Revitalizing Manufacturing Sector: the fulcrum of job-generation in India

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Abstract: In 1991-92 the government deregulated and liberalized a number of sectors and allowed entrepreneurship to bloom. It also initiated several reforms in the financial sector. However, the focus was not on manufacturing sector reforms. The anxiety is that India's manufacturing sector has stagnated at about 16 per cent of GDP, with India's share in global manufacturing at only 1.8 per cent. Manufacturing sector has the capacity to generate jobs and growth of the manufacturing sector is also critical for correcting India's trade balance. India may be on the cusp of a new wave of growth that will deliver jobs and prosperity to millions of Indians, but we will only be able to grasp that opportunity if we find a way to release the latent potential inherent in our manufacturing sector.

Key words: Economic reforms, Manufacturing, GDP, Employment generation, New Manufacturing Policy.

I. INTRODUCTION

Economic reforms unveiled by the Liberalization, Privatization, and Globalization model of 1991 have brought about a structural shift in the Indian economy enabling the private sector to assume a much larger role in the economy. In 1991-92 the government deregulated and liberalised a number of sectors and allowed entrepreneurship to bloom. It also initiated several reforms in the financial sector. However, the focus was not on manufacturing sector reforms. Indian industry went for quickest and fastest growth at lowest risk. One set of people went into low or medium technology, where deployment of capital is not high. Others went to realty and service industries. Very few went into core middle manufacturing, which involves lot of capital, technology imports, and tie ups. Manufacturing sector is the only sector that can create jobs and prevent the economic crisis from deepening. We don't have a rich, vibrant, robust, diversified manufacturing sector in the Indian economy and that is worrisome. GDP growth has largely been achieved by growth of the services sector. The anxiety is that India's manufacturing sector has stagnated at about 16 per cent of GDP, with India's share in global manufacturing at only 1.8 per cent. This is very different from the experience of other Asian nations at similar stages of economic development, especially China where manufacturing constitutes 34 per cent of GDP and 13.7 per cent of world manufacturing — up from 2.9 per cent in 1991.

The Institute of Applied Manpower Research estimates that 8 to 9 million additional young persons will join the labour force annually, between 2012 and 2022. Besides this fact employment generation in agriculture sector is declining due to improvements in productivity in agriculture. India needs to create over 200 million jobs outside agriculture by 2025. Manufacturing sector has the capacity to generate jobs and in a labour surplus economy like India that should be top priority, but growth rate in this sector has been laggard. Failure to generate employment will have serious repercussions for the economy and society.

The focus on manufacturing sector is required for another reason - growth of the manufacturing sector is critical for correcting India's trade balance. We have been importing large volumes of manufactured goods as the economy has grown but India has been unable to develop a large, diversified, competitive manufacturing base to reduce the need for imports and to generate exports.

India's development since the 1990s has no doubt accelerated the GDP growth rate but there are two major failures in India's development strategy. These failures can explain why India's manufacturing sector has languished while services have grown.

A. The most glaring failure has been the inability to develop power and transportation infrastructure commensurate with the requirements of the economy. Manufacturing units are highly dependent on this infrastructure for their growth.
B. The second is the absence of an industrial policy, an idea that Indian policymakers threw out of the window after 1991. When the New Industrial Policy was made in 1991 the controls of DGTD (Director General of Trade and Development) on industry were dismantled and duties on imports were lowered. There is no doubt that these were welcome steps but we should remember not to throw the baby out with the bathwater. The National Manufacturing Policy belatedly introduced in 2011 has ambitious goals. These are to create 100 million additional jobs in manufacturing by 2025 by accelerating the growth of manufacturing to exceed the overall growth of the economy by an additional 2 per cent to 4 per cent annually leading to an increase in the share of manufacturing in the overall growth of the economy from 15 per cent, where it is now to 25 per cent. The policy should not remain a paper document but must address the challenges of rapid job creation and expansion of domestic production. We must keep in mind these plans were made when the forecast of growth of the economy was 8 per cent in the 12th Plan and faster growth thereafter. If the base falls due to

macro-economic problems and policy log-jams, which happened before the general elections, the growth of the manufacturing sector will be lower and it will not meet its employment targets. However young people will continue to pour out of schools and colleges and many with better skills too and will be very frustrated if they do not get jobs.

II. NEW MANUFACTURING POLICY

Three sets of actions need to be taken simultaneously to prevent a crisis.

A. Stimulation of overall economic growth for which coordination in policy making and policy implementation between Governor of the Reserve Bank, the Finance Minister, and the Prime Minister is required.
B. Solving the multiple policy and implementation problems faced by power and transport infrastructure in India. This area really needs high level of attention.
C. Five strategic thrust areas to grow Indian manufacturing have already been identified earlier. These thrust areas should receive due focus from the new government.

1. Improving the business regulatory framework

2. Human asset development

3. Improving technology and value addition in manufacturing

4. Developing effective clusters for growth of SMEs (small and medium enterprises)

5. National Investment and Manufacturing Zones (NIMZs)

Plans should not remain merely on paper but the implementation of plans needs to be given due attention so as to convert the Policy to results.

We can identify three criteria which need to be satisfied for making effective strategies for boosting the manufacturing sector and employment growth:

i. Effectiveness of the strategy in generating employment and without prolonged gestation periods.
ii. Applicability of the strategy all across the length & breadth of our country. This will create livelihood opportunities for people all across the country, not just in select industrial pockets.
iii. Positive impact of the chosen strategy in developing the MSME (Micro, Small and Medium enterprises) sector. The MSME sector has emerged as a vital sector of the Indian economy and its growth is crucial. It not only plays a very important role in providing large employment opportunities at a relatively lower capital cost, it also contributes tremendously to manufacturing output. It is estimated that the MSME sector contributes about 45 per cent of manufacturing output and 40 per cent of total exports of the country.
iv. Inclusiveness of States in the strategy. Focussing action in the States and alerting them to what they can do, the benefits of which will be more investment in the States and more jobs. Eighty per cent of the action for improving the business regulatory environment, human asset management, and quality of clusters is in the States.

We were proud of our GDP growth when it was high; now we are dismayed. Even in those years of high growth not so long ago, we were not happy with the progress of inclusion in growth, and the pace at which social and economic inequalities were being reduced. We are not doing well on any of the three goals we have set ourselves: faster growth, more inclusive growth, more sustainable growth. The nightmare is spread across many sectors, from metals and automobiles to capital goods and consumer durables. High interest rates capped consumer spending while slow decision-making by the government and land acquisition issues stalled projects and held back capital expenditure in the sector. According to a third party data provider, new investment projects announced in the manufacturing sector were down 70 per cent in 2012/2013 from 2008/2009. The slowdown has other consequences. The attraction of manufacturing is the sort of jobs it creates in other industries, so when there is a slowdown in one sector e.g. automobiles, there is an impact on several ancillary industries. The impact is much wider and the impact on GDP is much deeper.

India may be on the cusp of a new wave of growth that will deliver jobs and prosperity to millions of Indians, but we will only be able to grasp that opportunity if we find a way to release the latent potential inherent in our manufacturing sector. Our primary sectors, principally agriculture, can provide jobs but not growth; our tertiary sector — services like information technology — can provide growth but not enough jobs: if we are to provide jobs and growth, we must encourage foreign direct investment into the secondary sector, which means manufacturing. A renaissance in Indian manufacturing would accelerate employment generation, boost exports, strengthen the financial sector and attract substantial foreign capital inflows into the country.

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