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Job Potentials - Pre- and Post-1991 Reforms

What is the issue?

- India falls short of taking advantage of its talented young population and low wages in labour intensive manufacturing.
- Understanding the reasons for this is essential for a breakthrough in job creation.

What was the pre-1991 job creation approach?

- In the period before the economic reforms (1991), India had a broad-based industrial job creation approach.
- It promoted small-scale industries as well as attempted to create a capital goods industry.
- Taking this approach further, over 800 industrial goods, ranging from TV sets to toys, were reserved for small-scale industries alone.
- Jobs in khadi, handlooms and handicrafts were protected and promoted.
- In the then closed Indian economy, this approach worked to an extent, as the growing demand had to be met by domestic production only.

What is the post-1991 scenario?

- With the 1991 economic reforms, the Indian economy was opened up to global players, and import duties were lowered sharply.
- But this was seen as an error as it should have been done after first removing small-scale reservations in industry.
- This would have given time for manufacturing to modernise and acquire economies of scale to survive competition from imports.
- But the small firms remained the same and did not grow and become large or modernised.
- The removal of small-scale reservation, thereafter, was a slow incremental process which continued till 2010.
- So eventually, there was deterioration of the manufacturing of the reserved items in India.

What was the impact?

- The consumer's purchasing power increased and so the demand was met with better and cheaper imported goods.
- E.g. Trade with China rose from $3.6 billion in 2001 to $80 billion now with a trade deficit of over $60 billion.
- This is primarily driven by the import of manufactured goods from China that were earlier made in India.
- There was thus loss of jobs, both actual and potential, in the most labour-intensive sectors of India.
- E.g. in areas such as electronics, toys, or shipbuilding, India remains a consumer and not a producer
- In all, despite the varied economic and institutional developments after 1991, job creation remains a matter of serious concern.
- In labour-intensive areas, globally, jobs have historically moved from high wage locations to lower wage destinations.
- Low-wage jobs have recently been moving out of China, going to many countries but not to India.

What are the successful models?

- In the post-reform period in India, state policy has not been successfully used to create competitive capacity in any particular industrial segment.
- But the East-Asian economies such as Japan, Korea, and, more recently, China worked with firms to create and increase competitiveness in select sectors.

- In an open economy, success in the domestic market vis-a-vis imports is usually the starting point for success in global markets.
- If global brands get significant value addition done in India, then they would like to use this in regional as well as global markets.
- E.g. in small car industry, India is a globally competitive manufacturing hub
- This is because, initially, the small car industry and its supply chain were created by the state through Maruti.
- Once the supply side capability in auto components had been created, global companies found it worthwhile to source from within India.

What should be done?

- Getting private investment into labour intensive manufacturing for the domestic as well as global markets is the need of the hour in India.
- Macro as well as sector-specific interventions by the state will help boost private investment in labour-intensive manufacturing and create jobs.

Source: BusinessLine



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