

Structural Transformation in China and India: the Role of Macroeconomic Policies

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Abstract

The current paper examines the role of macroeconomic policies in guiding structural transformation towards higher productivity and better paid jobs in China and India. To this end the paper uses a Kaldorian model of economic growth for an open, dual economy developed by Rada (2007). The model assumes endogenous employment growth in the modern or formal sector and no unemployment in the standard sense as the unemployed always find work in the informal sector. The economy expands following a higher growth rate of labor productivity in the formal sector and higher effective demand through a Keynesian channel. The model addresses both medium and long-run growth paths, and is calibrated to base year data from a formalinformal Social Accounting Matrix for 2000 and 1999-2000 for China and India respectively. Several simulation exercises are then ran for the two economies. Specifically, we look into how an increase in investment demand, higher wages, a change in the labor productivity trend or a depreciation of currency affects the macroeconomy and in particular job creation in the formal sector.

Keywords: Structural transformation, Endogenous productivity growth, Dual economy, China, India

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