

ROLE OF MANUFACTURING IN EMPLOYMENT GENERATION IN INDIA

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EXECUTIVE SUMMARY

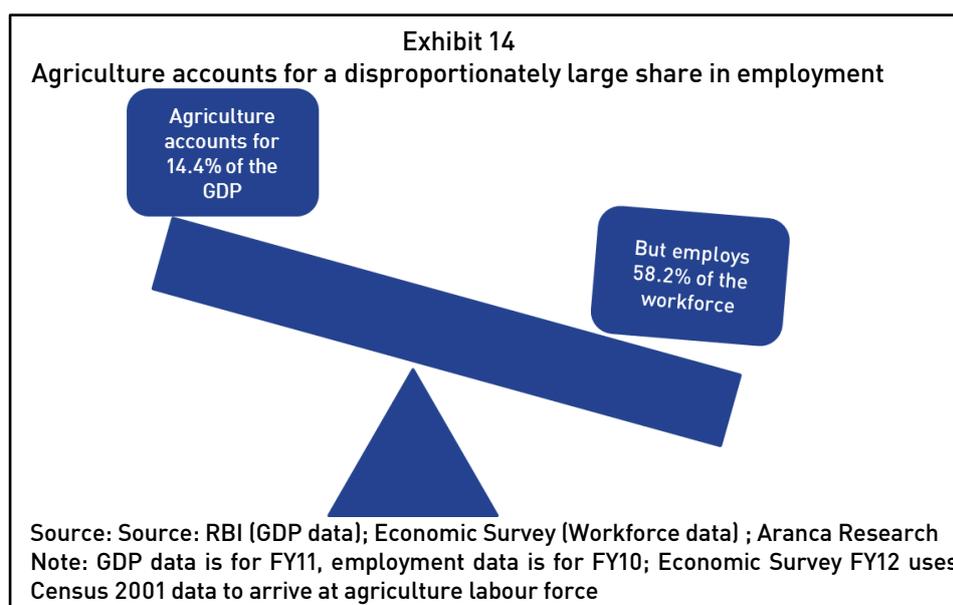
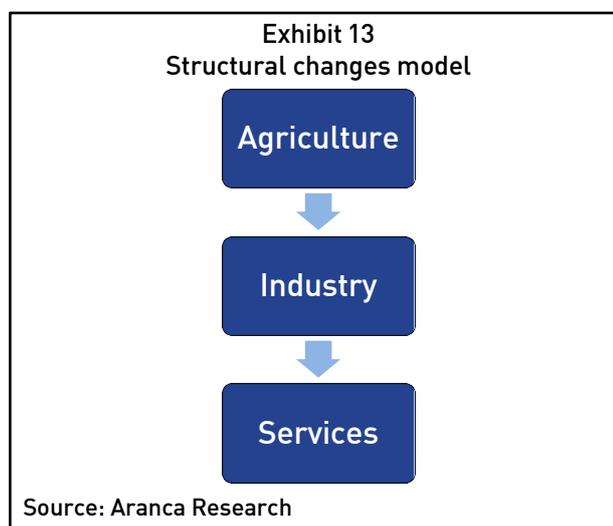
The manufacturing sector is crucial for employment generation and development of an economy. Historically, the development process has witnessed a trend of people shifting from agriculture to non-farm activities such as manufacturing and services. This renders manufacturing crucial for India's development and employment objectives. It is especially true given that agriculture comprises a minor share of GDP, but accounts for a disproportionately large share in employment.

In coming years, India is expected to witness significant demographic growth and a disproportionate expansion in the working age population. To absorb much of this labour force, the manufacturing sector would need to play an important role. Currently, the sector accounts for 12 per cent of the total employment in the country, well below its true potential.

To boost employment generation in the manufacturing sector, it is imperative to lay greater emphasis on building human capital—certain manufacturing industries such as transport equipment, petroleum and electrical machinery require specialised training that can be met through a skilled labour force. Apart from focusing on human capital, it is also essential to promote growth in labour-intensive industries such as wood, paper products and textiles.

Small and medium enterprises (SMEs) and micro small and medium enterprises (MSMEs) account for 95 per cent of the total industrial activity in India and can play a vital role in boosting employment generation. Estimates suggest, the SME-MSME sector offers maximum opportunities for self-employment as well as jobs, after the agriculture sector. In addition, the labour-capital ratio tends to be higher for SMEs and MSMEs.

The National Manufacturing Policy is a positive step; the policy envisages increasing the share of manufacturing to 25 per cent of GDP by 2022 and provide employment to 100 million people. The policy is expected to focus on: (i) improving the business environment and facilitating easy technology acquisition and development; (ii) providing access to capital for SMEs; and (iii) enhancing the private sector's role in skill development.



For India—where provision of gainful high-quality employment has been a key element of goals under successive Five-Year Plans—including the 12th Five Year Plan (2012–17), robust growth in the manufacturing sector can be a potential panacea for providing employment to a vast majority of the population.

As depicted in the exhibit below, India is likely to be one of the few countries to witness a disproportionate expansion in its working-age population by 2020. Nearly 60 per cent of the population was within the working-age group (20–50 years) in 2007. The figure is estimated to reach approximately 63 per cent⁹ by 2020. The additional three per cent is expected to translate into nearly 47 million

⁹ Boston Consulting Group (BCG) analysis, based on the data from US census bureau

4. BOOSTING EMPLOYMENT IN MANUFACTURING: AGENDA FOR ACTION

Manufacturing sector is critical for the growth of the economy. This is because the sector tends to have a multiplier effect on other sectors in the economy. The manufacturing sector avails raw materials and services from other sectors in the economy and in turn supplies them with finished products. Hence stimulating demand for everything from raw materials to intermediate goods. Its area of influence includes sectors like software, health, and transportation. As envisaged in NMP, the manufacturing sector has the potential to provide employment to 100 million people by 2022. However, before this happens, it is important to bring about certain reforms in India's manufacturing and labour sector. Some of the suggestions through which employment can be boosted in the manufacturing sector are touched upon below –

- **Encourage growth in labour-intensive industries:** Wood, paper products and textile industries tend to be more labour-intensive and require a large workforce, mostly unskilled with no special qualifications. By focussing on growth in these industries, it is possible to absorb the rising surplus of unskilled workers, particularly in less developed states (such as Uttar Pradesh and Bihar), where population is projected to grow 8–11 per cent by 2015.
- **Focus on MSMEs:** MSMEs are critical for the country's economic and social development. They significantly contribute to the GDP, manufacturing output, exports and employment. In India, MSMEs account for eight per cent of GDP, 45 per cent of manufacturing output and 40 per cent of exports. Also, the labour-capital ratio is much higher in MSMEs than larger industries. Furthermore, they are considered budding grounds for entrepreneurs, thus encouraging innovation in the country. Hence, it is imperative to focus on growth in MSMEs that, in turn, would provide a fillip to the manufacturing sector as well as raise the level of employment. Globalisation has resulted in several opportunities, such as access to supply chains worldwide, for SMEs and MSMEs. However, for the sector to reap benefits from the fruits of globalisation, it is important to enhance the sector's competitiveness. One of the options for SMEs to improve competitiveness is to adopt the cluster approach, which addresses the general problems of taxation, interest rate or FDI policies as well as harmonises and simplifies procedures including those related to labour laws.

It is also important to increase the availability of bank credit for the SME-MSME sector. Even though the sector falls in the category of priority sector lending, only 8 per cent of the total bank credit finds its way in to the sector. This is miniscule given the fact that almost 95 per cent of the total industrial sector is in the SME – MSME sector. Apart from

encouraging bank lending to the sector, it is also important to look at other ways of financing in the sector. One way could be the venture capitalist funding for SME – MSME sector, which is practised in developed countries. Other option can be better regulation and monitoring of micro finance institutions. Currently most of the micro finance institutions operating in India are either too small to make an impact or are operating with welfare motive.

- **Labour reforms:** A multitude of labour laws exist in India. There are 45 Central Acts and 16 associated rules that directly deal with labour. In addition, other acts indirectly deal with labour issues. A number of these acts prohibit companies, with more than 100 employees, from making positions redundant and firing people for any cause other than criminal misconduct. An additional 45 national laws, intersecting or derived from the Industrial Disputes Act of 1948, and about 200 state laws control the relationship between employees and employers¹⁰. Rigid labour laws are potentially restricting the country's industrial growth and impacting the very workers they are meant to protect, by preventing large scale flexible employment. Consequently, companies are increasingly resorting to outsourcing and contracting of labour. Hence, it is important to harmonise rules across all of these acts to ensure labour laws are more flexible.
- **Improve the quality of training imparted in schools and colleges:** Apart from labour reforms, the government is aware of the human capital challenge and has taken major initiatives such as setting up the NSDC to encourage private participation/management of ITIs. However, there is scope for further initiatives such as: (i) to improve the quality of teaching in schools and colleges; (ii) to increase provisions for vocational training as well as its attractiveness; and (iii) to expand the availability and feasibility of vocational education for school dropouts.
- **Enhance labour productivity:** Indian companies have made major strides in improving labour productivity in recent years. Over the last decade, the country's labour productivity has increased significantly, but has been lower compared to China. Although India has lower wage rates than China, productivity-adjusted wage rates are equal in the two countries¹¹. India needs to make substantial efforts to close this productivity gap and remain competitive on a global level by focussing on lean manufacturing techniques and R&D.

¹⁰ Ministry of Labour & Employment, Government of India

¹¹ CII - BCG Analysis

5. CONCLUSION

The ability of the manufacturing sector to absorb excess labour from the agriculture sector and shift the same to services renders it the driving force in the development process of an economy. While, the Indian manufacturing sector has witnessed remarkable growth in recent years; its contribution to GDP and employment is well below its true potential.

The manufacturing sector would need to play a crucial role for India to achieve its goal of employment generation. There is a need for strong commitment from the government as well as the industry for the sector to enter the next orbit of high growth and employment generation. Also, there is a need for a robust labour policy, which strikes the right balance between workers' rights and competitive needs of the manufacturing sector. Furthermore, it is important to enhance the productivity of the labour force by enhancing the quality of training.

If the National Manufacturing Policy achieves its objectives, it has the potential to render the manufacturing sector a driving force in India's economic development.

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