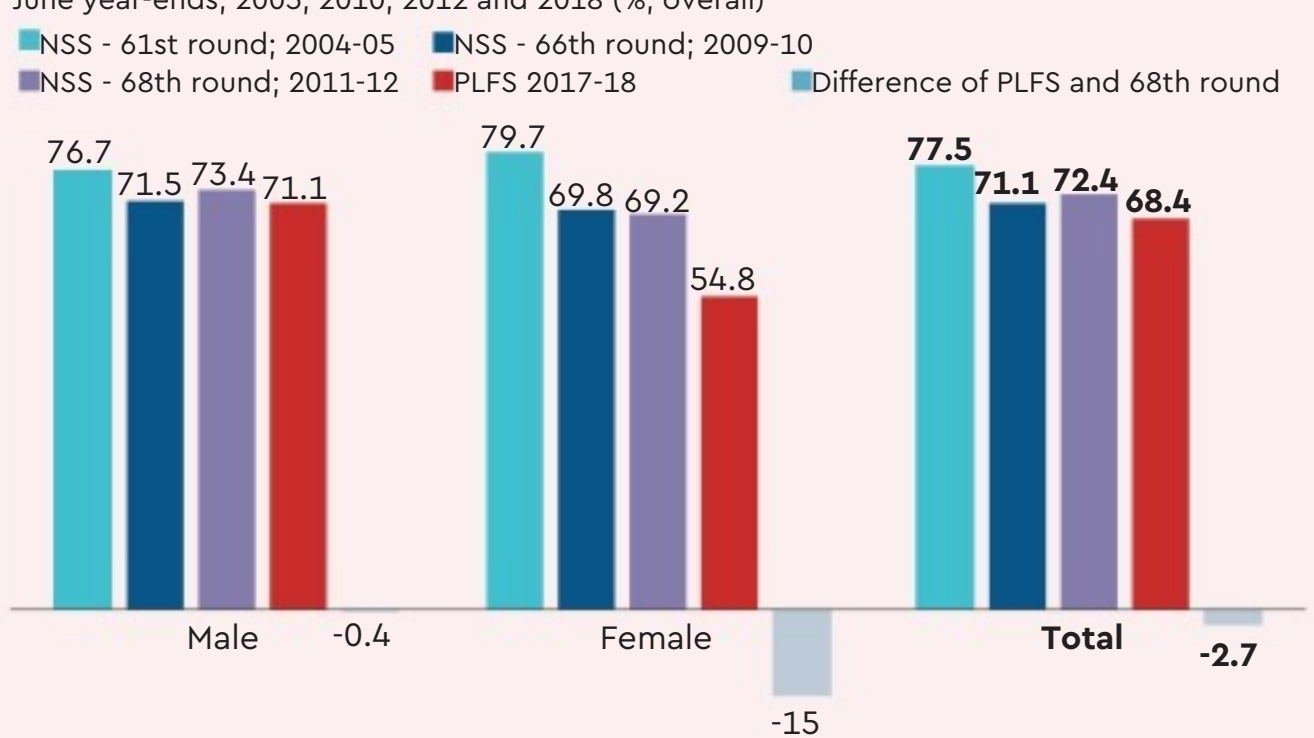
### Decline in youth LFPR

Comparison of LFPR for population between 15-29 years of age, June year-ends, 2005-18 (%)



### Steady drop in employment in informal enterprises

Percentage of workers engaged in informal enterprises, various NSSO rounds, June year-ends, 2005, 2010, 2012 and 2018 (%)



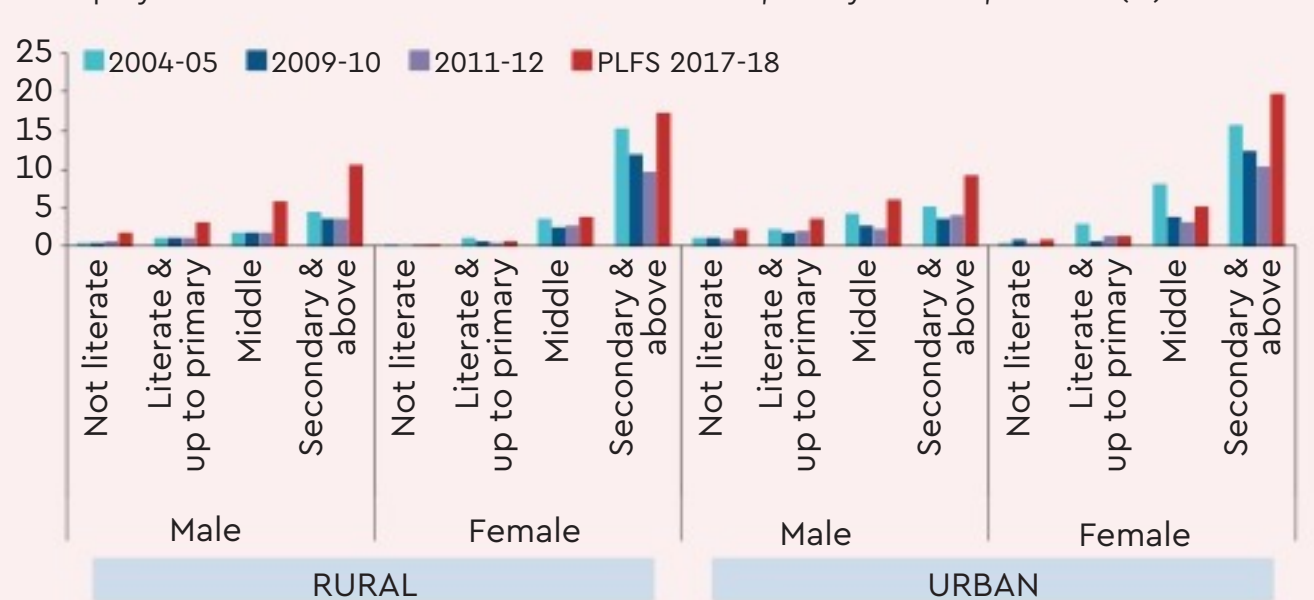
### Increase in formalization

Employment status, various NSSO rounds, June year-ends, 2005, 2010, 2012 and 2018 (%)

	Rural	Urban	Rural + Urban
Periodic Labor Force Survey; July 2017-June 2018			
Self employed	58	38	52
Casual labor	29	15	25
Regular wage/salaried	13	47	23
Total	100	100	100
NSS - 68th round; July 2011-June 2012			
Self employed	56	42	52
Casual labor	35	15	30
Regular wage/salaried	9	43	18
Total	100	100	100
NSS - 66th round; July 2009-June 2010			
Self employed	54	41	51
Casual labor	39	18	34
Regular wage/salaried	7	41	16
Total	100	100	100
NSS - 61st round; July 2004-June 2005			
Self employed	57	43	51
Casual labor	35	12	34
Regular wage/salaried	9	45	16
Total	100	100	100
Difference of PLFS and 68th round			
Self employed	1.8	-3.7	0.2
Casual labor	-5.9	-0.3	-5.1
Regular wage/salaried	4.1	4	4.8

### Unemployment rate is the worst among the educated; has worsened significantly in the latest survey

Unemployment rate across various levels of education, June year-ends, 2005-18 (%)



Source: Various NSSO rounds, Kotak Institutional Equities