

On Attracting Investment in India's Manufacturing Sector

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As we Proceed

- ❖ The Context: The state of manufacturing sector
- ❖ The contentions: Our understanding on promoting manufacturing investment is far from complete
- ❖ The conjectures: Plausible elements of an investment oriented manufacturing strategy

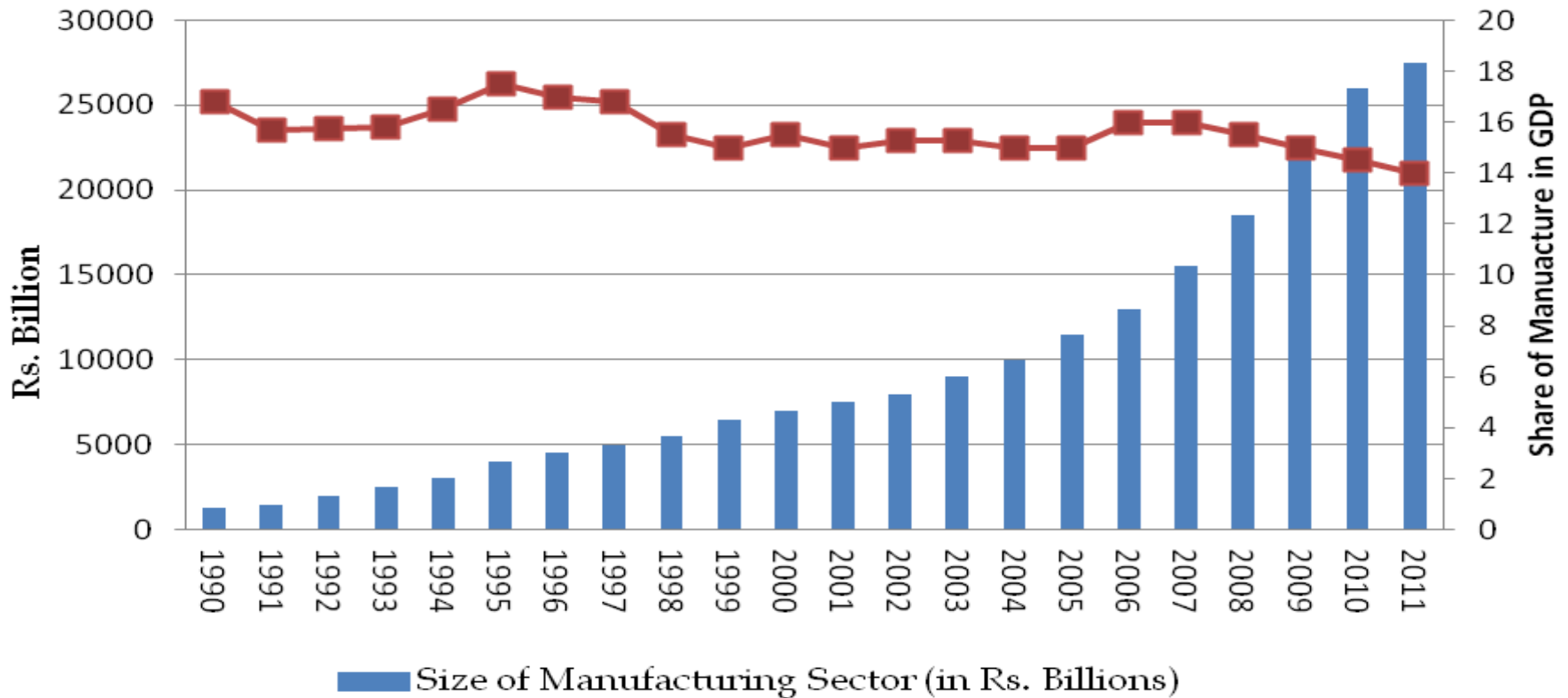
The Context:
The state of manufacturing sector

The Committees and Policies

- The National Strategy for Manufacturing (2005)
- The Prime Minister's Task Force on MSMEs (2009)
- Strategies for Accelerating Growth of Manufacturing in India in the 12th Five Year Plan and Beyond
- National Manufacturing Policy (2011)
- Inter Ministerial Committee on Accelerating Manufacturing in the MSME sector (2013)

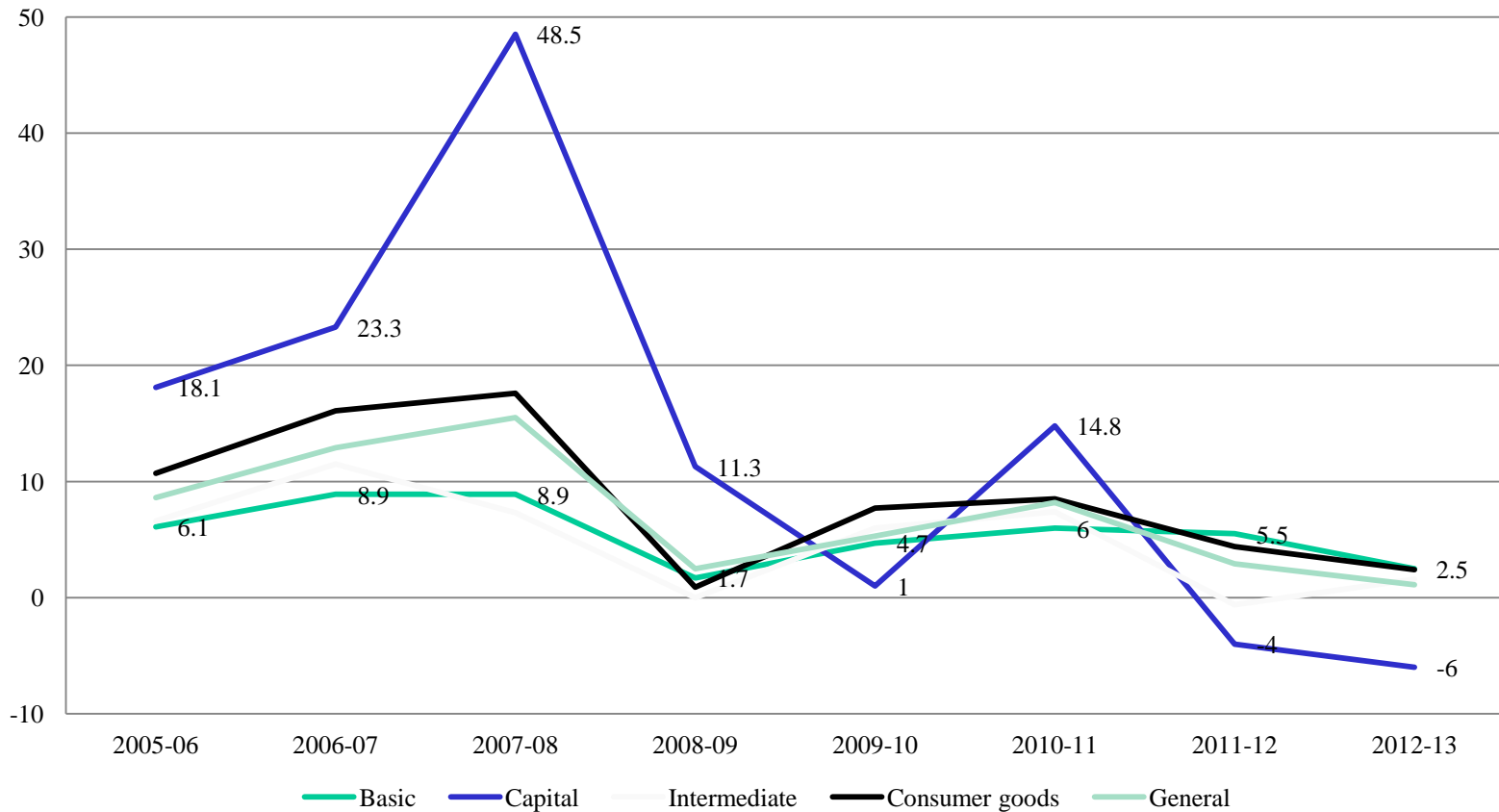
Performance of Manufacturing Sector under Globalisation

Figure 2: Size and Share of Manufacturing Sector in India

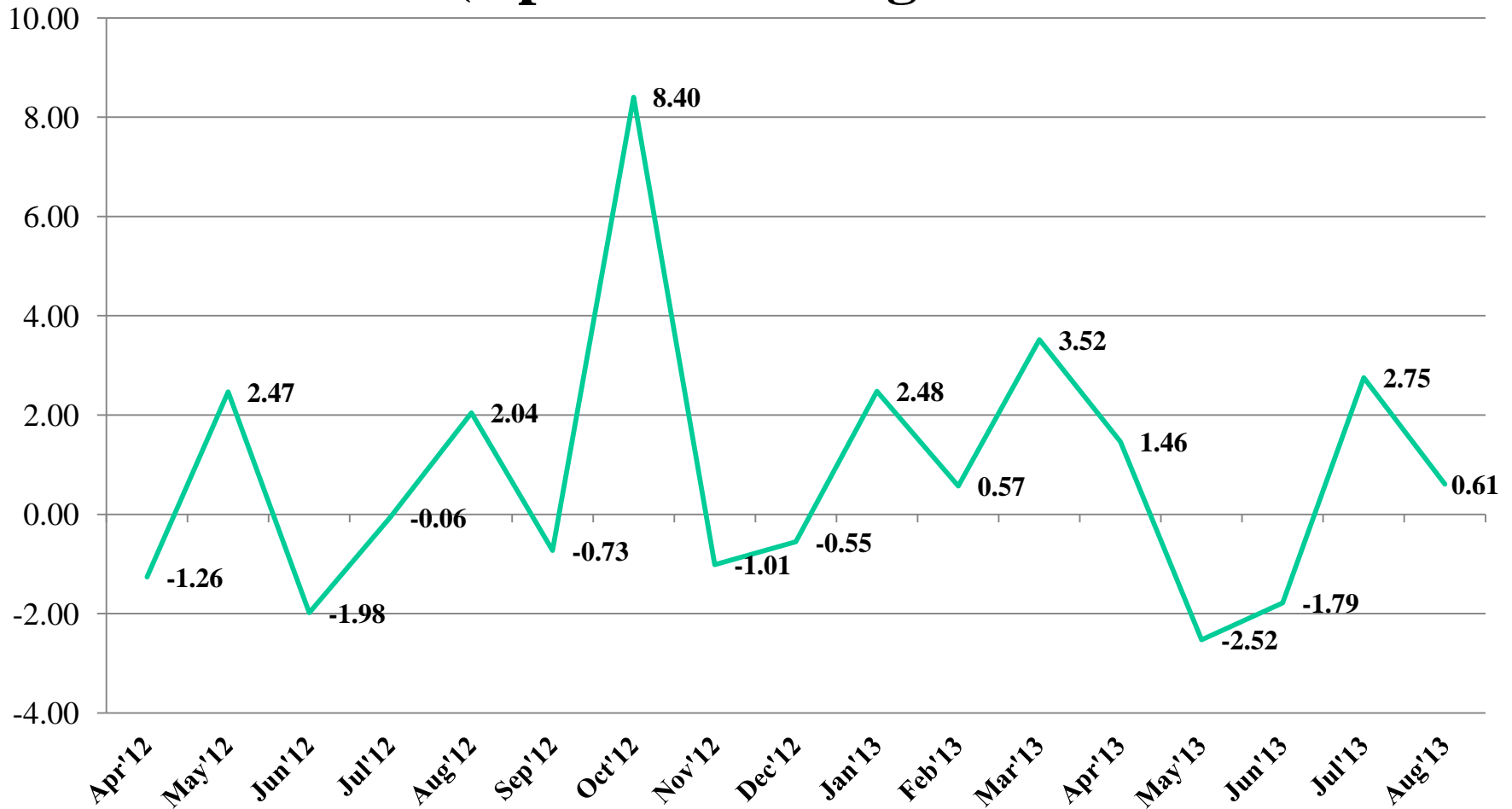


Source: PROWESS (CMIE) and World Bank 2012

Annual Growth Rate in Index of Industrial Production (Base 2004-05)

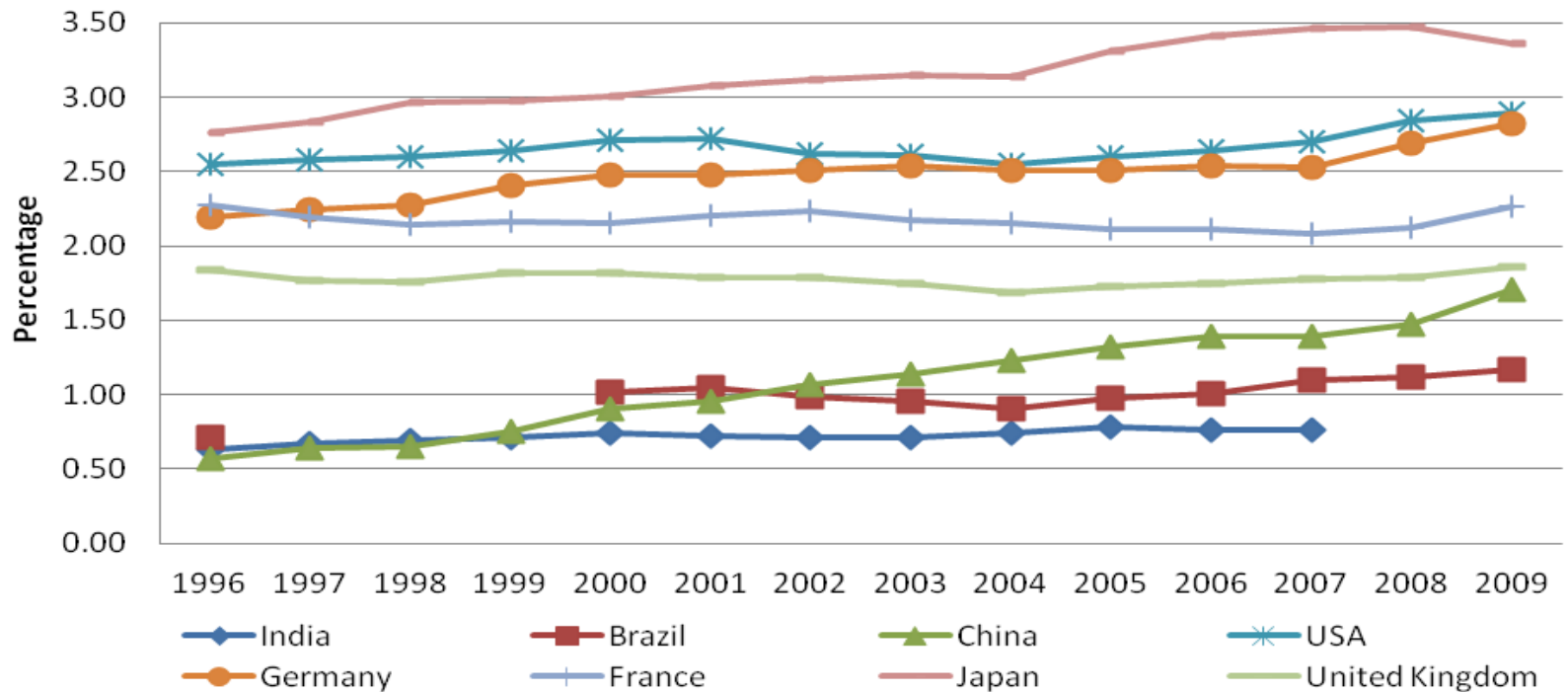


Monthly Growth Rate in IIP (Apr 2012 to Aug 2013)



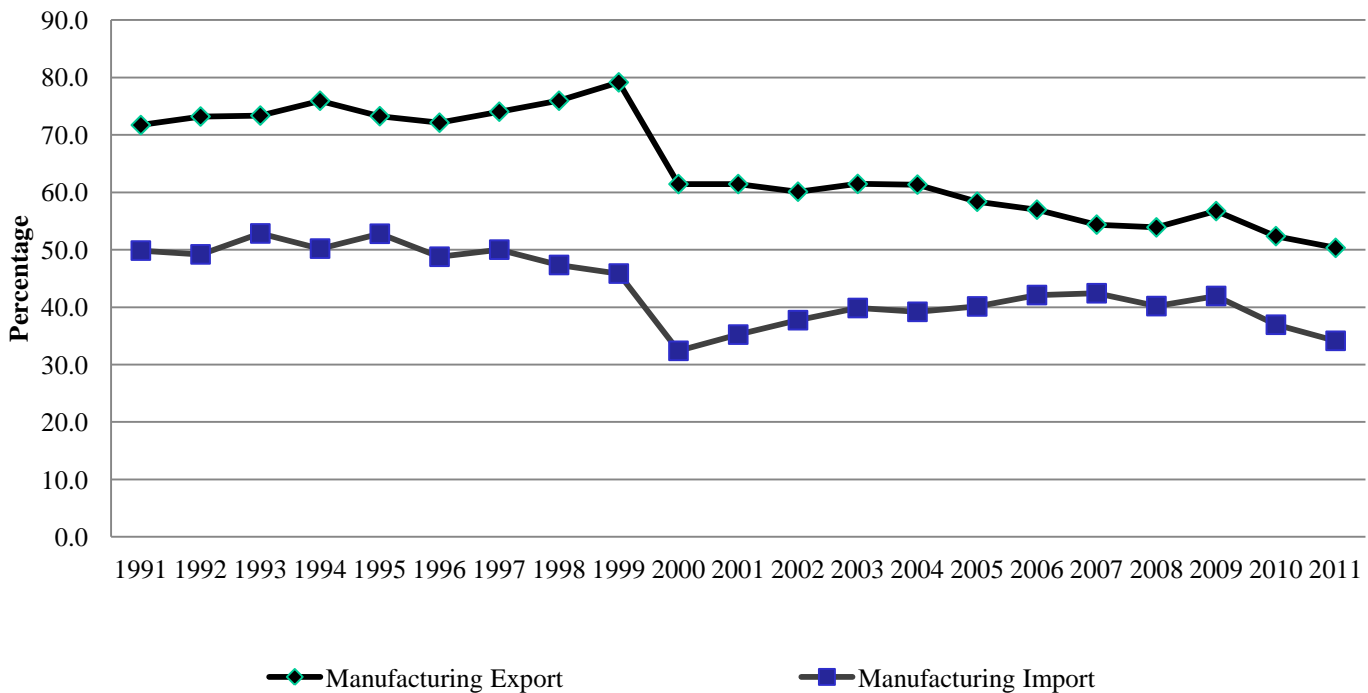
Low R&D Intensity

Figure 3: Gross Domestic Expenditure on R&D
(Share of R&D as percentage of GDP)



Source: UNESCO Institute for Statistics (UIS)

Declining Share of Manufactures in Merchandise



Source: UN Comtrade, WITS Database

Increasing Sickness of MSMEs

As at end of March	Total Sick MSMEs		Potentially viable		Viable enterprises under nursing	
	Number	Amount	Number	Amount	Number	Amount
2005	138041	5380.13	3922	434.67	2080	259.93
2006	126824	4981.13	4594	498.16	915	233.77
2007	114132	5266.65	4287	427.46	588	268.93
2008	85187	3082.72	4210	246.88	1262	126.92
2009	103996	3619.90	8168	731.68	2330	424.26
2010	77723	5233.15	9160	964.75	2360	478.84
2011	90141	5211.25	7118	1112.98	4698	518.30
2012	85591	6790.00	10315	1721.00	6648	468.00
2013-p	249903	12800.00	12779	3926.00	4599	3244.0

Manufacturing is Crucial for Employment Generation

Sectors	Shares in GDP		Shares in Employment		Employment in Millions
	1982-83	2009-10	1983	2009-10	2009-10
Agriculture and allied activities	35.1	14.6	68.2	51.8	238
Mining and quarrying	2.8	2.4	0.6	0.6	3
Manufacturing	14.3	16.1	10.6	11.4	52
Electricity , gas & water	1.5	2	0.3	0.3	1
Services	45	64.9	19.9	35.8	165
Construction	7.7	7.9	2.3	9.6	44
Trade, hotel, transport & communication	16.7	26.5	8.8	15.7	72
Finance, real estate and business services	8.3	17.2	0.7	2.2	10
Community, social and personal services	12.4	13.1	8.1	8.3	38
GDP/Total employment	100	100	100	100	459

The 12th Plan Objectives

- Increase manufacturing sector growth to 12-14% over the medium term to make it the engine of growth for the economy and to enable manufacturing to contribute at least **25% of the GDP by 2025**.
- Increase the rate of job creation to create **100 million additional jobs** by 2025. Emphasis should be given to creation of appropriate skill sets among the rural migrant and urban poor to make growth inclusive.
- Increase **'depth' in manufacturing**, with focus on the level of domestic value addition
- Enhance **global competitiveness** of Indian manufacturing through appropriate policy support.
- Ensure **environmental sustainability** of growth

Industrial Policy: The analytical foundations

- The 12 FYP is marked by a strategic departure from the earlier approach - leave the growth of industry to market forces consistent with the open, market-based economies – as it has not delivered neither employment nor depth in India's industry.
- Drawing insights from Hausman and Rodrik it is argued that industrialization process involves
 - Creating **adequate variety** within mfg sector and
 - **Collaboration between Government and producer firms** as the key to the process of discovery and growth
- Support the enterprises in such a way as to motivate and enable them to **learn and develop complex capabilities** and not become complacent and inefficient
- **Not of picking the winner**

Learning Innovation and Competence Building (LICS) Process

- Processes that enable the Manufacturing Eco-system to Learn
- First; learning is accelerated through the interaction of the diverse components of the system
- Second is the process of Innovation
- Third is a regime of Standards
- Fourth is an IP regime
- fifth category of processes that enable system-wide learning and continuing improvement

However....

- The context of today is different from the context from which the elements of the Analytical framework has been evolved
- Under the new disposition involving
- Trade Liberalization – limited scope for infant industry protection and diminished role of home market
- Strong IPR – limited scope for duplicative imitation
- National treatment for FDI – reduced policy space for influencing MNCs to increase the depth of manufacturing and increased value addition
- Limited role of state and limits to public procurement
- Multilateral organizations are powerful in influencing domestic policies

Cross-cutting Concerns & Strategies of 12th FYP

Cross cutting Concerns \ sectors/strategies	Crosscutting Strategies			
	Sectors of Strategic Importance	Sectors of Basic Inputs	Sectors of Depth and Value Addition	Sectors of Employment Generation
Technology and depth				
Human resource development				
Business regulatory framework				
Ensuring environmental sustainability with industrial growth				
Water issues				
Land issues				
Clustering and aggregation				
Promoting MSMEs				
Boosting manufacturing exports				
Reforming the role and management of PSEs				
National Investment and Manufacturing Zones (NIMZs)				

The Contentions:

Our understanding on promoting
manufacturing investment is far from
complete

- **Variety in manufacturing calls for variety in investment**
- Manufacturing investors are a heterogeneous category –
 - MNCs, (both local and foreign)
 - Large units in organized sector
 - Medium enterprises
 - Small enterprises
 - Micro enterprises
 - Potential enterprises
- Each one of these categories have their own role in facilitating manufacturing and needs to be promoted in tune with the specific contexts

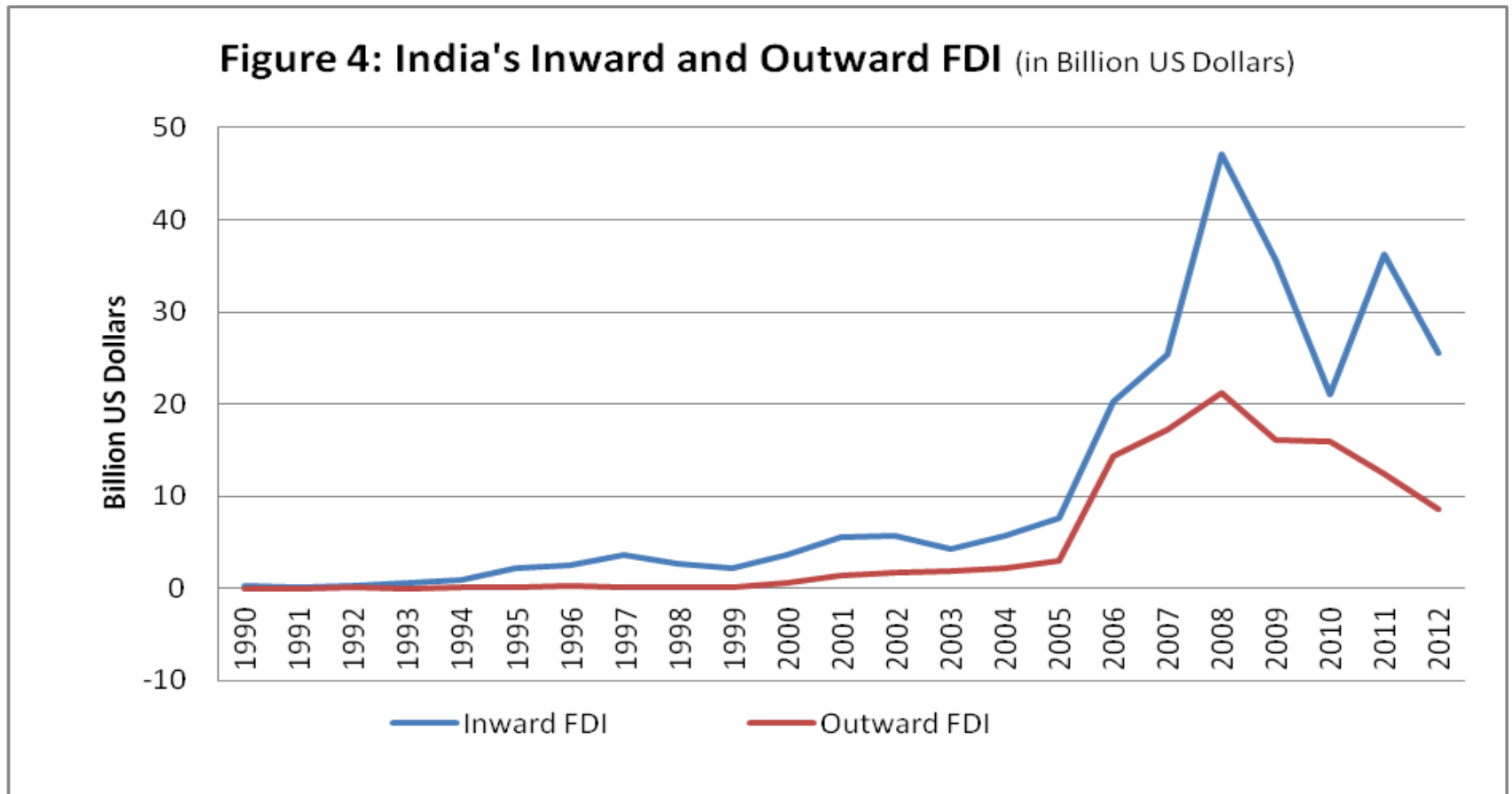
- ❖ **Incidence and Intensity of cross cutting concerns may vary across different investor categories**
- ❖ **Fallacy of composition error in the strategy**

- The form and content of investment promotion measures may vary across different investor categories
 - MNCs often look beyond incentives
 - Large enterprises may look for ease of doing business
 - MSMEs and potential enterprises might need “nurturing” over and above incentives and ease of doing business
- Hence no single formula can be uniformly effective for all the categories.

Investor categories are differently positioned to accomplish the plan objectives

- The “depth of manufacturing” and enhanced value addition may be inimical to the strategy of Global Production Network being followed by MNCs
- This is especially true of assembly oriented industries like electronics
- More over, under WTO, there are obvious limits to specifying local content requirements

MNCs, given their global perspective may not be of help when you are in trouble



Investor Categories are differently positioned to accomplish the plan objectives

- **Employment generation** may be inimical to investment by large enterprises as the organized manufacturing sector has been recording jobless growth under globalization
- There has also been concern about the quality of employment
- It has been shown that during 1981-82 to 2004-05 the share of wages in value added declined from 42 per cent in 1981-82 to 32 per cent in 1991-92 and to a further low level of 25 per cent in 2004-05.

Immiserising Competitiveness? (Increasing share of contract workers)

Year	Direct workers	Contract workers
1993-94	85.50	14.50
1994-95	85.15	14.85
1995-96	86.63	13.34
1996-97	83.54	16.22
1997-98	83.53	16.47
1998-99	84.45	15.55
1999-00	80.36	19.64
2000-01	79.72	20.26
2001-02	78.36	21.64
2002-03	77.10	22.90
2003-04	75.49	24.51
2004-05	73.61	26.39
2005-06	71.46	28.54
2006-07	70.00	30.00
2007-08	69.04	30.96

The Conjectures: Towards an investment oriented manufacturing strategy

- Addressing cross cutting concerns and concerns at the sectoral/industry level is a necessary but not a sufficient condition for attracting manufacturing investment
- sector/industry specific strategies may be complemented with investor-specific strategies
- Here we need to go beyond MSMEs

Investment oriented Manufacturing Strategies of 12th FYP

Cross cutting Concerns	Crosscutting Strategies			
	MNCs	Organized Sectors firms	MSMEs	Potential Investors
Technology and depth				
Human resource development				
Business regulatory framework				
Ensuring environmental sustainability with industrial growth				
Water issues				
Land issues				
Clustering and aggregation				
Promoting MSMEs				
Boosting manufacturing exports				
Reforming the role and management of PSEs				
National Investment and Manufacturing Zones (NIMZs)				

Plausible elements of an investor-centric manufacturing strategy

- ❖ Awareness generation on manufacturing
- ❖ Going beyond state to at least district level
- ❖ An enterprise a day in a district
- ❖ Focusing beyond professional degree holders
- ❖ From Public-Private Participation to Public Private People participation

Thank you