Fostering Manufacturing Sector for Jobs Creation: Lessons for India from Experiences of East Asian Countries

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Poor performance of manufacturing responsible for GDP slowdown and rising trade deficit

- Growth slow down to under 5%
- Essentially due to poor growth rate of industrial and manufacturing sector
  - Industrial growth decelerating since 2007
  - Erosion of competitiveness and hollowing out of manufacturing
  - Infrastructure and industrial projects held up due to land acquisition related issues
  - Monetary tightening to curb inflationary expectations affecting adversely the investments and consumption
- Merchandize trade deficit is major contributor to CAD
  - Widened sharply to nearly $200 billion from $34 billion over 2004-13; sharply since 2007-08; moderated by surplus in services
Manufacturing generates highest linkages among all sectors in India

- Poor manufacturing performance has cost dearly in terms of jobs creation
- High backward and forward linkages imply highest indirect job creating potential of manufacturing among all productive sectors
Towards Manufacturing-led Growth

• Export-oriented (EO) and import substituting (IS) industrialization
  – East Asian countries pursued EO type of industrialization
  – India pursued IS based industrialization in early years (until 1990)

• Prospects of export-oriented industrialization in the current context
  – Subdued growth in the advanced economies a new normal
  – Focus of advanced economies on unwinding global imbalances by consuming less and saving and exporting more
  – Rising protectionism in advanced economies
  – Huge underutilized capacities in the East Asian countries

• Large and growing market for many products provide an opportunity for strategic import substitution

### Key manufactured imports in 2012-13

<table>
<thead>
<tr>
<th>Category</th>
<th>Value (bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-elect mach. and mach. tools</td>
<td>$30</td>
</tr>
<tr>
<td>Electronic goods</td>
<td>$33</td>
</tr>
<tr>
<td>Electric machinery</td>
<td>$4.4</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>$14</td>
</tr>
<tr>
<td>Chemicals</td>
<td>$19.2</td>
</tr>
<tr>
<td>Manuf. of metals</td>
<td>$4.3</td>
</tr>
<tr>
<td>Artificial resins</td>
<td>$8.6</td>
</tr>
<tr>
<td>Project imports</td>
<td>$8.7</td>
</tr>
<tr>
<td>Prof. inst &amp; computers</td>
<td>$6</td>
</tr>
</tbody>
</table>
Strategic interventions for manufacturing

• Revival of Industrial Policy: Lessons from East Asian countries
  – Leveraging domestic market to build local manufacturing
  – Some protection through tariffs or non-tariff barriers such as unique standards
  – Public procurement programmes to support manufacturing
  – Subsidized credit and infrastructure
  – Pioneer industry programmes
  – Favourable exchange rate
  – Directing FDI towards manufacturing through extensive combination of policies and performance requirements

• Infrastructure support, land acquisition, skills formation

• Getting rid of outdated regulations, in the changed circumstances

• Facilitation of approvals: single windows

• Using safeguards in WTO and bilateral trade agreements

• Exploit Indian strengths in software, frugal engineering to develop new products for local and global markets
Leveraging large market for manufacturing FDI

• Pushing exporters to India to set up manufacturing plants in India taking advantage of India’s large market
  – Directing FDI to manufacturing sector to export-oriented or import substituting manufacturing and enhancing the chances of FDI crowding-in domestic investments
  – Proactive targeting can be effective tool for improving quality
  – Performance requirements can be helpful in improving quality of FDI
    • Lessons from India’s experiences
    • Lessons from East Asian experiences
Concluding remarks

• A manufacturing oriented transformation is needed to address the challenge of reviving growth, growing trade deficit and employment creation
• Revival of industrial policy for strategic import substitution leveraging large and growing domestic market to foster domestic manufacturing to generate incomes, jobs and save foreign exchange
• Useful lessons from East Asian countries in using strategic interventions and other facilitations for promoting industrialization
• Need to adopt a strategic approach to harness potential of manufacturing, leveraging domestic strengths for developing new efficient products for local and global markets
THANK YOU

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