

Viksit Bharat @100: Role of manufacturing

Dr. Arvind Virmani
Member, NITI Aayog

Introduction

- Structural transformation: Manufacturing
 - World & India
- Policy Reforms for manuf growth
 - Last 10 yrs
- New opportunity: De-monopolization of trade
- Policy framework: Elements of Industrial policy
- Green economy: Risk diversification

Structural Change

- Decline of Agriculture
- Rise and peaking of Manufacturing
 - Value Added and employment
 - Europe, Latin America, Asia
 - SE & E Asian peak is higher and later than others
- India is different not just from Rest of Asia, but from all the others
- Manuf VA & employment rose and plateaued.
 - Minor peaks & troughs on the plateau

Why is Indian Manuf different?

- Socialist period(1950-1979): Protection of capital intensive Industry, new PSUs & legacy pvt sector
 - Virtual tax on LI manufactured exports
- SSI reservation: Shielded from competition
- FDI restriction; Gradually lifted after 2003 report
- Labor laws: Incentive to stay small (<20); Restrictions & rigidities (>500/100 workers)
- Bias towards Agri-rural against Urban-Industry
 - Census towns & dynamic village clusters governed by Rural, Panchayti Raj institutions (PRIs)
 - Industry from Urban to “Rural” areas(opp of World)

Policy Reforms: 2014-22

- Policy & Institutional Reform
 - Products & services(pvt, fdi): Defense(2003), Space, Atomic Energy, Agriculture(38%), Drones, Mapping
 - Factors: Capital (fintech), Labor (4 codes), Entrepreneurship/Startups, Management (IBC) Technology(NSF, Centers of excellence)
 - Public Sector reform
 - IBC, MPC; Resource Auctions;
 - GST, CIT, PIT
 - Abolish outdated laws; decriminalize economic laws

Policy Reforms: 2014-22

- Strategic Industry Policy (DPEs, PSEs, PSBs)
 - Disinvestment => Privatization
 - Asset monetization
- Bureaucratic reform: EODB EORC
 - Technology to skirt barriers, Leapfrog legacy system
- Social Welfare reform & equality of opportunity
 - Public goods (Public health), DBT
 - Rural-Urban differential: Equate access to public goods, basic infra services
- Infrastructure: Multimodal(inland waterways), max PPP (Ports), fill Soc-Pvt benefit gap(auction)

Role of markets & govt

- Indic Market economy
 - Competitive economy w fewer monopoly segments
 - Complete & efficient markets
 - Low information barriers & asymmetric information
- Role of Govt. and Private sector
 - Government focusing on
 - Public good provision & regulation of externalities
 - Market environment: Pro-competition, Pro-investment
 - Welfare transfers, Antodaya (DCT)
 - Empowerment: Every group in every geography
 - Private sector: Compete, innovate, invest

New Opportunity

- Global & Indian demography:
- Demographic decline in DCs(EU, Japan)
 - Declining share of working population
- India's Share of working pop rising
 - Dynamic comparative advantage:
 - Unskilled LI => Semi-skilled LI => skilled LI
- Supply Chain Diversification
 - Opportunity to promote LI manufacturing
- Two economic blocks(G2), with greater trade within each block than across blocks?

Supply chain diversification

- Goeconomic, Geopolitical & Security Risk ↑
 - High Tech decoupling: US/DCs viz PRC & allies
 - Trust, credibility, Reliability
 - Partial Economic decoupling/de-risking
 - Portfolio management: Risk diversification
- PRC manufactured export monopoly (2022)
 - Telecom eqpt, EDP & Office eqpt: 40% of world
 - Textile 47%, Clothing (32%)
 - Much higher concentrations at 6, 8 & 10 digit
 - Domestic Anti-trust, international?

Trade & Industrial policy

- Towards a dualistic trade policy
- PRC SME(lerner-Lange) & ELISID model of Growth
 - Party capitalism: Origin TV&Es
 - Monopolization through Asymmetric trade, technology, economic & subsidy policy.
 - Traditional trade theory account for consumer gains, but not dynamic gains from investment & exports
 - Optimal response: Symmetry, Reciprocity
- FTAs with ASEAN, Japan, S Korea, Australia
- RCEP: Back door FTA with PRC
 - Fastest growing region vs most PRC dependent region

Atman Nirbhar Bharat

- ROW : Near classic free trade +
 - Export is benchmark: global quality, competitiveness
 - Exporting firms profits & productivity > domestic
- FTAs with DCs?
 - MNC anchored supply chains: 60% to 2/3rd of trade
 - Majority head quartered in US, EU, UK, Japan
 - Competitive disadvantage(Vietnam, Bangladesh): 12.5%
 - Anchor investor invests in: Skills, quality, timeliness
 - Critical for exports & domestic value added in export
- PLI : Capital subsidy (MES)

Digital Empowerment

- **India pioneering 3rd way; Innovation; Inclusion**
- Provide universal access, eliminate digital divide
- Solve Scalability problem: India's pop is 2x US+EU
 - Digital & Hybrid system: Digital portals eg Diksha
- Get right information, to right people, at right time, in the right place
 - For low income, less educated, low skilled
 - Digital & financial literacy and Access
 - **Services(medium skills):** Health, Construction
- Leapfrog Social divide (WFH): Time/cost saving

Green India

- Broader, diversified portfolio approach
- Solar power, E-transport, green hydrogen, Mass Transit
- Energy efficient appliances
- Housing: Energy efficient designs, local materials
- Circular Econ: Recycling, repairable/reusable designs
- LIFE = Life style for environment (e.g. Millet)
- Urban: Integrated plan, investment, administration;
 - Natural cities (Soni & Virmani)
- Green stack: Info exchange, green market

Conclusion

- India High Income country mid-century
 - Sustained fast growth in per capita income
- Equality of Opportunity for all citizens
 - Using under-utilized human resources
- Digital economy
 - Use to provide high quality social services
 - Upgrade human resources
- Paradox not contradiction
 - Power rank(5=>3) <=> Income rank (140=>90)

Outcome: Employment, Wages

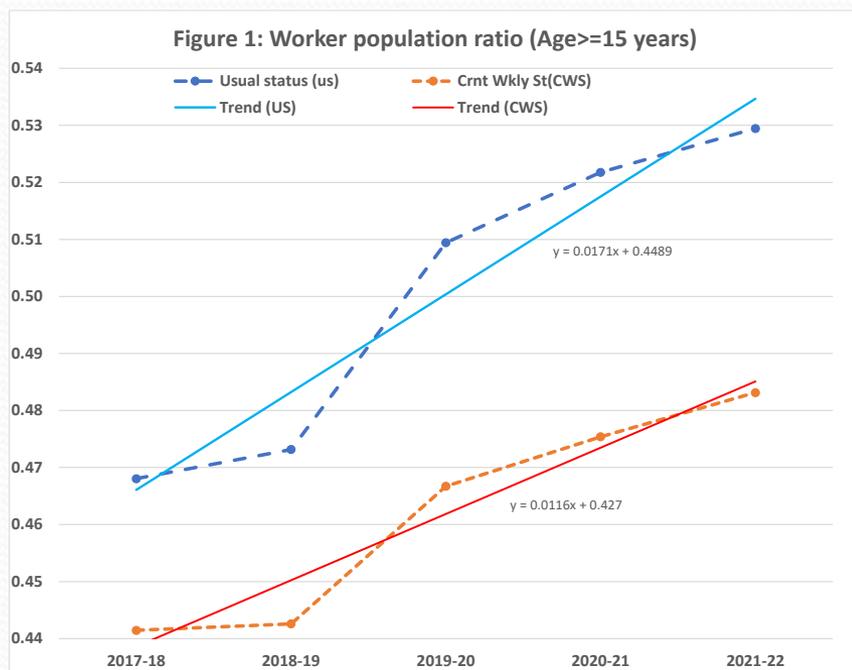


Table 1: Worker population ratio (Age >=15 years)						
	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>Gr rt (%)</u>
Usual status (us)	0.468	0.473	0.509	0.522	0.529	3.1
Crnt Wkly St(CWS)	0.441	0.443	0.467	0.475	0.483	2.3
Source: PLFS						
Table 2: Daily Wage-ages 15-64 (from weekly status)						
	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>Gr rt (%)</u>
Real wages						
Casual Workers	188.5	199.3	200.0	206.0	230.2	5.1
Salaried workers	378.5	383.0	380.6	372.9	378.7	0.0
Self employed	242.4	253.8	237.4	225.7	238.3	-0.4
Nominal wages (per day)						
Casual Workers	257.5	280.3	297.2	324.2	383.8	10.5
Salaried workers	516.9	538.8	565.5	586.9	631.5	5.1
Self employed	331.1	357.0	352.8	355.2	397.4	4.7
CPI (2012)	136.6	140.7	148.6	157.4	166.7	5.1
Source of nominal wage, Bhalla et al (2023); Real wage is calculated by using monthly CPI (2012) averaged over agricultural year (july-june)						

Multi-dimensional Poverty

Uncensored Headcount Ratio: % of total population deprived in each indicator				
(Improvement over five years)				
Dimension	Indicator	NFHS-4 (2015-16)	NFHS-5 (2019-21)	Change
Health	Nutrition	37.6%	31.5%	-6.1%
	Child & Adolescent Mortality	2.7%	2.1%	-0.6%
	Maternal Health	22.6%	19.2%	-3.4%
Education	Years of Schooling	13.9%	11.4%	-2.5%
	School Attendance	6.4%	5.3%	-1.1%
Standard of Living	Cooking Fuel	58.5%	43.9%	-14.6%
	Sanitation	51.9%	30.1%	-21.8%
	Drinking Water	10.9%	7.3%	-3.6%
	Electricity	12.2%	3.3%	-8.9%
	Housing	45.6%	41.4%	-4.3%
	Assets	14.0%	10.2%	-3.8%
	Bank Account	9.7%	3.7%	-6.0%