# <u>Rapid growth with massive job creation: What would it take?</u>

## <u>*Executive Summary*</u>

Today, the Indian economy is dominated by the service sector and a growing optimism about India becoming the Service Factory of the World as opposed to China being the Factory of the World. A typical growth path of a developed country necessarily includes sustained upward movement in all sectors of the economy with massive job creation in both manufacturing as well as the service sector.

Fifty years ago, Japan and Germany were struggling to emerge from reconstruction. Thirty years ago, Korea was just beginning to emerge from its position as a low-income nation. And even over the last decade, China's importance to the world economy has increased substantially because of the strong focus on industries and India too cannot leapfrog to services economy from an agrarian economy by ignoring the manufacturing sector.

The Manufacturing sector in India has its own success stories, though shadowed by our neighbour in North and high decibel growth of service sectors like ITES. The sector continues to grow and create high quality employment and can accelerate growth with jobs for every Indian but certainly requires removal of road blocks, provision of fresh impetus, identification of new opportunities and lesson to be learnt from China.

**India cannot grow without Bharat.** In a country of a Billion people with huge economic disparities, **real growth** can be realized only if the engines of growth are fueled by both the manufacturing and the service sector with creation of jobs for every Indian, everywhere in India.

# Rapid growth with massive job creation: What would it take?

"A country like India cannot hope to build its future on the services sector alone though it can be and will be a major component of the economy. India cannot afford not to build its strengths in agriculture for reasons of food and nutritional security. Nor can it afford to ignore manufacturing strengths for reasons of economic and national security. Based on the strength of these two sectors, it can build a major economic infrastructure for the services sector and use it to generate great wealth and employment for her people"

***India 2020 – A Vision for the New Millennium by* Abdul Kalam Azad**

Growth in any economy without an even spread across manufacturing and service sector will remain highly inequitable which is particularly true in a large geographical entity as India. The contribution of various states to the GDP is highly skewed with the BIMARU states contributing the least (BIMARU economies have grown at only 4.6 % over the last decade). The "Developed States" in India have seen a spurt in growth rates led by services. In a country of a billion people with huge economic disparities **real growth** can be realized only if the engines of growth are fueled by both the manufacturing sector and the service sector with *creation of jobs for every Indian, everywhere in India*. Real growth will be realized only if the entire country grows as a whole.

We see services growing in the country but what needs to be a realized that a sizable population of India still lives below the threshold of being an active participant in the organized service led growth model. The service sector is definitely booming in the country but the growth is confined to the metros and the 20 odd mini metro. For example, the ITES/IT sector employs lakhs of people in the above cities. The growth of employment in these pockets has created islands of prosperity creating concentration of people with disposable income demanding more of services, primarily organized in nature.

About 60 % of the population is engaged in agriculture with a meager per capita income. Service sector is a tertiary sector of the economy, a market for services exists only when people have purchasing power or simply put money in their wallet. Growth in the cities/villages beyond is simply not happening, with the villages at the mercy of rain Gods and cities reeling with the problem of **educated unemployed**. For holistic growth, these people have to be rescued from the shackles of unemployment.

The sectoral distribution of the workforce in India during the period 1983-2000 reveals that structural changes in terms of employment have been slow in India as the primary sector continued to absorb 60.4 per cent of the total workforce even in 1999-2000, followed by the tertiary and industrial sectors (22.7 per cent and 16.8 per cent) respectively. There has been disproportionate growth in the tertiary sector, and its share in employment has been far lower as compared to its contribution to GDP.

The primary and tertiary sector witnessed deceleration in growth rates of employment during the period 1994-2000. However, the overall growth rate of the secondary sector increased from 2.90 per cent in the pre-liberalization decade to 3.14 per cent in the post-liberalization period because of the combined effect of the valid growth of the manufacturing and construction sectors.

The services sector comprises of a wide spectrum of low productivity activities mainly in the informal sector like repair and maintenance and highly productive areas like ITES, BPO, telecom etc As revealed in the *Report of Special Group on Employment Generation* 2002, in 1999-2000 only 8.34 per cent of the total labour force was employed in the organized sector and the remaining 91.66 per cent was absorbed in the unorganized sector. This purely quantitative approach ignores the very important issue of the low “quality” of employment which is the source of much of the current unhappiness about the employment situation. This is evident from the fact that while unemployment according to the Current Daily Status measure was only 7 percent in 1999-00, the percentage of the population in poverty was 26%. In other words, large numbers of those currently employed according to the NSS definition earn income levels which are insufficient to take them above the poverty line. In this situation, an employment strategy which focuses on a mere creation of low quality job opportunities will not address the real nature of the problem. It is to be noted that quality employment opportunities are being created in highly productive service sector but the requirement of skill level is equally high and it is not possible to turn the large work force into knowledge workers.

Continuation of 6.5% GDP growth is not likely to bring about a significant improvement in the employment situation. Growth rates of GDP between 8% and 9% are needed over the next ten years if we want to see a significant improvement in the employment situation[2] .Thus the key is in fueling growth through an equitable mix of growth in Industries as well as services.

***Making the Industry grow and inducing it to employ more***

Manufacturing growth in future should shift away from the highly capital intensive industries emphasized which absorbed a large part of total investment in the past, towards more labour using industries**. Even though the employment elasticity's in each individual industry may fall reflecting technology changes** [3], the shift towards more labour using industries would moderate the decline in the total employment elasticity for the manufacturing sector China may not be producing space age equipment but it is surely producing toys and locks to employee more and more people.

***Road Blocks to be removed:***

***Transport network*****: Roads and Ports** are the arteries of Commerce, an efficient and fast road networks will help industries serve market in both India and abroad. Roads also ensure demand for cement steel etc traditionally large employers. An efficient transport network help support just-in-time production processes.

***Overcome Shortage of Power****.* Though GOI has set an ambitious target of generating 20,000mw of electricity by FY 2020. We see states reeling under huge power shortage thus affecting industrial production. High cost of power is another area of concern and it renders power intensive industries uncompetitive for example manufacture of bulk drugs is a power intensive business and power costs in China are, on an average, at least half those in India. Though large industries go in for captive power plants it increases the capital outlay.

***Invest heavily in Infrastructure***. A sound infrastructure is the building block of an economy .Industrial growth has remained sluggish or has remained confined to states with superior infrastructure. Gujarat, recording a growth rate of about 8%, while the slow growing states grew at only 3%.

***Dereservation of Small Scale Sector*** **:** China already produces 2 out of 3 toys sold in the United States whereas the Indian toy industry still languishing under controls of SSI limit. One major reason for China's success is that they are able to engage in large-scale production and achieve levels of quality and technology which is not possible with constraints on investment. The consequence has been a tremendous growth in income and employment in China.

***Labour Laws*****:** Our Labour laws discouraging employers from investing and expanding in labour intensive areas. To achieve a significant increase in the proportion of organized sector employment to the total it is necessary to introduce flexibility by deleting the provision requiring prior permission of the government for retrenchment and closure.

*Replace Indirect Taxes with VAT: Reduce Import Duties and ensure lower cost of capital through efficient capital markets and FDI*

***Fresh Impetus***

***Food Processing Units*- Replicate Amul and operation Flood** India is the second largest producer of fruits and vegetables in the world, but the food processing industry remains highly under-developed. Less than 2% of fruit and vegetable production is processed compared with 30% in Thailand, 70% in Brazil, 78% in Philippines and 80% in Malaysia. Tapping the unutilized potential of food processing including fisheries and marine products, is an ideal way of bringing industry to rural areas. Rationalization of multiple laws and taxation affecting this sector to remove disincentive for food processing is required.

***Allowing FDI in retail*.** Will provide a great fill up to demand in construction, increase consumption and boost food processing industry.

***Growth beyond Metro***: Growth in India has remained confined to metro's due to lack of infrastructure, lack of markets and because of proximity to the decision makers. To provide widespread large scale employment and to increase India's middle class that is already a consumer market of almost 250 million

***Promote Entrepreneurship***: Overhauling of education system: Change the Naukri Mindset. Our education system is geared to produce educated unemployed. Even Countries like Japan and Korea provide incentives to SMEs.

**Overhaul of the ITI's:** Designed to provide technical manpower have miserable failed. Required a complete overhaul to commensurate with modern technology.

***Economic Zones with our neighbours* revive SAARC:** South East Asia is one the most populous concentration of people and a huge market, a free trade agreement on the lines of NAFTA can open up huge market for the Indian Industry with increased employment opportunities.

***New Opportunities:*** Post 2005 major markets open for us. The WTO will result in huge opportunities in EU and US we need to identify our competencies and build world class scale on these. With the advantage of cheap labour and the cost of capital having come down substantially in the country we can be the preferred manufacturer base for the world particularly textile and pharma generics.

***Industries of the future*** *:* **The Hardware opportunity** The global contract manufacturing business in hardware is estimated to be close to $149 billion and is expected to grow to $500 billion by the end of the decade—clearly a huge market for Indian players to address. an encouraging sign for India is that three of the top five global contract manufacturing firms, namely Jabil, Flextronics and Solectron, are here already heads Hardware is a labour intensive industry and represents huge potential for companies like TVS electronics. India's overall electronics industry is expected to grow to $60 billion by 2010.

**Huge outsourcing opportunity**: Manufacturing centres like Taiwan, Korea and Japan have become high-cost economies. The top 20 FMCG Company's sales of $450 billion and most of the manufacturing are located in high-cost regions. Manufacturing and conversion costs in India are much lower, For instance, capital costs involved in making toothpastes in India are 65 per cent lower than in Europe, and conversion costs are 85 per cent lower. Similarly, conversion costs in sourcing tea bags are 25 per cent those in the US.

*Vicks Vaporub is sourced out of India for all Asian countries except China. HLL's soaps and detergents unit near Nagpur is the only source of the Pears brand for all Unilever bases*. For Whirlpool India. Exports today make up 12-15 per cent of Whirlpool India's $200-million turnover

**The global market for auto components is worth $750 billion.** Predictably, most of the manufacturing units are in developed (read high-cost) countries. The Indian auto components industry. Size: $3 billion, with exports of $375 million. Conclusion: Huge opportunity.

You don't have to tell auto giants like Ford and General Motors (GM) that. They've already sniffed the scope, well aware of India's low costs and high technical skills.

***Toyota's call to put India on its Tier I map is more than just an act of faith. It could herald a new era for Indian manufacturing.***

**Manufacturing Success Stories in India: Moser Baer & Essel Propack Sundaram Fasteners**

***Lessons from China***

**Special Economic Zones**: One of the lessons that we can learn from our neighbour is the creation and effective utilization of Special Economic Zones which are responsible for the huge FDI inflow into China and the transformation of China into the manufacturing Hub of the World.

During the past ten years, China moved 29 million people out of Agricultural sector to manufacturing sector while India added 6 million people to Agricultural sector. The country has constructed some 50,000 kilometers of expressways in the past decade, 25,000 kilometers since 1998.It isn't just infrastructure that attracts such FDI, it's the presence of cheap labour. The government's initiatives of the past decade created a huge labour market, with surplus agricultural labour migrating to the cities.

***Conclusion:*** Growth in India with massive job creation is not a zero sum game between Growth in the service sector and the growth in manufacturing sector.

To attain a high growth with massive employment generation, we need to identify areas in Industry where we can attain Global leadership particularly in labour intensive areas for example export intensive manufacturing, commodity manufacturing, auto sector .We do have the cost advantage in terms of labour what we need is other enablers for industry to move into a high growth spiral.

In this era of globalization, the interdependence of various sectors is going to increase further. In order to make the products manufactured in these sectors internationally competitive, the use of quality service inputs is becoming a prerequisite. For example, as the use of sophisticated technology and specialized formal skills increases in the industrial sector, the demand for producer services comprising of various professional, legal architectural, engineering, etc, services will witness a corresponding upsurge, thereby creating employment for educated youth.

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## *Appendix*

**1) No of workers employed in different sector of the Industry**

| Industry | Employed Workers (Millions) | | | Annual Growth Rates (Per Cent) | |
|---|---|---|---|---|---|
| | 1983 | 1993-94 | 1999-2000 | 1993-94 | 1994- 2000 |
| Agriculture | 208.99 (69%) | 245.16 (65.5%) | 239.83 (60.4%) | 1.6 | -0.34 |
| Secondary | 41.66 (13.8%) | 55.53 (14.8%) | 66.91 (16.8%) | 2.91 | 3.14 |
| Tertiary | 52.11 (17.2) | 73.76 (19.7) | 90.26 (22.7) | 3.53 | 2.42 |

**2 GDP growth rate and employment:**

| Employment Scenario from 8% Growth Per Annum and Extrapolated Industrial Structure * in India (1999-2000, 2001, 2002, 2007 and 2012) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Category | Unit | 1999-2000$ | 2001$$ | 2002$$ | 2007 | 2012 | Employment Growth Over 10th Plan Per Annum |
| Labour Force (1.8% p.a. Growth) | Million | 363.33 | 371.52 | 378.21 | 413.5 | 451.53 | 1.80% |
| Employment** # | Million | 336.75 | 340.82 | 343.36 | 373.03 | 403.52 | 1.70% |
| (Unemployment Rate) | (%) | 7.32 | 8.26 | 9.21 | 9.79 | 10.63 | - |
| No. of Unemployed | Million | 26.58 | 30.7 | 34.85 | 40.47 | 48.01 | 3.00% |

Source : Employment Generating Growth, May 2002, Planning Commission,

Govt. of India.

Note : ** : Based on 8% Growth in GDP during 2002-07.
# : Current Daily status basis.

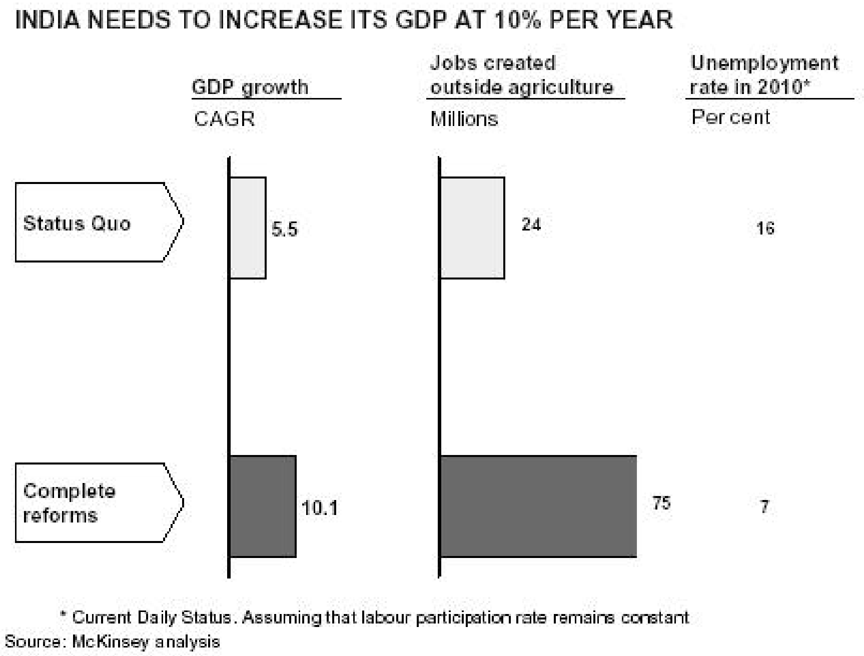
$ : 1999-2000 figures related to NSS 55th (July, 1999-June, 2000) rd.

$$ : Based on 5.2% GDP Growth during 2000-01 and 2001-02.

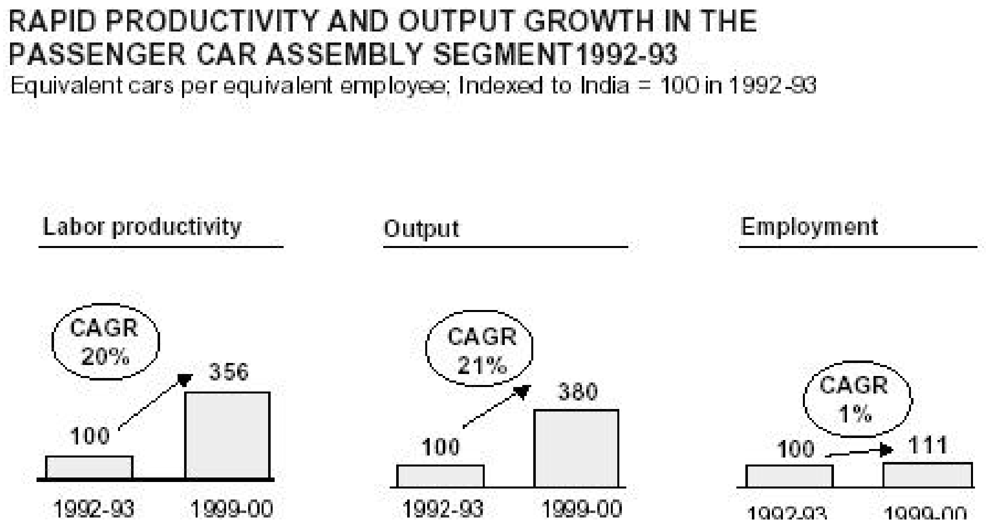
* : Based on Actual Elasticity (1994-2000) -CDS & 1.8% p.a.

growth in L.F.

**Growth and Employment as per Mckinsey India Report.**



**3: Growth of employment with increase in labour productivity: Case of Indian automobile industry**



## Appendix 2

| Movement in Sectoral Shares in GDP at Current Market Prices in Some Select Asian Countries | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | (In percent) |
| Country | Agriculture | | | Industry | | | Services | | |
| | 1980 | 1990 | 2001 | 1980 | 1990 | 2001 | 1980 | 1990 | 2001 |
| China | 30.1 | 27 | 15.2 | 48.5 | 41.6 | 51.1 | 21.4 | 31.3 | 33.6 |
| India # | 38.1 | 31 | 24.7 | 25.9 | 29.3 | 26.4 | 36 | 39.7 | 48.8 |
| Indonesia | 24.8 | 19.4 | 16.4 | 43.4 | 39.1 | 46.5 | 31.8 | 41.5 | 37.1 |
| Korea | 14.9 | 8.5 | 4.4 | 41.3 | 43.1 | 41.4 | 43.7 | 48.4 | 54.1 |
| Malaysia | - | 15.2 | 8.4 | - | 42.2 | 49.6 | - | 42.6 | 41.9 |
| Pakistan# | 29.6 | 26 | 25 | 25 | 25.2 | 23 | 45.5 | 48.8 | 52 |
| Philippines | 25.1 | 21.9 | 15.1 | 38.8 | 34.5 | 31.6 | 36.1 | 43.6 | 53.3 |
| Thailand | 23.2 | 12.5 | 8.6 | 28.7 | 37.2 | 42.1 | 48.1 | 50.3 | 49.3 |