



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

Chart 1: India GDP (% y/y)

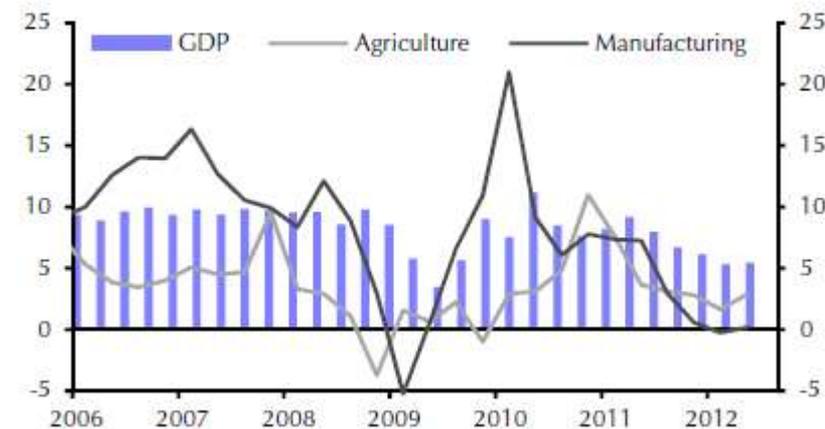
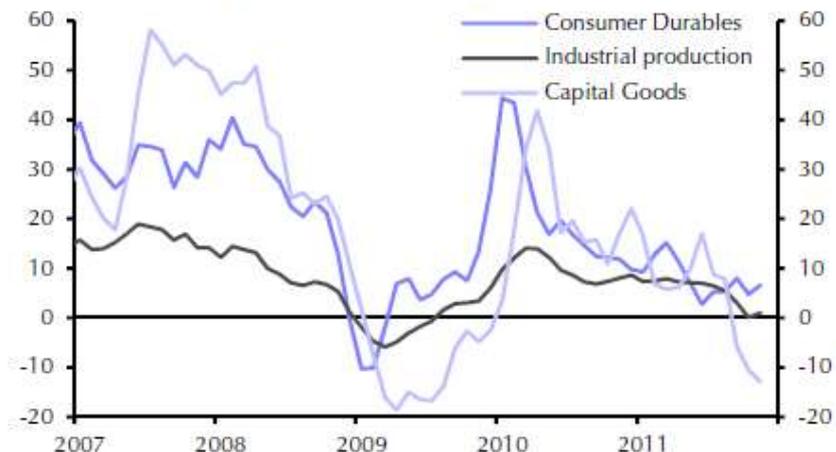
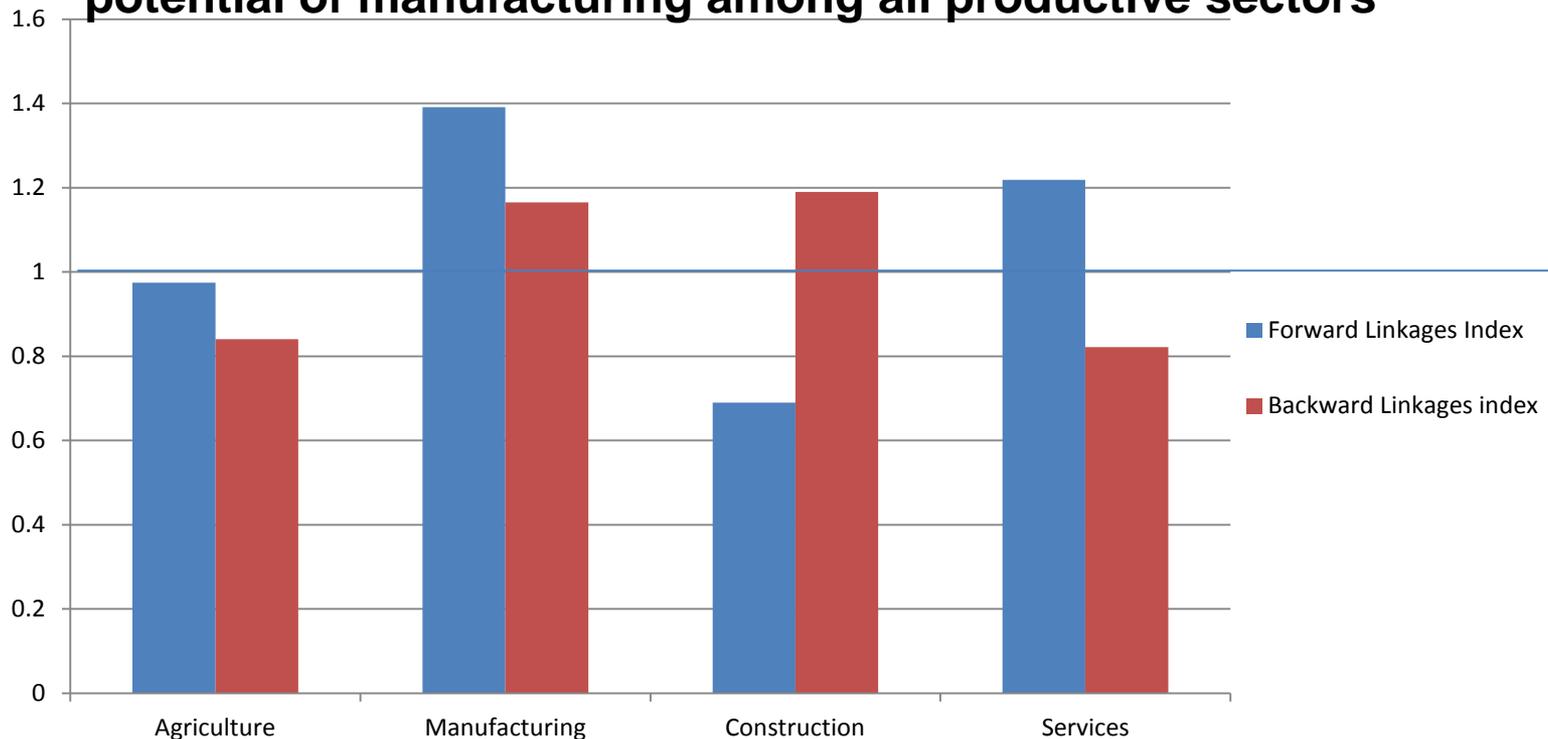


Chart 2: Industrial Output (% 3m y/y)



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

Non-elect mach. and mach. tools: \$30 bn
 Electronic goods: \$33 bn
 Electric machinery: \$4.4 bn
 Transport equipment: \$14 bn

Chemicals: \$19.2 bn
 Manuf. of metals: \$4.3 bn
 Artificial resins: \$8.6 bn
 Project imports: \$8.7 bn
 Prof. inst & computers: \$6 bn

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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