

Symposium
on

Make in India: Towards a Strategy for
Manufacturing-led Growth and Job
Creation in India

Report on Proceedings

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The Institute for Human Development (IHD), New Delhi, and the International Labour Organisation (ILO), organised a Symposium on “Make in India: Towards a Strategy for Manufacturing-led Growth and Job Creation in India” in New Delhi on the 29th of November, 2014. In the wake of a shift in state policy towards meeting the challenges of industrialisation in contemporary India, the Symposium sought to engage with a set of timely questions: Is it feasible to adopt such a strategy under the present conditions? What are some of the policies that need to be adopted in order to achieve this? How can a structured and coordinated approach to industrialisation be put in place? How to design effective institutions and implement public–private collaboration to advance towards the stated objectives? Through detailed deliberations, the Symposium aimed to provide possible strategies through its various sessions.

While welcoming the participants, Ms. Tine Staermose, Director, ILO DWT for South Asia and Country Office for India, noted that promoting the manufacturing sector as a driver of inclusive growth and job creation is one of the fundamental challenges faced by India. While it is encouraging that organised employment has been growing in the manufacturing sector so has the informalisation of employment, which suggests that the challenges exist both in terms of quantity as well as quality of employment being created. Ensuring creation of decent employment opportunities while identifying how to boost manufacturing growth is, hence, critical. Several studies, including the recent joint IHD-ILO, have shown the challenges of competing on price alone while exploiting the many opportunities available for growth of manufacturing in India.

Her welcome address was followed by remarks from Prof. Alakh N. Sharma, Director, IHD. He noted in particular that an imbalanced pattern of sectoral growth with a low share of employment in the manufacturing sector in total employment is a major cause of slow growth of employment. Sustainable growth in manufacturing is essential for absorbing not only surplus labour from agriculture but also to provide gainful employment opportunities to a newly emerging labour force. In this context, he also highlighted some of the study initiatives undertaken by IHD to map these issues, including the IHD–ILO report on promoting employment and skill development in the Indian manufacturing sector.

The keynote address for the Symposium was delivered by Dr Jose Manuel Salazar-Xirinachs, Assistant Director General, ILO, Geneva. In his keynote address, Dr Salazar-Xirinachs stated the importance of the inter-linkages between industry, productivity and standard of living in an economy. He highlighted that in post-independence India, the promise of industrial development was only partially realised. The Indian economy has been subject to deindustrialisation to some extent, which needs to be reversed in order to foster the development of its economy. In 1993, the Indian manufacturing sector accounted for only 15% of the GDP; this rate remains largely unchanged even today. The Indian manufacturing sector contributes employment to a modest 10% of the economically active population; this is in sharp

contrast to the services sector which accounts for almost 31% of the labour force. In the given scenario, Dr Salazar-Xirinachs felt that the present government's "Make in India" programme is extremely important and well-timed, though there are challenges to implementing such a programme under the existing economic conditions. While highlighting the main components of this programme, Dr Salazar-Xirinachs discussed the global trends and the various lessons from industrial and productivity transformation policies in other countries, which Indian policy makers should keep in consideration. He mapped a new global geography of growth and skills, a shifting pattern of cost advantages, a very strong and ever wider global consensus around the objective of shifting to energy-efficient, low carbon growth paths and a brave new world of new technologies and smart machines that had emerged in the context of global manufacturing. He also provided a comprehensive blueprint of challenges and policy decisions facing India in the current international context to meet the challenge of industrialisation, highlighting a number of key issues and areas which were relevant for India. These form part of the key takeaways enumerated at the end of the report.

His speech was followed by remarks from the Chair of the Session, Prof S.R. Hashim, Chairman, IHD, and the Vote of Thanks was delivered by Dr Sher Verick, Senior Economist, ILO, New Delhi. Both of them supported Dr Salazar-Xirinachs' arguments and said that there is a need to alter the service-sector led growth pattern in India and emphasised the need to promote greater productivity in the manufacturing sector, keeping in mind the broader interests of both the employers and the workers. Prof Hashim, in particular, stressed the need for a strategy of planned urban growth in the country.

The Symposium consisted of two important panel discussions, which comprised of eminent scholars and experts in the field of development economics, industrial relations and experts from the government. The first panel on "Understanding the Constraints to Growth of Manufacturing Employment" was chaired by Mr N.K. Singh, former Member, Planning Commission and former Secretary, Government of India. The panel consisted of the presentations of two background papers presented by Dr Ajit Ghose, Honorary Professor, IHD and Dr Sher Verick, Senior Economist, ILO, New Delhi, on the issue of manufacturing-led growth and employment in India.

Dr Ghose's presentation highlighted that India's economic growth has largely been led by the services sector, which has now come to a halt because of a huge imbalance between the structure of domestic absorption and domestic production. This has resulted in a large trade deficit and inflation which, according to Dr Ghose, would prevent the revival of the services-led growth in India. The solution to this problem, he argued, lies in manufacturing-led growth, which would restore the balance between domestic absorption and production. He added that such a growth would increase employment in the organised sector and would result in a movement of low-skilled labour from the unorganised sector; it would cause acceleration in the

organised sector like in construction, which, in turn, would generate employment for low-skilled labour.

Dr Ghose began by outlining an emerging narrative in the literature on the Indian growth experience where it had been suggested that the recent services-led growth in India had several features similar to manufacturing-led growth of the past. It was also proposed that technological changes had altered the nature of manufacturing and growth of manufacturing could no longer be the route to higher incomes. On the basis of a study of existing facts and data to investigate these “new” features of growth, Dr Ghose argued that the Indian growth experience from 2000-2012 ran counter to the pessimistic view on the role of manufacturing in some ways. India not only needed a vibrant manufacturing sector if it was to achieve inclusive growth, but it was also possible to achieve this objective. While the growth of organised manufacturing had been jobless for many years (1980s-1990s), the sector created jobs during 2000–12 and had 5.9% average annual growth in employment as compared to 1.7% for the unorganised sector. His presentation suggested that while the share of regular formal employees decreased, their levels in absolute terms actually increased. Also, low skill labour would not have gained significant access to employment in the organised sector without this development.

Dr Verick’s presentation was based on the recently-conducted IHD–ILO study. Dr Verick emphasised the need to promote employment and skill development, based on insights from the automobile and electronics industries in India. He argued that given the competition to attract investments in labour-intensive industries in countries with lower wages than India, like Bangladesh, Vietnam, etc., it is important to capture global markets in sectors with rising demand such as in machinery and electronics. He added that low demand for skilled labour results in low supply of skilled labour, which further gives rise to a vicious cycle, and overcoming this would require action both in terms of firm strategies and supply of skilled workforce.

Following the presentations, Dr Rana Hasan, Assistant Chief Economist, Economics and Research Department, Asian Development Bank, referred to the major constraints facing manufacturing growth in India and the question of labour regulation in particular. He was of the view that infrastructure deficits were a key constraint which was also the least controversial and, hence, could be taken up as a priority in promoting manufacturing growth. As far as labour regulation was concerned, he pointed out that studies based on enterprise surveys demonstrated an incumbency bias. Firms’ decisions on product lines, scale of operations, and which markets to serve were likely to be affected by a rigid labour regulation regime. This suggested that Indian firms “would not want too many workers under one roof”. This would affect key production decisions and raised the question whether it could be due to regulation, the inspector regime or poor management practices which were responsible for this outcome. He also sounded a note of caution on the precariousness of contract labour for workers as a form of employment and its

possible associations with high rates of absenteeism and worker turnover, which also discourages firms from investing in workers.

Dr Hasan also highlighted the importance of achieving the complex task of an optimal labour regime which would provide flexibility for firms, but would also look after the interests of workers. Here, he suggested a simultaneous examination of varied regulations such as the Factories Act, IDA, Contract Labour Act, Trade Union Act, etc. While addressing an evolving list of constraints which was a perennial task facing all countries, he suggested developing a framework for gathering of information from firms and workers, and providing solutions on a continuous basis. He also suggested the need for bringing together policy frameworks for urban and industrial governance in promoting sustained and comprehensive growth in manufacturing.

Mr Arun Maira, former Member, Planning Commission, highlighted the significance of envisioning the paradigm for manufacturing growth before identifying a strategy for manufacturing growth. He pointed out that historically, many countries, such as the UK, US to Japan, and now China, experienced a rise before a decline in manufacturing. In contrast, the competitive advantage of the German model of industrial development lay in developing a medium-scale industrial sector responsive to learning and capable of diversification. A successful manufacturing strategy following this model would be a framework of learning enterprises with investment in human resources as the real appreciating assets. He suggested that more than a skill deficit, quality of management was the biggest constraint to manufacturing growth in India. He drew upon results of certain surveys carried out by international agencies to substantiate how a difference in management orientation and investment in human resources by firms led to more successful performances and higher profitability. Mr Maira proposed that the guiding principle and entry point to resolving numerous constraints to manufacturing growth, including labour regulations, should be based on enabling, first and foremost, a learning environment and trust between the stakeholders. For this, a social dialogue between the different actors – firms, unions, public, academics, experts, and the State – should precede the establishment of a policy framework for manufacturing growth.

Mr R.R. Rashmi, Additional Secretary, Dept. of Commerce, Ministry of Commerce and Industry, pointed out that, in characterising the problem in terms of the relative roles of manufacturing and services, we need to also account for the fact that the distinction between these two sectors in network-based manufacturing is increasingly blurred. Trade deficits are not necessarily linked with services growth, for services themselves had become tradable in the contemporary process of globalisation. The real problem lay in inherent infrastructural deficits and in moving up the value chain by improving quality and raise overall productivity and competitiveness.

Dr Jeemol Unni, Director, Institute of Rural Management Anand (IRMA), Gujarat, in her comments suggested that understanding the trends and structural breaks are crucial in identifying differing perspectives on growth of the organised and unorganised sectors and also manufacturing employment in the past decades. She also suggested that the slow growth of the labour force could in itself be a cause of worry and indicative of a distress-driven phenomenon. She pointed out that there was a hollowing out of the Indian manufacturing sector where domestic value added by manufacturing represented a diminishing share in domestic output, and this needed to be addressed by policymakers. The other feature of this hollowing out was the 'missing middle', which also required concerted efforts to provide an industrial environment where small firms could grow.

The second panel consisted of a round-table discussion on "Strategies for Faster Growth of Manufacturing Sector" which was chaired by Prof Deepak Nayyar, Emeritus Professor, JNU. Prof Nayyar began with three propositions. Firstly, he suggested that "Make in India" becomes an aspiration, which arises in the context of longer term trends and a beginning of deindustrialisation as represented by a declining share of manufacturing output. India's share of manufacturing value added in GDP currently, on an average, was actually lower than that of the world as well as other major developing countries. Secondly, constraints to manufacturing arise both on the demand and the supply side. On the demand side, constraints are related to the income distribution where domestic markets were concerned and a capacity to compete in export markets where external demand was concerned. On the supply side, besides the range of issues from infrastructural deficits, labour regulations to land acquisition, others constraints that were barely mentioned include the reduction in the availability of industrial finance. These different components needed to be assigned relative weights in order of their significance as constraints to manufacturing growth. Thirdly, an appropriate policy regime includes not only laws and policies related to labour regulations but also trade policy, industrial policy, and technology policy.

Mr Gurcharan Das, author and columnist, emphasised the need to change process and procedure while accelerating reforms and to be persuasive and transparent in arriving at policy decisions and establishing policy frameworks in this context. Mr Sunil Alagh, Chairman, SKA Advisors, pointed out the need to focus on the sense of where we want to go and how do we get there while developing a manufacturing growth strategy.

Mr Sanjay Prasad, Principal Secretary, Labour and Employment Department, Government of Gujarat, laid out the contours of infrastructure development that had occurred in Gujarat, which had facilitated the growth of broad-based manufacturing and extended to rural areas as well. He also mentioned training and apprenticeship schemes implemented for skill development and promoting labour welfare. Mr Prasad also pointed out that hollowing out need not necessarily be a bad thing for a country, giving the example of Britain where the industrial revolution was based on

importing raw material and inputs from other countries for developing the textile manufacturing Industry.

Mr C.K. Saji Narayanan, former President, Bharatiya Mazdoor Sangh, stated that the current decline in manufacturing was partly attributable to liberalisation which led to the decline of small-scale industry and destruction of employment. He also suggested that imports from China flooding the domestic market were also responsible for this decline and there was a need to change the slogan from 'Make in India' to 'Make by India' in determining policy thrusts.

Dr Rajiv Kumar, Director, Pahle India Foundation and Senior Fellow, Centre for Policy Research, said that labour inflexibility is one of the principle hurdles to industrial growth and productivity and believed that there is a need to introduce flexibility into the labour market through reforms, which would facilitate greater industrial productivity and thereby result in greater employment generation. He also suggested that the need of the hour was to first establish trust among the different actors in industry – the employers, the employees and the State. He proposed that contextual specificities should be taken into account in establishing suitable industrial policies for different regions without a 'one-size fits all' policy while also addressing certain central concerns nationally. The latter included overcoming infrastructure deficits, governance deficits and establishing a vibrant entrepreneur culture.

Mr Thomas Varghese, Managing Director, Fabprimech Pvt. Limited, Chennai, emphasised the need for policy changes which extended beyond labour regulations to include cutting down of procedural delays and transport bottlenecks that occurred due to numerous custom and other regulations. He also underscored the need for technological upgradation and mentioned ILO training programmes (SCORE), which had been helpful in this regard.

Prof Papola, Honorary Professor, Institute for Studies in Industrial Development (ISID), in his presentation suggested that a rebalancing of the existing industrialisation strategy towards a larger domestic orientation was desirable and plausible, given the recent growth in per capita incomes and the rising income elasticity of demand for manufactures in the Indian economy. He also pointed out that manufacturing employment had grown in industries where growth of output had taken place and this employment growth had taken place in both the organised and the unorganised sections of the sector. This implied that industry-specific factors were more important than labour legislation in determining employment outcomes. He also pointed out that due to improper enforcement and non-compliance of labour laws, employers often violate labour laws, which, in practice, provide a lot of labour flexibility to producers. Yet labour reforms were required as there were too many laws, cumbersome procedures, some irrational provisions and some antiquated clauses which carried on till date. Hence, there was a need to streamline, reduce, simplify and codify existing legislation as well as do away with certain clauses like Chapter 5b of the Industrial Disputes Act, which were irrational. This should,

however, be accompanied by other interventions protecting labour interests including raising of compensation for retrenchment which remained the lowest in India as compared to many other developing nations. There was also a need for reform in contract labour since it was not realistic to do away with this form of employment in the near future. This required making the use of contractual employment easier but also extending certain benefits accruing to regular workers to contract labour too, including ensuring payment of adequate wages, social security benefits and other such allowances. Lastly, he stressed the importance of not raising the threshold levels for application of provisions of the Factories Act since its implementation was concerned with ensuring human conditions of work. In fact, he was of the view that the application of its provisions should be extended to all workers to prevent precarious and inhuman working conditions. This was crucial to avoid the low road to industrialisation.

In the discussion that followed, representatives from trade unions, participating in the Symposium, argued that labour reforms, in the name of generating greater economic growth, should not dismantle the existing labour regime, which in their opinion is greatly exploited by business organisations for the purpose of productivity. They, thus, pleaded for guaranteeing and protecting labour rights in the face of exploitative employment practices.

As a whole, the conference concluded that there is a need to promote the manufacturing sector in India such that this sector can give rise to greater productivity levels and, in turn, provide greater employment opportunities for the fast-expanding workforce. The business environment in India, which is often criticised for its rigidity, needs to be reformed through improvements in the business environment. The existing business rules and regulations, procedures and logistical delays should be simplified. All participants accepted the need for simplification and codification of labour laws, but added that all such changes should not compromise the needs and interests of the workers.

Emerging Policy Implications

- “Make in India” as an attitudinal shift promoting manufacturing growth was important in shaping an industrial policy (IP) to meet this challenge. In order to develop this IP, *identifying constraints* to manufacturing growth, which had led to this process of de-industrialisation, was important. Here, both demand side and supply side constraints were important, ranging from the problems of a missing middle, pricing issues, competitiveness concerns, productivity constraints, regulation along with the role of fiscal, sectoral and macroeconomic policies. Some key constraints identified were: infrastructure: power and transport logistics; business and labour regulations, administrative processes, tax and trade issues, skills, credit, land, capacities for innovation and diversification, disincentives for small-scale to grow. There was a need to

map the particularities of each and assign them relative weights in coming up with a comprehensive industrial policy.

- *Structural transformation*, first and foremost, requires some specific forms of social dialogue to build trust, create an enabling learning environment and consensus on policy formulation, and support effective implementation. Institutions for consultation, discussion, participation and social dialogue are crucial for effectiveness, transparency and accountability. It was suggested that a *new form of social contract between* key stakeholders, in particular the State, business and workers was essential.
- An industrial strategy on the lines of experiences of countries like Germany, based on promoting strong *learning processes and investment in human resources* in medium-sized enterprises, was also proposed as ideal in promoting sustainable long term manufacturing growth. This would also involve bringing together policy frameworks for urban and industrial governance in promoting sustained and comprehensive growth in manufacturing. It also required capable agencies for attracting investment and servicing MNEs, as well as in providing post-establishment facilitation services and trouble shooting. Focused attention and problem solving, to the extent that efficiencies and simplification is applied to all companies (national and foreign) was necessary for economy-wide positive externalities.
- However, the relevant lessons are not just good practices and methodologies to attract a critical mass of foreign companies but also about *how to maximise their contribution to the national economy*. Here, the challenges have been two: how to promote backward and forward linkages, and how to maximise technology transfer. In other words, the challenge of economic upgradation.
- The second set of issues are around the question about what type of industrial policy (IP) could be helpful in *achieving effective and beneficial integration into the global value chains* (GVCs). Here, there were producer-driven value chains that are controlled by industrial multinational enterprises, and buyer-driven value chains are controlled by commercial capital, for instance, Walmart, Nike, Starbucks, etc., and their business model is international sub-contracting to nationally owned industrial suppliers. It has been suggested that buyer-driven business model allows superior dynamics for local technological upgrading, either by capturing more value in the chain by producing more local inputs, or by escalating up the value chain towards higher sophistication, design and branding, which allows higher capabilities in national enterprises. India needed to again strike a balance between costs and benefits of policy thrusts aimed at promoting either.
- Policies of integration into GVCs require a focus on the social upgrading and the governance frameworks of the value chains and not just on the economic upgrading. The social dimension includes employment, wages, working conditions and compliance with international labour standards. Managing the social dimension requires strong labour inspection institutions, but also strong cooperation and social dialogue between international brands, local suppliers

and workers. There was also the need to fix the responsibilities and liabilities of the leading employers as well as subcontracting agencies and middlemen down the hierarchy of the supply chains where compliance with labour regulations was concerned. Here, lessons could be drawn from a variety of good practices, where leading companies see their suppliers as partners and involve themselves quite closely in the labour dimension as part of a positive approach to have high productivity, high quality supplier.

- While attracting FDI was an important part of an IP, *building domestic industrial capabilities* was equally essential. Otherwise there was the danger of ending up having a dual production structure, with a relatively small modern internationally competitive sector and a large, much more backward, low productivity sector. Domestic industrial capabilities are enhanced by increasing the variety, diversity and complexity of the knowledge and production base. The development of capabilities is essentially a process of (collective) learning. Learning in a society occurs at several levels and places: in formal education and vocational training, in enterprises, in value chains, in public and private organisations, and in social networks. The role of industrial policy, hence, was to build social capabilities such as education, infrastructure and other public service institutions, which have not kept up with the needs of the private sector. There is also a need to address growing deficiencies in education. Innovation and infrastructure have become binding constraints on broad based Industrial upgrading.
- Lastly, there was a broad consensus on the role of labour regulation and the nature of labour reforms. While it was not considered to be a major constraint to manufacturing employment growth, the challenge remained in the complex task of designing and implementing an optimal labour regime, which would provide flexibility for firms, but would also look after the interests of workers. Labour reforms were required as currently there were too many laws in practice involving cumbersome regulatory procedures, including some irrational provisions and some antiquated clauses. Hence, there was a need to streamline, reduce, simplify and codify existing legislation. It was suggested that a simultaneous examination of varied regulations, such as the Factories Act, IDA, Contract Labour Act, Trade Union Act, etc., was required instead of focusing merely on retrenchment provisions to develop a comprehensive regulatory framework. While certain irrational and outdated provisions could be done away with, protecting worker interests, reducing the precariousness of contractual labour and ensuring adequate compensation and human working conditions remained essential in this regard.