

**A Perspective on the Potential of Indian Manufacturing Sector to Generate Employment**

**\* Ms. Deepti Kakar**

\* Associate Professor, Jagan Institute of Management Studies, 3, Institutional Area, Rohini, Sector 5, Delhi 110085

**Abstract**

The manufacturing sector has evolved over centuries, decade and years. Its contribution in terms of national output and labour absorption too has undergone significant changes. As the service sector growth rates are beginning to flatten out, a renewed attention is being given to the manufacturing sector in India with the hope that it will solve the issues of unemployment in addition to increase in national output and technological advancement with aid from foreign capital. The article is a perspective on the value proposition that the manufacturing sector is capable of doing the same. The background fundamental linkages that govern the working of the sector have been invoked to draw the most probable future outlook for the sector. The labour displacing nature of modern manufacturing combined with easy access to foreign capital and scarcity of highly skilled people makes it more probable for this sector to fail on the expectations.

**Keywords:** Manufacturing, 'Make in India,' unemployment, skill generation

**Introduction**

Unemployment and poverty are two stark stains on modern life and times of humankind. Though policy making has never ignored either of them, they continue to stare blankly in face of the thinkers and action agents alike. The proportion of unemployment in India is not very high and is in league with most other Asian economies, however, due to our huge population, the absolute numbers are frightening. The growth in the service sector in the 1990s and the first decade of the 21<sup>st</sup> century did lead to an increase in jobs but the growth has not been sufficient to absorb the unemployed. The skepticism about the sustainability of economic growth via the service sector has also inflicted doubts over sustainability of employment generation through service sector growth. It is believed that in case India is able to build its missing manufacturing sector, the sustainability issues of economic growth as well as the problem of job creation will be solved. How sound is this proposition - are the labour market fundamentals in India strong to enable emergence of equilibrium? The ensuing discussion views the strength of this proposition in light of the facts and factors that define the very proposition.

**Indian manufacturing sector: The evolution**

The concern and renewed focus on the manufacturing sector in India is not misplaced. Manufacturing sector has always been in the past, continues in the present and will always be a significant participant in the growth process of the Indian economy. India happened to be a global leader in the area of manufacturing in the early part of 18<sup>th</sup> century and with nearly 23% share in the global GDP (Maddison, 1995), it was in an indomitable position. Owing to a number of factors, this remarkable statistic and the strong status changed with the passage of time. Significant among these were the colonial subjugation that Indian economy and Indians had to experience for a very long time. The colonial rulers made little effort towards improving the productivity of the economic activities in India. If ever thrust was given; the reason was never altruistic but to directly or indirectly seek self gain or prosperity. Given the abundance of labour and the implied low cost of hiring labour, the motivation towards mechanization and technology

advancement was clearly missing. Thus, productivity gains were never a goal pursued in India during the colonial times.

In the early years of India's independence, large scale manufacturing was given priority. Specifically, in the second five year plan (1956-61), the Indian government under the vision and leadership of Pt. Nehru focused on nurturing basic and heavy industries. The adoption of the 'Mahalanobis growth model' that emphasized import substitution and self-sustenance gave birth to steel plants, power projects, intensified coal mining and machine tool building (GOI, 1951). Given the past experience, Pt. Nehru and his team was doubtful of the intentions of the private players and gave supremacy to the role of State in the process of industrialization and nation building. The role of State as an entrepreneur was significantly and prominently both positioned and followed. Thus, an industrial revolution akin to that experienced in the West never came to be experienced in India.

Focus on the small and medium scale manufacturing was never overlooked. From the beginning of the plan period, the cottage and small manufacturers were given policy level attention. The industrial policy resolutions of 1948, 1956, 1973, 1977, 1980 and 1991 were designed to lay down the specific objectives in the sphere and the paths to achieve them through the contribution of the public and private sector. Yet, the results in terms of productivity and outcome enhancement have been far from the expectations.

### **Indian Manufacturing Sector: The Recent Times**

Till 2010, there was no comprehensive policy initiative to revive and thereafter propel growth in the sluggish manufacturing sector. In 2011, the then Prime Minister Dr. Manmohan Singh proposed the National Manufacturing Policy (GOI, 2011) which aimed to increase the growth rate in the sector and enhance its contribution to the country's GDP. The key policy formulation included setting up of National Investment and Manufacturing Zones, development of SMEs, skill upgradation, and promotion of green manufacturing and simplification of business regulations (PwC, 2012). Specifically the policy aimed to take the manufacturing sector's share to 25% of the GDP within a decade by increasing the sector's growth to 12-14 % in the medium term and enable creation of an additional 100 million jobs by the year 2022 (GOI, 2011). For achieving the same the focus was laid on welcoming foreign investments and technologies, improving the competitiveness of domestic enterprises, easing the regulatory fetters, stimulating innovations to increase productivity and quality and facilitating entrepreneurship (GOI, 2011).

Interestingly, when the UPA lost the general (16<sup>th</sup> Lok Sabha) elections to public mandate in favour of the BJP led NDA in 2014, the new government under the leadership of Prime Minister Narendra Modi launched numerous initiatives as campaigns or on mission mode to announce a change in the thought process as well as actions to take India to the pinnacle of growth and development. In context of the manufacturing sector has been the 'Make in India' programme "devised to transform India into a global design and manufacturing hub" (GOI, 2016a).

On a deeper look the objectives and strategies of the 'Make in India' programme possess the same structural DNA as that of the 'National Manufacturing Policy 2011.' The growth rate and employment generation targets are absolutely the same and the route to their attainment is very similar. While the National Manufacturing Policy 2011 did not make much noise at the domestic level let alone international arena, the 'Make in India' campaign has been hailed as an initiative offering a creative solution to the woes of a stagnant manufacturing sector. The reason is the strong promotion and thus branding of India via this campaign. The shop was already set, a big billowing banner and a bellowing salesman have taken stage. How far the brand is able to reap brand equity worldwide is

not a pedestrian guess work. Factors that directly and indirectly intertwine with the sector's means and ends are significant influencers in this story.

### **Indian Manufacturing Sector: Employment Generation Potential?**

Of the 25 focus areas of the 'Make in India' programme, the majority belongs to the category of heavy industries requiring capital intensive and technology driven processing. This would clearly mean a smaller participation and role for the labour, the abundant resource in India. The 12<sup>th</sup> five year plan shared the employment elasticity of growth in India as 0.01 over the period 2004-05 to 2009-10 which was even lower than the 0.44 for the period 1999-2000 to 2004-05 (GOI, 2012). Misra and Suresh (2012) have estimated the manufacturing employment elasticity as about 0.3 for the period 1993-94 to 2011-12.

Majority of the workforce in India falls in three broad categories - the unskilled, the semi-skilled and the skilled. The last of these are mainly those with skills required in traditional industries. The manufacturing sector of the contemporary times has modern connotations and implies use of modern machinery instead of labour and is technologically more advanced. Therefore, the possibility of modern manufacturing fetching more jobs for the vast unemployed people in India is dismally low. In fact, the Ministry of Statistics and Programme Implementation (MoSPI) in their survey data for Indian factories revealed that more than 400,000 people experienced loss of their jobs over the financial year 2012-13 (Business Standard, 2015).

Whatever new jobs have been created in the manufacturing sector have been in the informal/unorganized sector which offers low incomes and low productivity growth. Most of these have been in the construction industry alone. The low response of growth in manufacturing towards job creation is significant in understanding the strength of the potential of manufacturing sector in terms of being an employment generator. In addition, the comparison between the cost of labour and capital will be a significant determinant in the choice of resource demand by the manufacturing industry. If our (abundant) workforce continues to remain unskilled or becomes skilled with capabilities that are different from the industry requirements, then the employment generation will be at the ongoing pace. Worse so, if the specialized technology adoption would cause demand for highly skilled workforce - a scarcity in India. To add to the unemployment woes, the removal of barriers to access capital for starting or running or expanding businesses is getting supplemented by open arm invitations to foreign capital.

In the times of the UPA government the employment growth was insufficient and the jobs created via the MGNREGA programme largely compromised on productivity gains. The income growth fuelled demand pull inflation which cascaded to the other areas of economic activities and put burden on the Government's treasury. Huge consumption subsidies to appease the below and near poverty line population, furthered the fiscal deficit and added to the macroeconomic troubles of the country.

The fear of the author is visible in the latest Asia Pacific Human Development Report released by the UNDP which discusses job shortage in India in the coming years. Over 1991 to 2013 India was able to generate jobs for less than half of the new entrants in the labour market and the growth potential for jobs would continue to be low in the coming years (UNDP, 2016). The report also highlights the prominent presence of the informal sector and widely prevalent underemployment/disguised employment.

### **Indian Manufacturing Sector: The Skill Gap**

Given the technical and factual difficulties, job creations to meet the supply in the labour market appear to be a tough promise to deliver. Solution seems to be in enabling the Indian workforce to acquire the right skills - that is, the skills in demand. The UPA government designed the National Skill Development Policy in 2009 which was followed by creation of The National Skill Development Fund and the National Skill Development

Council in the same year and in 2013, the National Skill Development Agency came into being. The progress of skilling has however not been commendable (GOI, 2015). In keeping with the renovation of existing programmes, the NDA government proposed the 'Skill India' mission. In July 2014, a Department of Skill Development and Entrepreneurship was notified which was converted into a Ministry by November 2014 and the relevant council, fund and agency were subsumed in it. The 'Skill India' mission is intended to feed into the 'Make in India' programme. Only 4.69% of the total workforce (farm and non-farm) in India is skilled as per the 2011-12 NSSO survey (GOI, 2016b). Thus the huge gap poses a challenge bigger than its potential for India.

The reasons for these gaps lie in the institutional machinery of formal education system that is confounded with issues of preference, perception and access restrictions due to socio-economic factors. Corruption, too, has not left this space untouched. More specifically we find that millions of students earn their degrees and diplomas each year in India across various disciplines. They offer their services in the labour market but are not absorbed due to implicit knowledge/talent/skill deficiencies. In other words the quality of these graduates does not match the standards and requirements of the demand side of labour market. Various surveys done independently or under the aegis of governmental bodies clearly point out the 'unemployable' characteristic of the graduates.

To quote the data from ASSOCHAM (2016) and NASSCOM (2014) - "Association of India's Chambers of Commerce and Industry shared that only 7% of India's MBAs were employable while National Association of Software and Services Companies shared that 90% of IT graduates and 75% of engineers were not good enough to receive training."

An interface between the industry and academia is seriously missing! A collaborative approach needs to be charted. This need not be a top-down approach but better so if the industries and academic institutions gear up to sketch alliance at their own end which is most likely to reap mutual long term gains. The policy makers too can design basic level incentives to ensure such an engagement.

Gearing up the education system per se to match the requirements of the (labour) market demand is not a measly task and would call for generous inputs from all stakeholders in the system. Finances and infrastructure can be visualized as the relatively easily arrangeable inputs as compared to the subjectivity laden inputs, - that is subjects, contents, delivery mechanism etc. that abound with a stiff difference of opinion. The former, though objective in nature finds hurdles in the subjective aura of our administrative and regulatory institutions of our country.

### **Conclusion**

The manufacturing sector is automating and displacing labour that is low on skills and therefore has poor capacity to generate employment opportunities for the vast majority of the unskilled labour force in India. Clarion calls similar to the 'Make in India' have resonated in other emerging economies as well. Other things remaining the same, the success of India's efforts at industrialization are contingent upon the availability of right type of inputs at the right time. And given the existing factors, their nature and stubborn inclination, the probability of the manufacturing sector to generate additional jobs and solve the unemployment problem appears to be low. Radical changes which involve time and patience can rid India of the skill gap and the excess supply in labour market.

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