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MANUFACTURING SECTOR: AN MISSED OPPORTUNITY & WAY AHEAD

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ABSTRACT

This paper is an attempt to trace the structural changes that have taken place in the Indian economy since independence and to bring focus on the fact that developmental strategy adopted by India is not in line with India's comparative advantage of cheap unskilled labour. Paper also traces the developmental path taken by the East Asian miracle economies that had used their comparative advantage of cheap labour to develop their labour intensive manufacturing sector and the reasons due to which India had missed the manufacturing sector led growth during same time period. The developmental strategy adopted by India is limited in scope as it is beneficial to only a small fraction of India's population that is educated middle classes and does not benefit the vast unskilled labor force of India. This paper analyses the limitations of two flagship schemes of the government which are (1) 'MAKE IN INDIA' and (2) 'SKILL INDIA' in their capability to develop manufacturing sector in India and also advocates for policy change so that India's comparative advantage could be aligned with 'Make in India' initiative.

KEYWORDS

East Asian miracle, make in india, skill india.

INTRODUCTION

Many East Asian countries saw a rapid manufacturing led growth between 1960 to 1990 which culminated finally in 1997 due to East Asian crisis. This phase of rapid growth was first seen in Japan in 1960's followed by four tigers (South Korea, Taiwan, Hong Kong and Singapore) and then by the three cubs (Indonesia, Malaysia and Thailand) and finally seen in China and Vietnam. This phase of rapid economic growth of East Asian countries characterised by export led labour intensive manufacturing is known as Asian miracle. Japan in 1960's saw an average growth rate of 10.4% which abruptly ended in early 1970's. Similarly, the four tiger economies saw an average growth rate above 9% between 1960 to 1980, however for South Korea this growth spurt lasted till early 1990's. For the three cubs the growth spurt lasted between 1960's till 1997 when they were hit by East Asian currency crisis, however the average growth experienced by the three cubs during this growth spurt was around 7.6% which was significantly lower the growth rate of Japan and four tiger economies. The growth spurt in China started in 1979 when it opened up its economy, between 1979 and 2013 China experienced a growth rate of 9.9%. But India missed out from this Asian miracle growth story.

The growth spurt experienced by these countries was for varied duration but was initiated and sustained by export led low skilled labour intensive manufacturing, however the ultimate destination for this labour intensive manufacturing was China which opened up its economy in late 1970's. Though the initial growth spurt in all these economies was provided by unskilled/low skilled labour intensive manufacturing but as wage cost increased these countries shifted to low and medium technology manufacturing while the unskilled labour intensive industries shifted away to China which continued as to be their hub till recently due to its vast labour supply. But now the wage cost has started to rise in China's coastal provinces so China is now trying to shift these industries to less develop Chinese hinterland.

OBJECTIVES OF THE STUDY

1. This paper analyses the reasons due to which India missed out the phase of rapid labour intensive manufacturing led growth which was experienced by other east Asian countries.
2. Paper also draws into focus the fact that developmental pathway taken by India has not been in line with the comparative advantage of Indian economy.

RESEARCH METHODOLOGY

This a descriptive and analytical study based on secondary data, data has taken from Central Statistical Organisation, Planning Commission, Economic Survey and another studies.

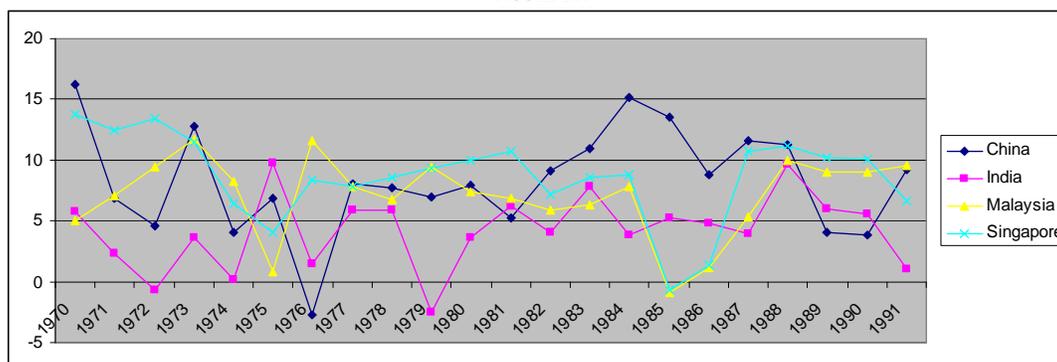
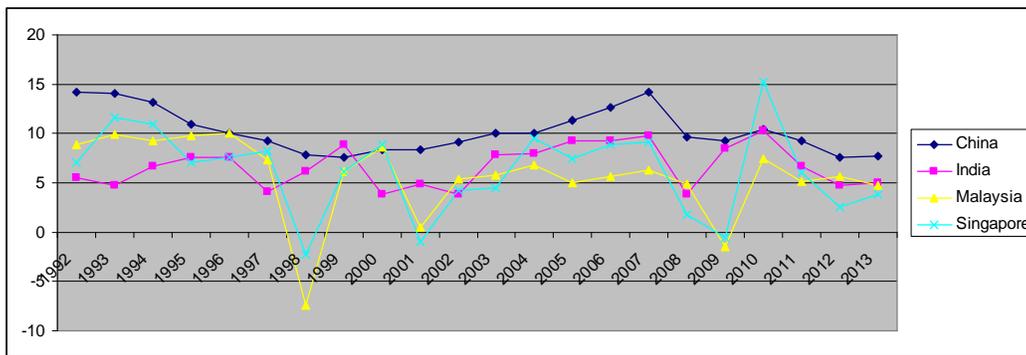
ANALYSIS**LINE GRAPH OF GDP GROWTH RATE OF CHINA, INDIA, MALAYSIA AND SINGAPORE (PLANNING COMMISSION)****FIGURE 1 A**

FIGURE 1 B



On the other hand, India could not witness anything similar to Asian miracle as experienced by east Asian countries. Its reason can be traced to the developmental path taken by India since independence. The strategic objective of India's visionary leaders like Nehru was to make Indian economy a self reliant economy which was independent of international capitalist block countries. India was virtually a closed economy for first four decades of independence and we adopted import substitution strategy due to which we have to diversify our production into almost every thing from consumer goods to space and atomic energy irrespective of our competitive advantages in some sectors and weaknesses in other sectors. This led to a situation in which we entered into areas in which we did not possess competitive advantage which led to loss of efficiency for the entire industry (Vijay Kelkar, 1999). Though some half hearted measures were taken by government in mid 1950's and in mid 1980's to open up India's economy but they were ad hoc in nature and were limited in scope. Due to these reasons India could not match the growth rate of east Asian countries it was only in between 2000- 2015 when India grew at an average rate of 7.2% which was similar to growth rate attained by the Malaysia, Indonesia and Thailand but the reasons for India's growth during this time were different from those of East Asian economies.

India was closed economy until 1991 as it followed an inward looking developmental strategy, India did not consider itself competitive enough in world market, so it did not encourage its exports even in areas in which it was competitive like textile etc. Rather India went for import substitution as it was deeply influenced by Soviet Union model of development and had strong anti colonial bias. India diversified its industrial production and focused very little on areas of its competitive advantage. There were some half hearted measures taken in mid 1960's for export promotions and rupee was devalued in 1966 by 57 %. Another attempt in mid 1980's was made to slowly and gradually to open up India's economy but this attempt was also limited and ad-hoc in nature and was nothing as compared to comprehensive reforms undertaken by China in 1978 to open up its economy. Though these reforms undertaken by India were inadequate but still enabled India to move away from Hindu rate of growth (2-3%) to Sardar rate of growth (5-6%). However, a real paradigm shift took place in 1991 when India was forced to open up its economy due to conditions imposed by IMF and WORLD BANK, but India did not grow at a phenomenal rate like the Asian tigers even after it had opened up its economy and had vast supply of cheap labour force. The reason for this was that by the time India's policy shift took place in 1991 the competition in world market for labour intensive manufacturing had already intensified and India was way behind east Asian countries specially China. (Guha and Ray 2004). On the contrary lack of government support and import liberalization have adversely affected India's manufacturing sector, where as in many other countries like Japan, South Korea and China government actually helps in development of manufacturing sector where as in India government has withdrawn from such roles post 1991 (Sudhip Chaudhuri, 2015). These were the primary reasons due to which India could not be a part of Asian miracle fuelled by labour intensive manufacturing. However, despite missing on the export led labour intensive manufacturing growth due to the developmental path taken by India, this very socialist pattern of development enabled growth of number of government funded universities and colleges this led to accumulation of skilled labour force pool in India, which enabled India to venture into skill intensive manufacturing and service sector especially post 1991.

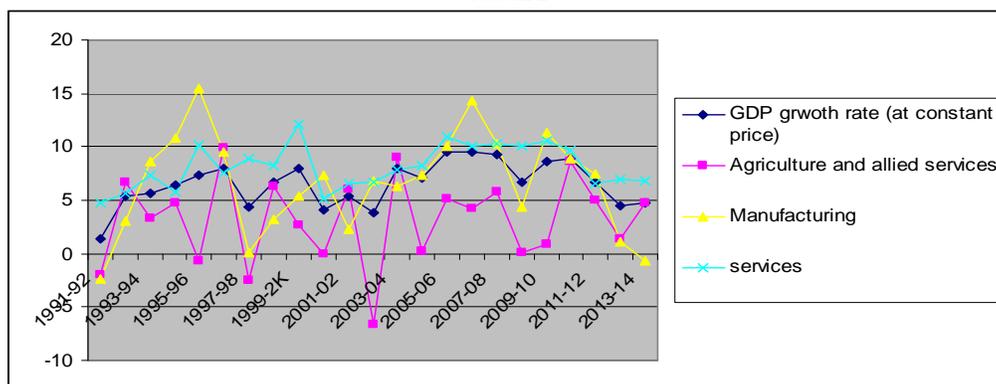
The UPA-2 government launch the much ambitious National Manufacturing Policy in November 2011 which envisage to increase the share of manufacturing to 25% of GDP within a decade which had been stagnant around 15% since 1980's, while it has been much higher in the East Asian countries. It also seeks to generate 100 million jobs in manufacturing sector and to impart skills to rural youth. (Press Note No 2, 2011 series, Government of India, Ministry of Commerce and Industry, Department of Industrial Policy and Promotion) An even more ambitious scheme which is continuation of National Manufacturing Policy that is MAKE IN INDIA and SKILL INDIA has been launched by the NDA government in 2014.

Now we will analyse if this developmental strategy adopted by the Indian government is in line with the needs and the comparative advantage of Indian economy. Manufacturing can be of two types 1) Registered (workers in factory having more than 10 workers) and 2) Unregistered, for purpose of this paper we will only take into account only registered manufacturing as it is registered manufacturing which has the potential for structural transformation and has greater value addition per worker.

India has a vast supply of cheap unskilled labour so the growth strategy adopted by it should be such that it should promote low skilled manufacturing activity, similar to what happened in case of east Asian countries. However, this was not the case in India as with the opening of economy in 1991 we took a path of service sector led growth.

LINE GRAPH SHOWING RATE OF GROWTH OF THREE SUB SECTORS AND AVERAGE GROWTH RATE OF GDP (PLANNING COMMISSION)

FIGURE 2



The above line graph clearly shows that India's growth was service led growth.

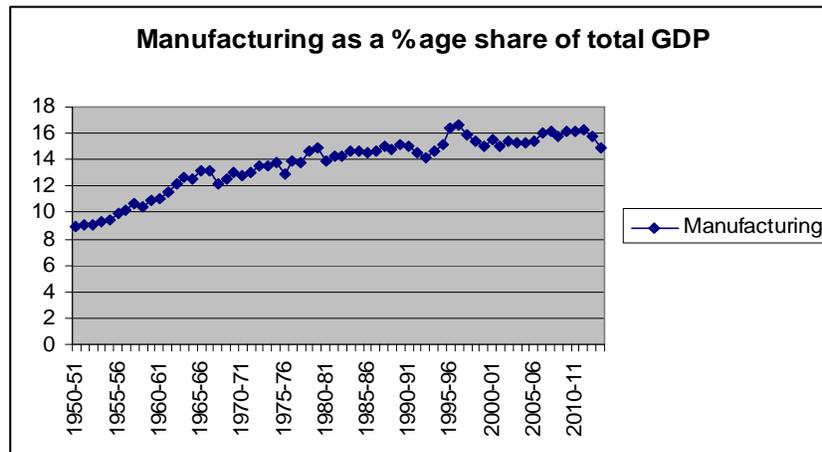
The service sector and manufacturing activity taken in India were skill intensive (except for construction sector activity) which was not in line with India's comparative advantage. The table below clearly shows that both manufacturing and service sector in India are skill intensive on other hand a large part of our population is un-skilled.

TABLE 1

| SECTOR/SUB SECTOR | Share of employment with at least primary education % | Share of employees with at least secondary education % |
|--|---|--|
| Registered manufacturing(Workers in factories with>10 workers) | 76 | 43.2 |
| All Services | 77.8 | 47.8 |
| Construction | 51.8 | 14.4 |

However, there should be an alignment between the rapidly expanding sector of the economy and the skill availability within the country. Both the registered manufacturing and service sector are skill intensive and not aligned with the needs of employment of large unskilled labour force present in India. Both National Manufacturing Policy and Make in India are very ambitious projects. These projects have been launch at a time when wage cost is rising in china and investors are looking for alternate manufacturing hubs.

FIGURE 3



Source: Planning Commission

However, India's track record in manufacturing has not been very bright. Registered manufacturing is rather on a decline in India and it has never reached more than 12% of India's GDP, Gujarat has been only state in which registered manufacturing has crossed 20% of state GDP. An even more bad parts is that Maharashtra peaked in its share of registered manufacturing in 1980's and for Tamil Nadu and Andhra Pradesh it was in 1990's. China has been trying to reallocate its labour intensive manufacturing to its interior parts where labour cost is still low this will act as a development boost to china's backward regions and hence inequality will decrease in China where as in India's case backward states which had never effectively industrialized are de industrializing and manufacturing is declining there, so in India's case inequality is effectively increasing as opposed to china where it is likely to decrease (economic survey vol1). No country has been able to reverse this kind of de industrialization before.

South Korea peaked in its manufacturing share at 30% of GDP and for Brazil it was 31%, however India is effectively de industrialising even before reaching half of those levels. In India manufacturing had never constituted more than 17% of GDP while registered manufacturing has never been more than 12%.

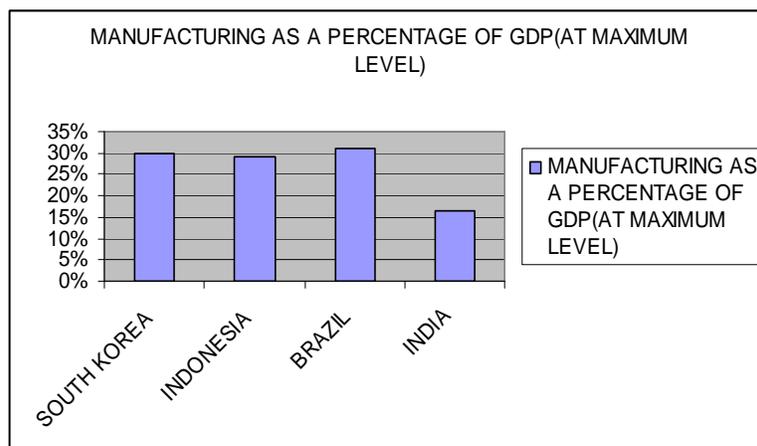
A BAR GRAPH SHOWING MAXIMUM GDP PERCENTAGE OF MANUFACTURING OF DIFFERENT COUNTRIES (South Korea, Indonesia, Brazil, East Asian economies)

TABLE 2

| COUNTRY | MANUFACTURING AS A PERCENTAGE OF GDP (MAXIMUM) |
|-------------|--|
| SOUTH KOREA | 30% |
| INDONESIA | 29% |
| BRAZIL | 31% |
| INDIA | 16.6% |

Source: Economic Survey Vol. 1 2014-15

FIGURE.4



India is inappropriately specialised in skilled intensive manufacturing and service sector which are different from India's natural comparative advantage. (Amirapu and Subramanian, 2015).

These are some of the major challenges for Make in India programme which needs to be tackled. Skill India is a step in right direction which is complimentary to Make in India, but training such a vast labour force as in India is an uphill task. What can also be done is that labour intensive industries should also be encouraged as they are now moving out of China and India is an attractive destination as surplus labour force is available from agriculture. These complementary steps will surely take India's growth trajectory much ahead of East Asian Economies however 'Make in India' needs to be aligned with natural comparative advantages of Indian economy than only Make in India can prove to be India's Asian miracle.

CONCLUSION

The study concludes that the developmental strategy adopted by India is limited in scope as it is beneficial to only a small fraction of India's population that is educated middle classes and does not benefit the vast unskilled labor force of India.

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