Creating well-paid jobs for Indians

NITI Aayog has recently issued a set of three documents which give us a fair idea about where national economic policy is headed in the coming years. One of these documents charts out an action agenda for policymakers over the next three years. This article looks past the policy changes that are needed in individual sectors; it focuses on the broader agenda for trade, industry and services outlined by NITI Aayog.

The emphasis of the action plan for trade, industry and services is clearly on creating well-paid jobs. NITI Aayog, after making a strong case for export-led re-industrialization, argues, “India needs a focused strategy for creating an environment in which export competitive firms can emerge, especially in labour-intensive sectors.”

There are three essential ingredients in the strategy to promote labour-intensive and export-oriented industrialization of the sort that pulled the countries of East Asia out of the poverty trap—the coastal economic zones (CEZs) strategy; labour law reforms; and action in specific manufacturing (apparel, food processing, gems and jewellery, electronics) and services sectors (finance, tourism and culture, and real estate).

There are some important implicit shifts in the stance of policy embedded here.

First, employment generation and/or underemployment reduction is the most important policy objective. In previous action plans, employment generation was an additional rather than exclusive goal.

Second, exports rather than the domestic market is to be the engine of industrial growth.

Third, there is a shift from small enterprises to large companies as the main vehicle of export growth.

Fourth, there is a parallel shift in focus towards expanding the formal and organized sectors of the economy.

Fifth, export zones are to be seen as hubs for employment rather than just investment.

The refreshing focus on the power of exports is noteworthy, especially given the rising fears about protectionism in our major trading partners. The case made for larger organized sector firms as facilitators of exports is also worthy of praise. The export potential of Indian industry can be realized only if we manage to create large corporations across sectors which can compete globally, and generate jobs to absorb the growing labour force. The “SMEs (small and medium enterprises)-for-exports” perception needs to be phased out steadily, howsoever employment-intensive it might be on paper.

The success of this strategy depends on a lot of other things falling into place. For example, the goal of rapid employment generation cannot be attained unless labour laws are reformed and there is progress in the ease of doing business. The CEZ strategy needs to be formulated against the backdrop of the mixed record with special economic zones (SEZs) till now. The sociopolitical realities which operate in processes such as land conversion, hiring of labour, utilization of natural/community resources, need to be anticipated, and solutions need to be carefully thought of to ensure that the wider community of stakeholders does not feel short-changed.

However, the most important challenge relates to global value chains (GVCs). An overwhelming

majority of global trade is carried out via international production networks, or GVCs. Multinationals that are responsible for the bulk of the global trade source their components from a variety of locations spread across the world. Recent research demonstrates that the rise of GVCs has radically changed the landscape of international organization of production, placing the specialization of countries within GVCs centre stage.

A recent World Bank report, covering 34 industries across 61 countries, concludes that GVC integration enhances domestic value addition. It also stresses that the domestic policy environment is a critical catalyst for translating the positive effects of GVC integration into domestic value added. This applies to manufacturing and services. The focus of most industries today is not if, but how, to enter GVCs, and how to move up the value chains.

Till a few years back, developing countries predominantly joined GVCs only at the assembly stage. This is no longer the case. Developing countries are moving up the chain, with many Asian countries purposefully facilitating the entry of their companies into GVCs via specific policy measures.

The NITI Aayog document draws heavily on many Chinese experiments, experiences and policy initiatives. It should also take note that some of China's production, especially labour-intensive, is migrating to other low-cost and competitive locations.

Indian policymakers need to seize these opportunities, which will stimulate and induce Indian industry to compete in the global market. There are also enormous opportunities for SMEs in GVCs. GVCs allow companies to specialize in a small part of the entire supply chain, thus giving SMEs more opportunities to engage in global trade and international marketplaces.

India needs to nurture region- and sector-specific SMEs to enter GVCs and serve global markets. While NITI Aayog lays justifiable thrust on the export competitiveness of Indian industry, the operational aspect of GVCs is missing. The policy package for the "Make in India" programme also needs to incorporate a GVC strategy, and integrate it with foreign direct investment policies across sectors.

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Comments are welcome at theirview@livemint.com

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