



OPPORTUNITIES AND CHALLENGES FOR THE MANUFACTURING SECTOR

Isabelle Joumard, February, 2015

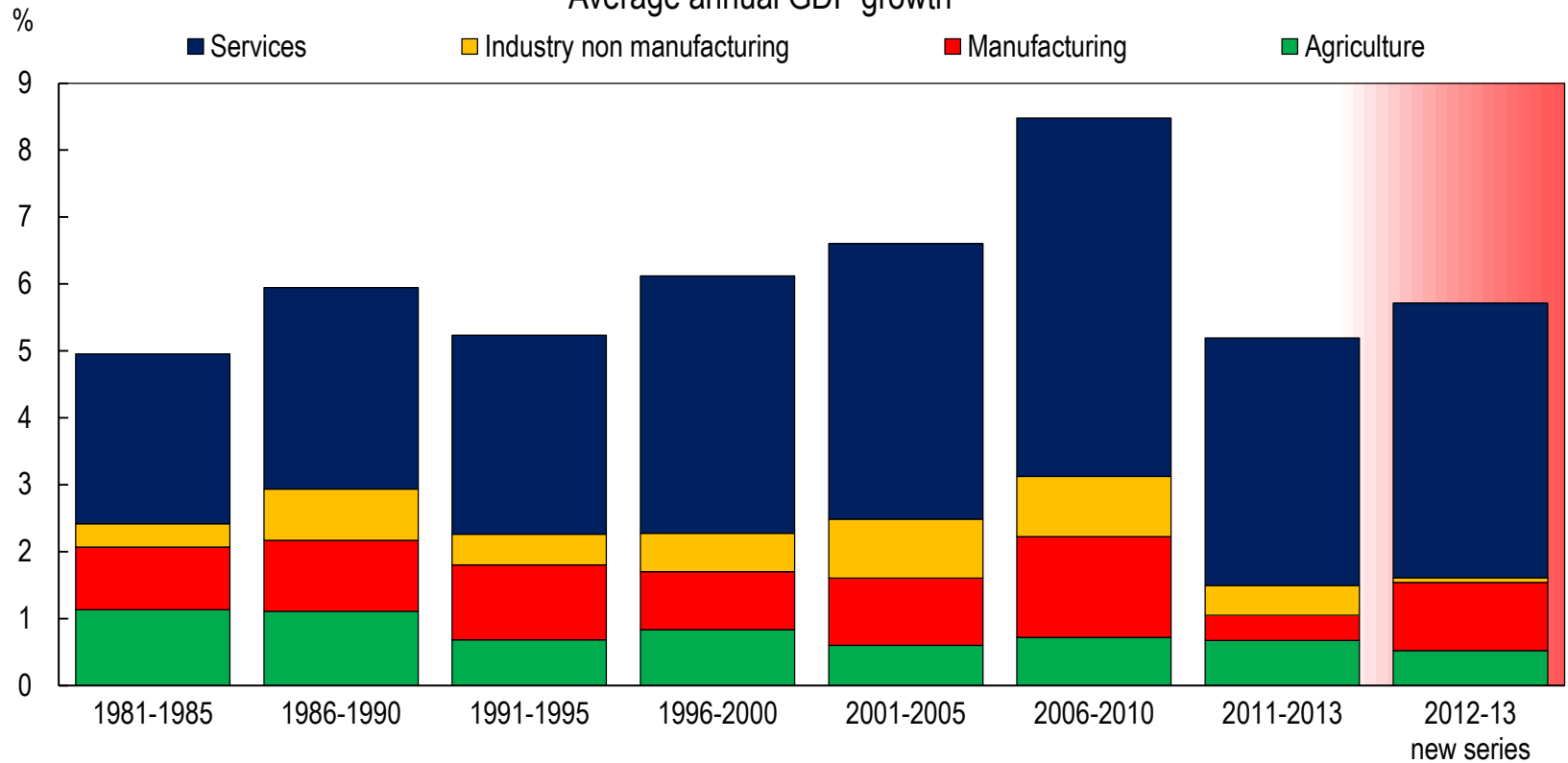


The contribution of manufacturing to GDP growth has been low

The symptoms

Services have contributed the most to economic growth

Average annual GDP growth

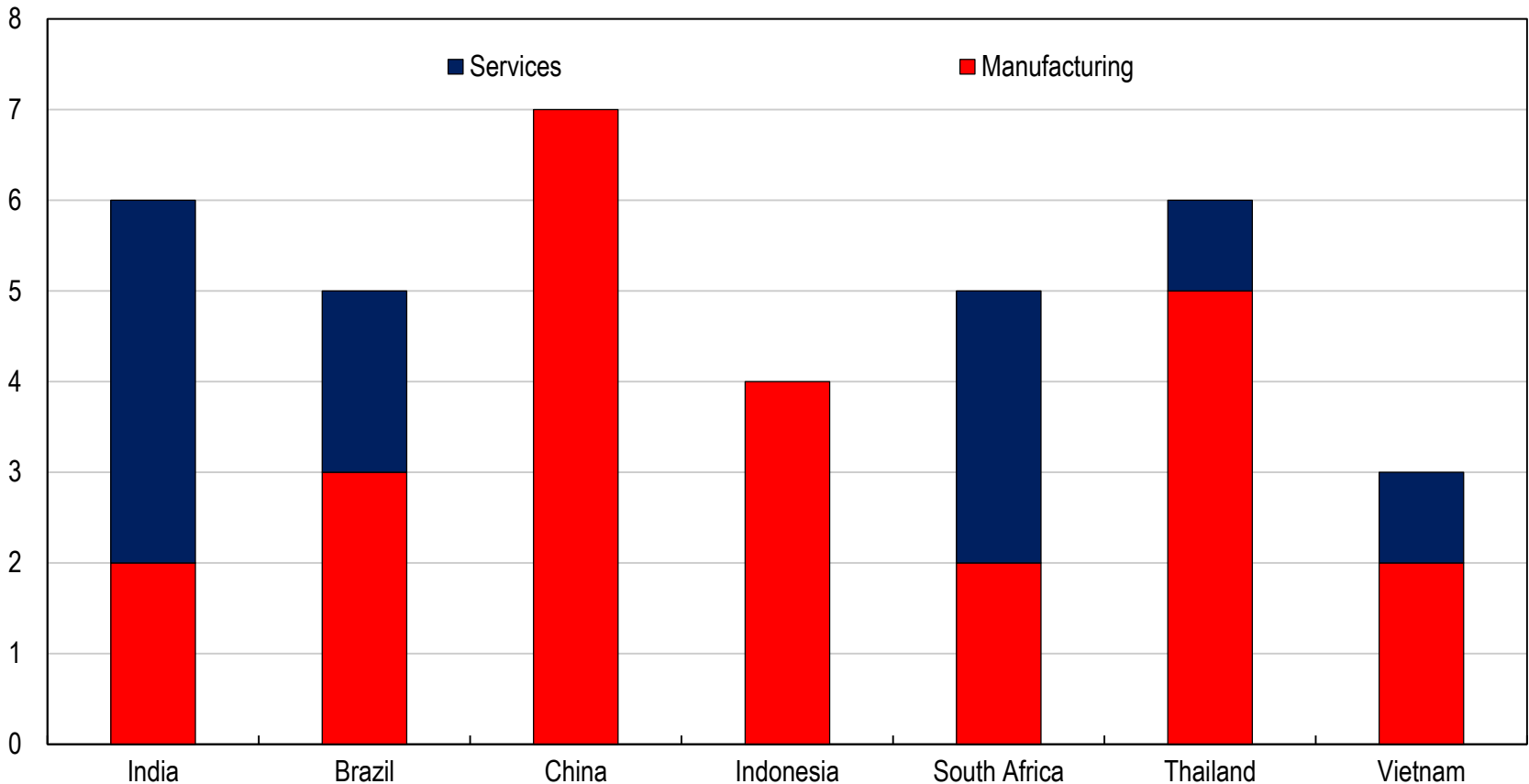




India as a comparative advantage in few manufacturing sectors

India has a comparative advantage only in a small number of manufacturing sectors

Number of RCAs

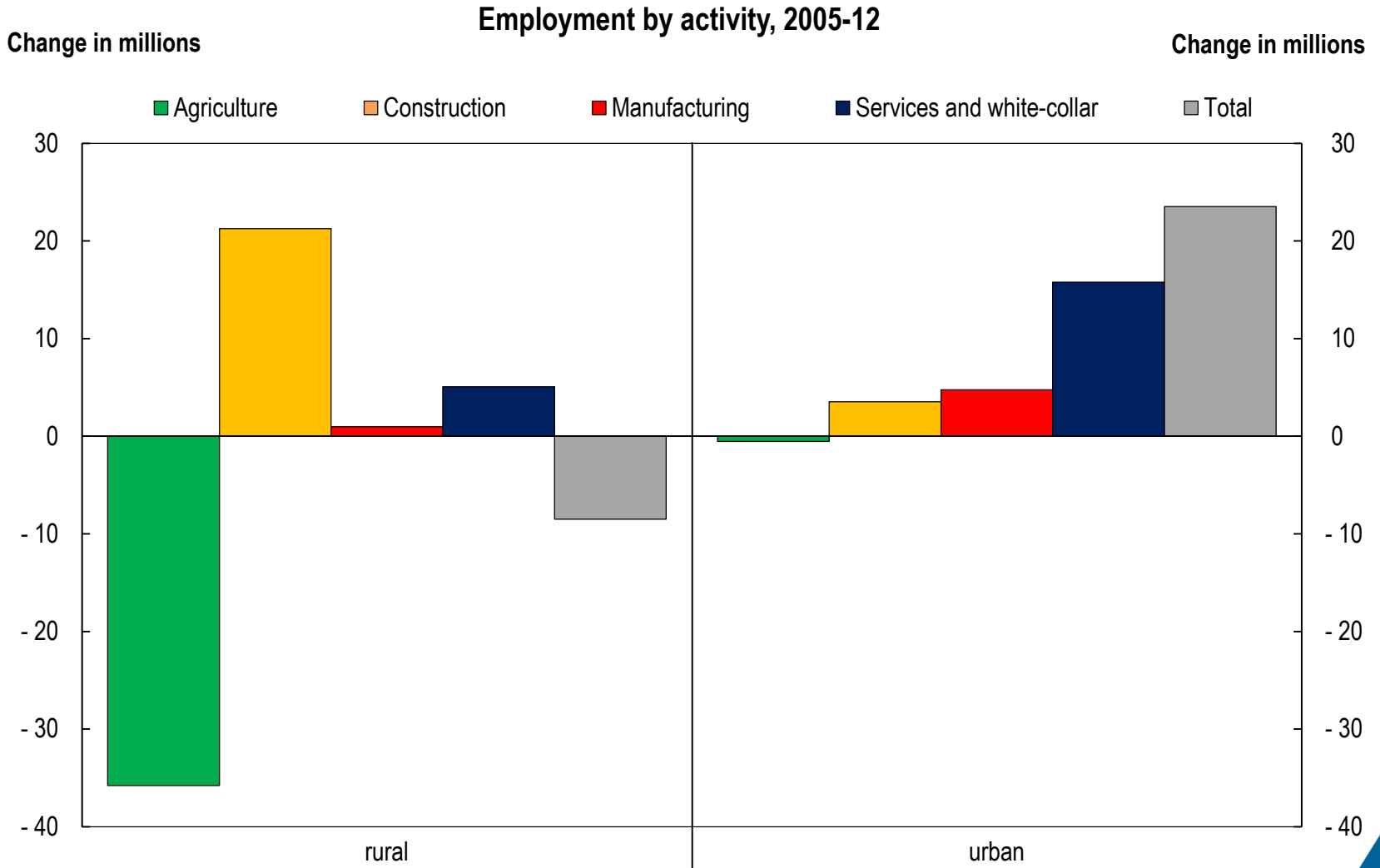


The symptoms



Manufacturing has contributed little to job creation

The symptoms

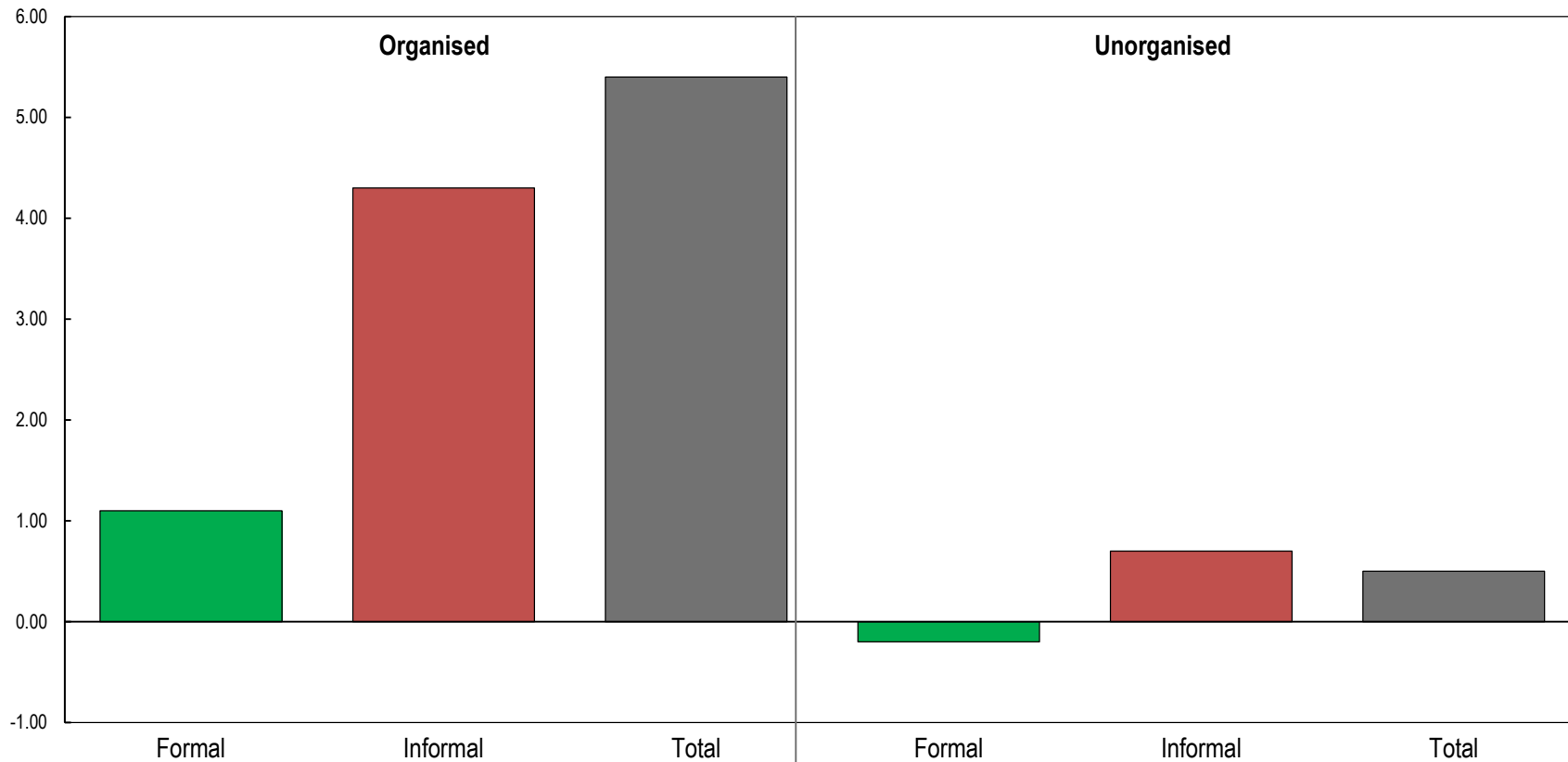




The few manufacturing jobs created are in the organised sector but mostly informal

Job creation in the manufacturing sector over the period 2005-2012

Change in millions



The symptoms

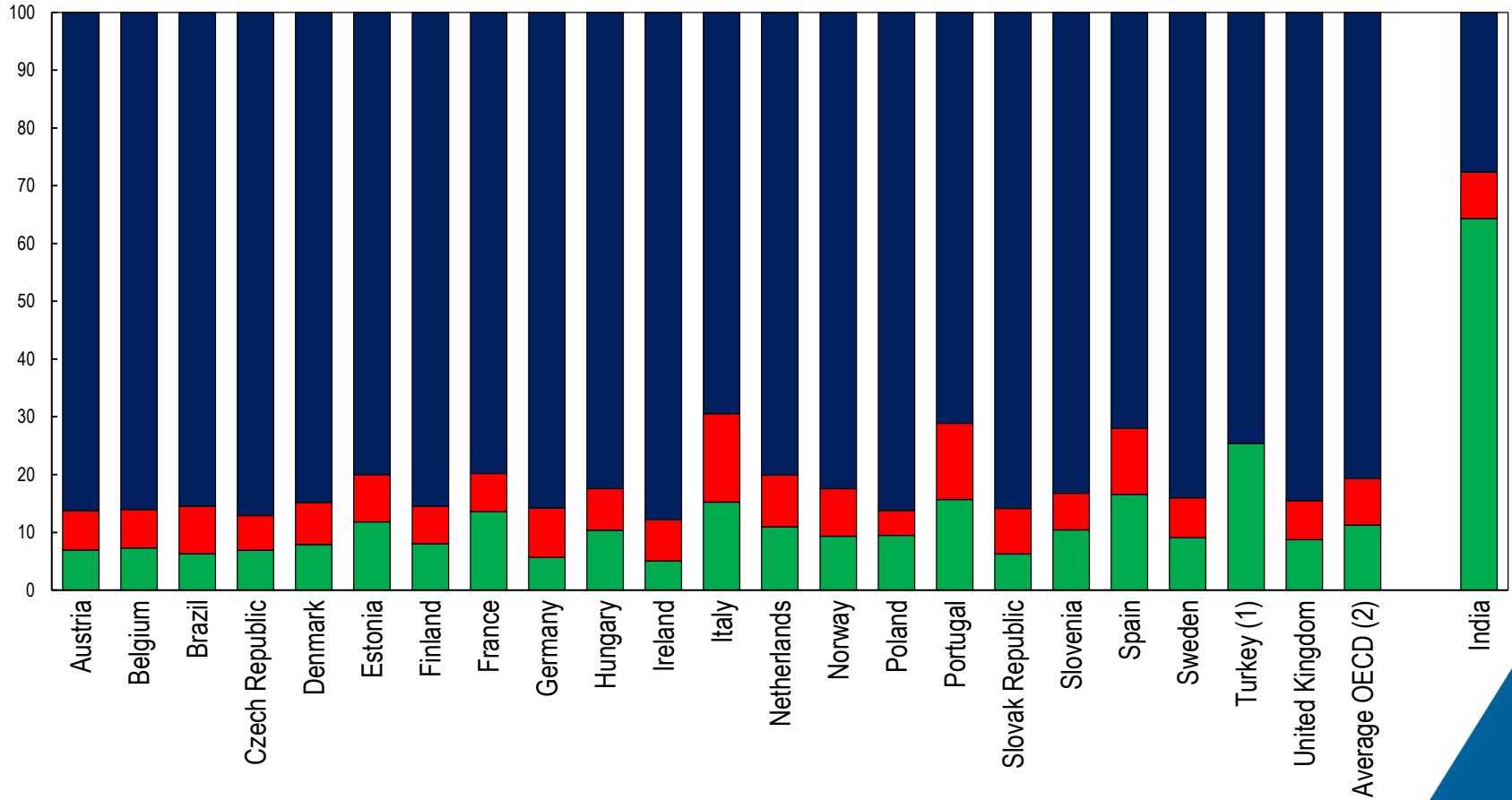


Indian manufacturing firms tend to stay small

The symptoms

% of employees by firm size (2010)

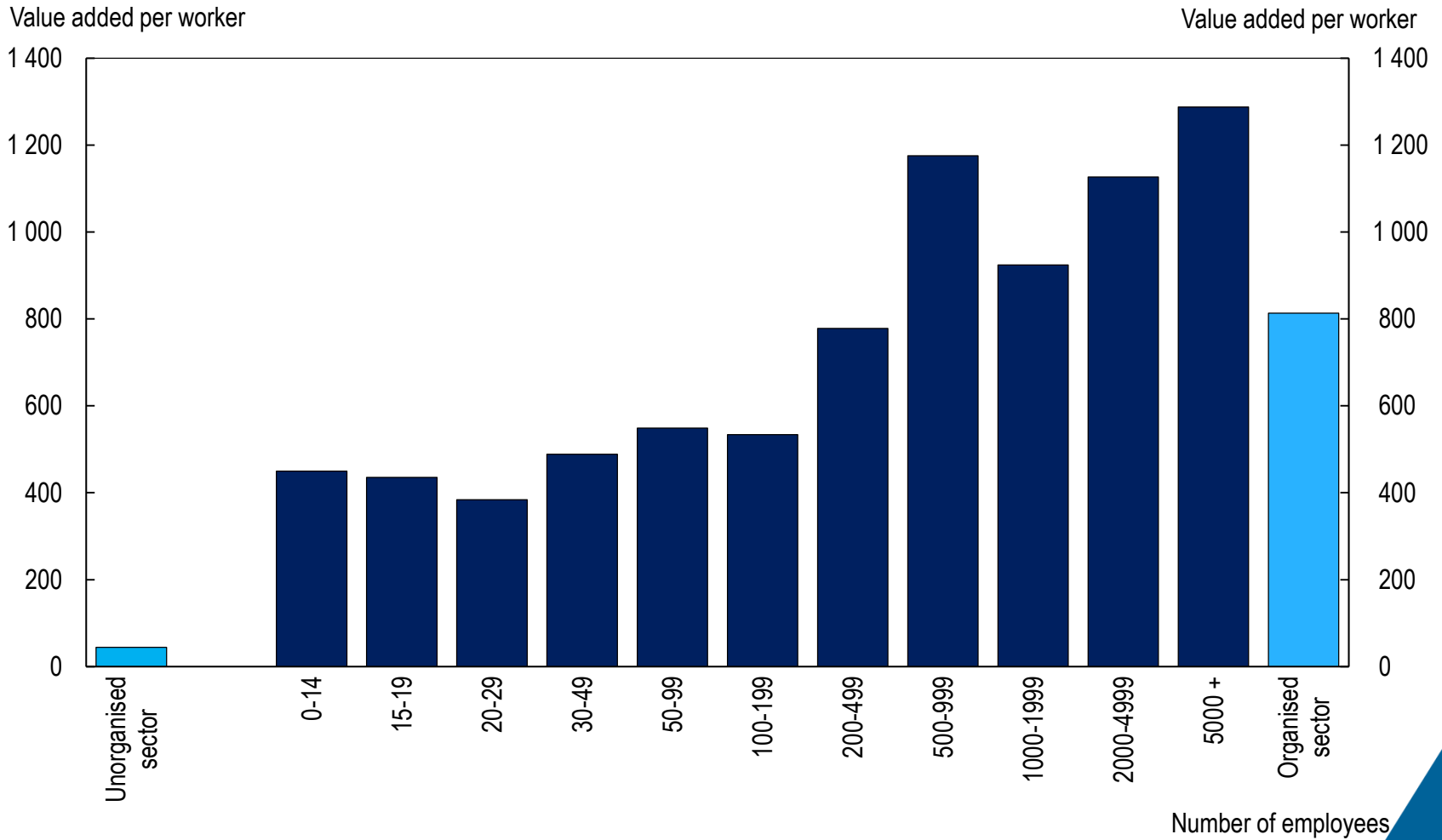
■ 20+ ■ 10-19 ■ 1-9





Productivity in smaller firms is low

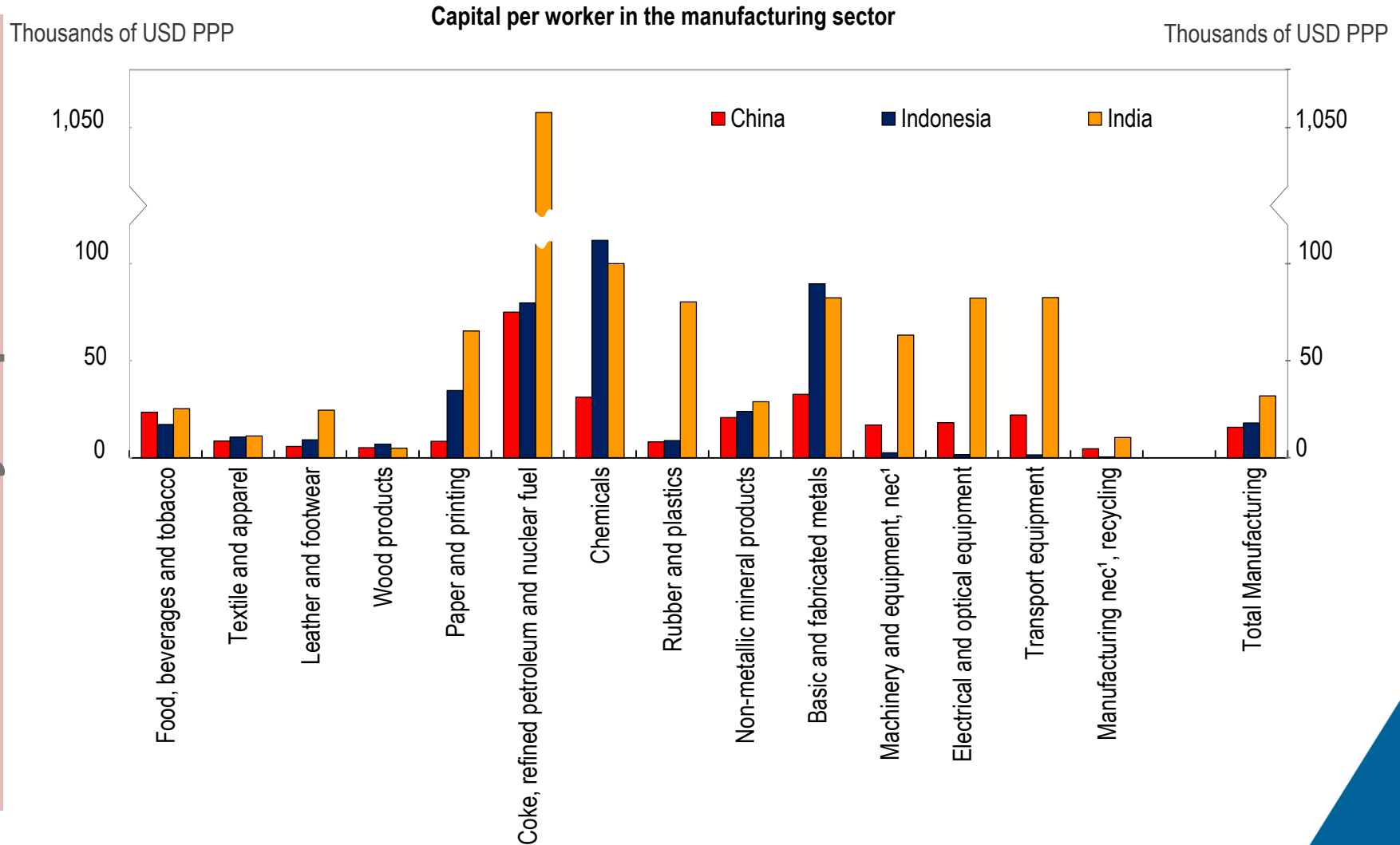
The symptoms





Manufacturing is capital intensive, ...

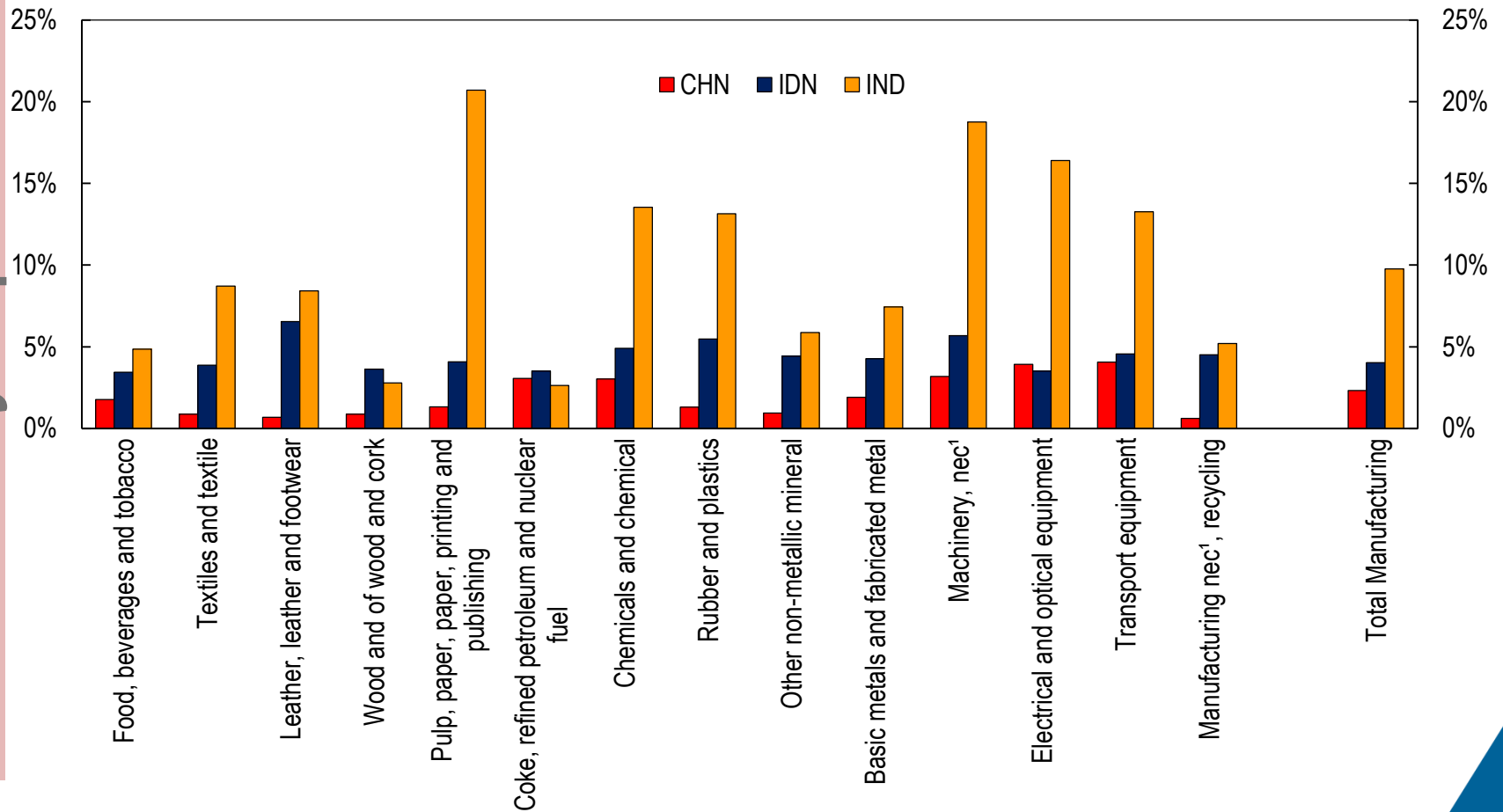
The symptoms





... and skill intensive

Contribution of high skilled workers² to value added by sector



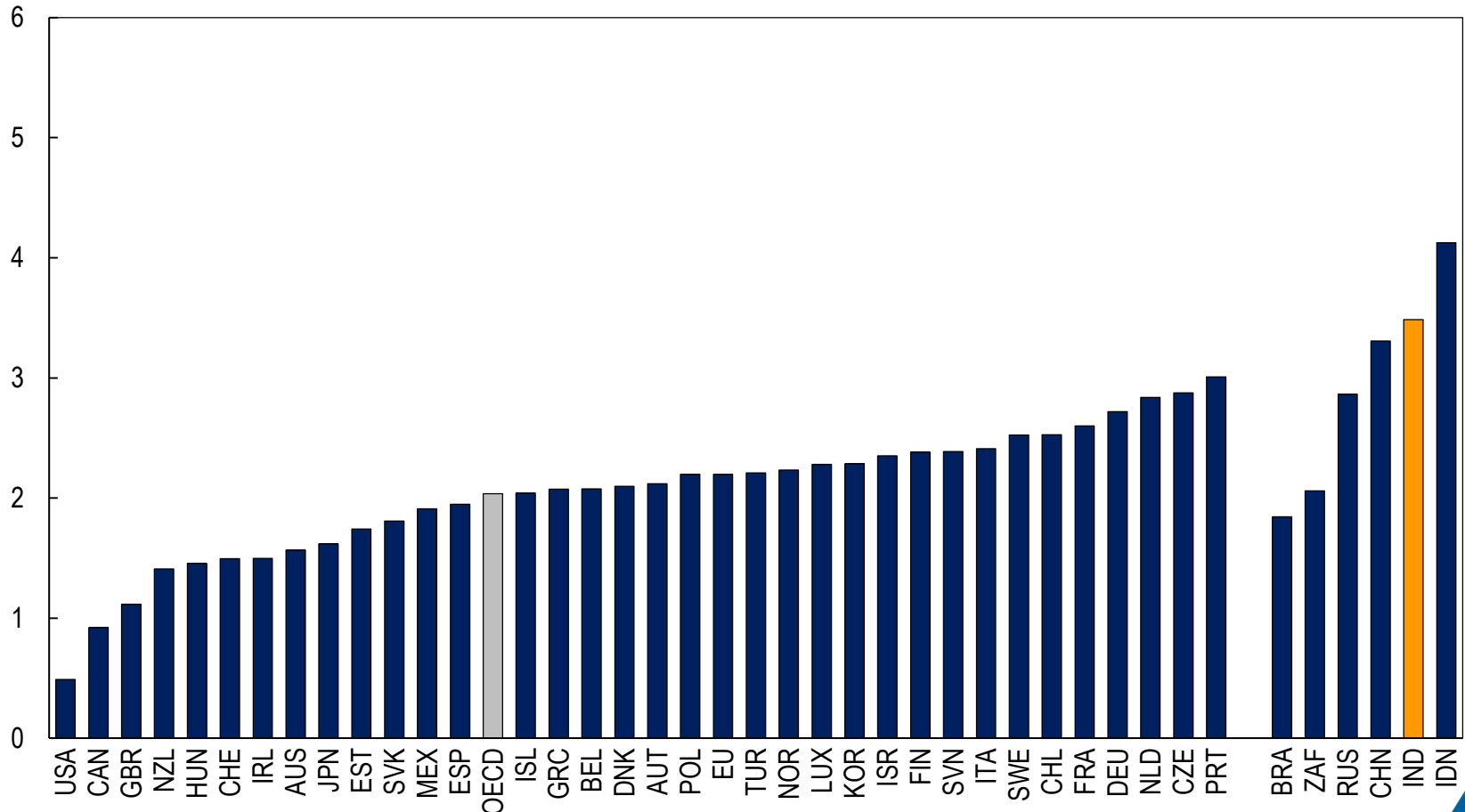
The symptoms



Relatively stringent labour regulations

The bottlenecks

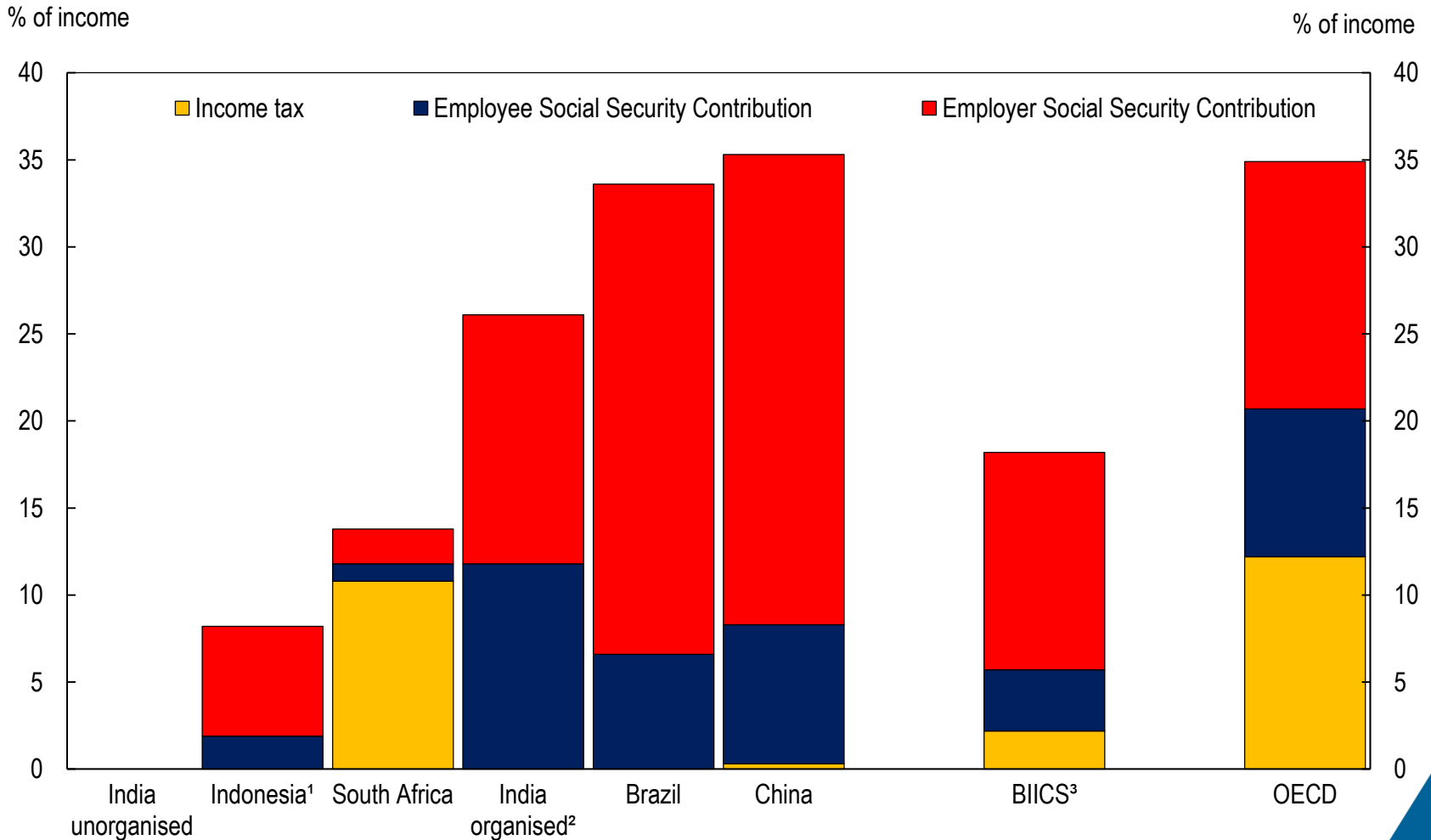
OECD indicator of employment protection legislation for regular employment





The tax wedge on labour is low for small firms but relatively high for large ones

Components of the tax wedge in 2010 for a single individual with no children

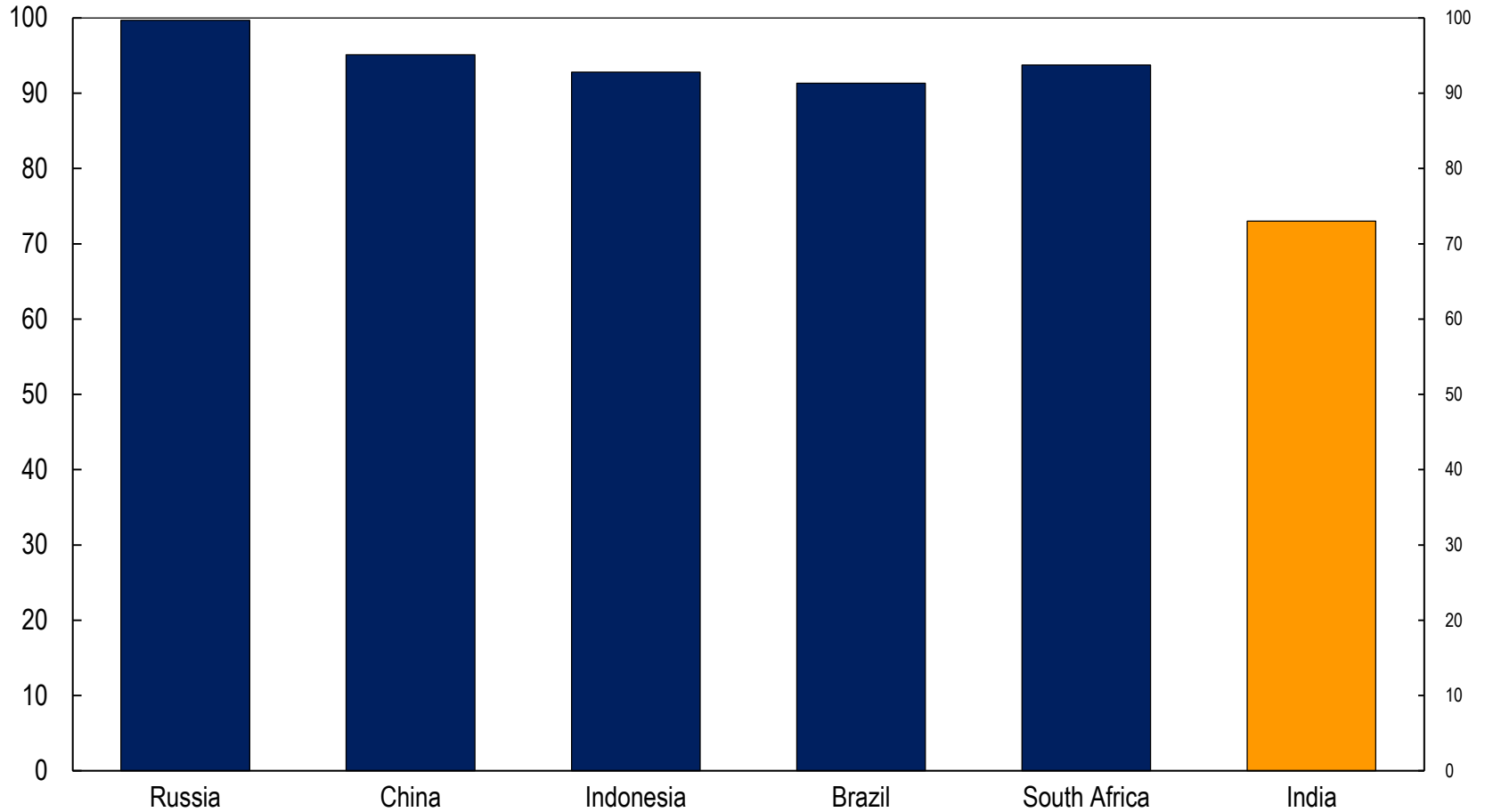


The bottlenecks



Education: low literacy rate

A. Adult literacy rate (age 15 and above)¹

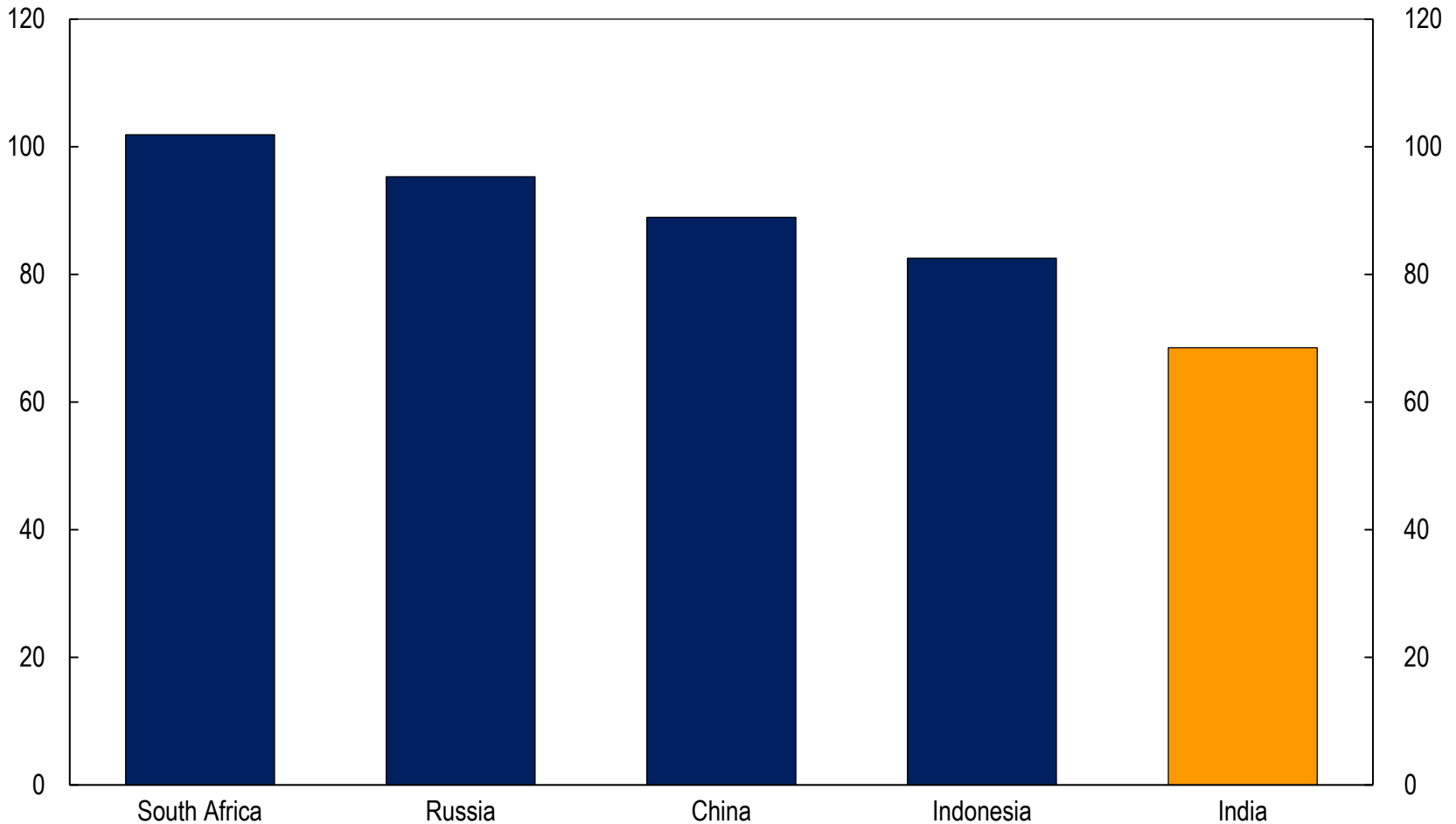


The bottlenecks



Still low enrollment rate in secondary education

Student gross enrolment, secondary (%), 2012²



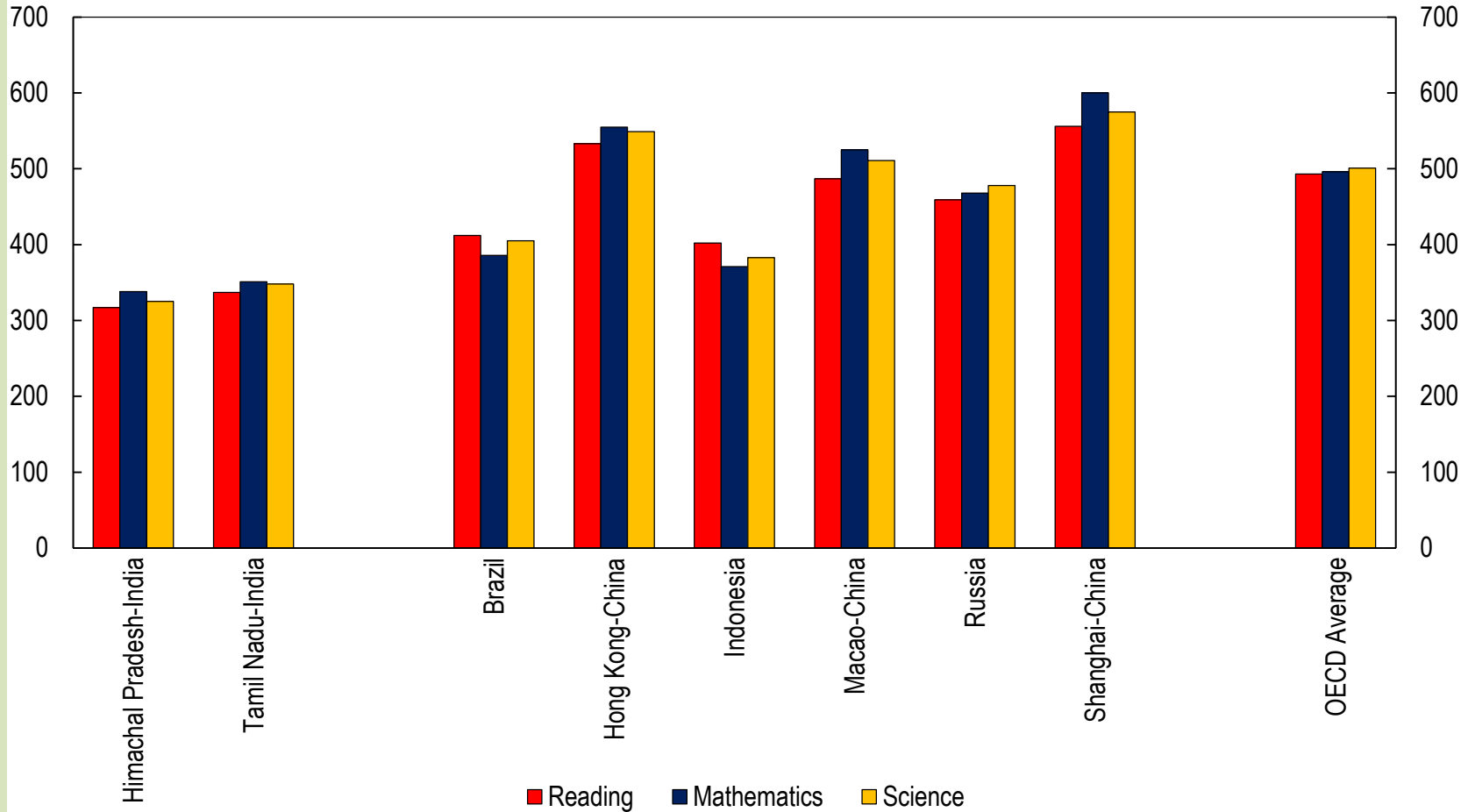
The bottlenecks



Learning outcomes are low

The bottlenecks

PISA results

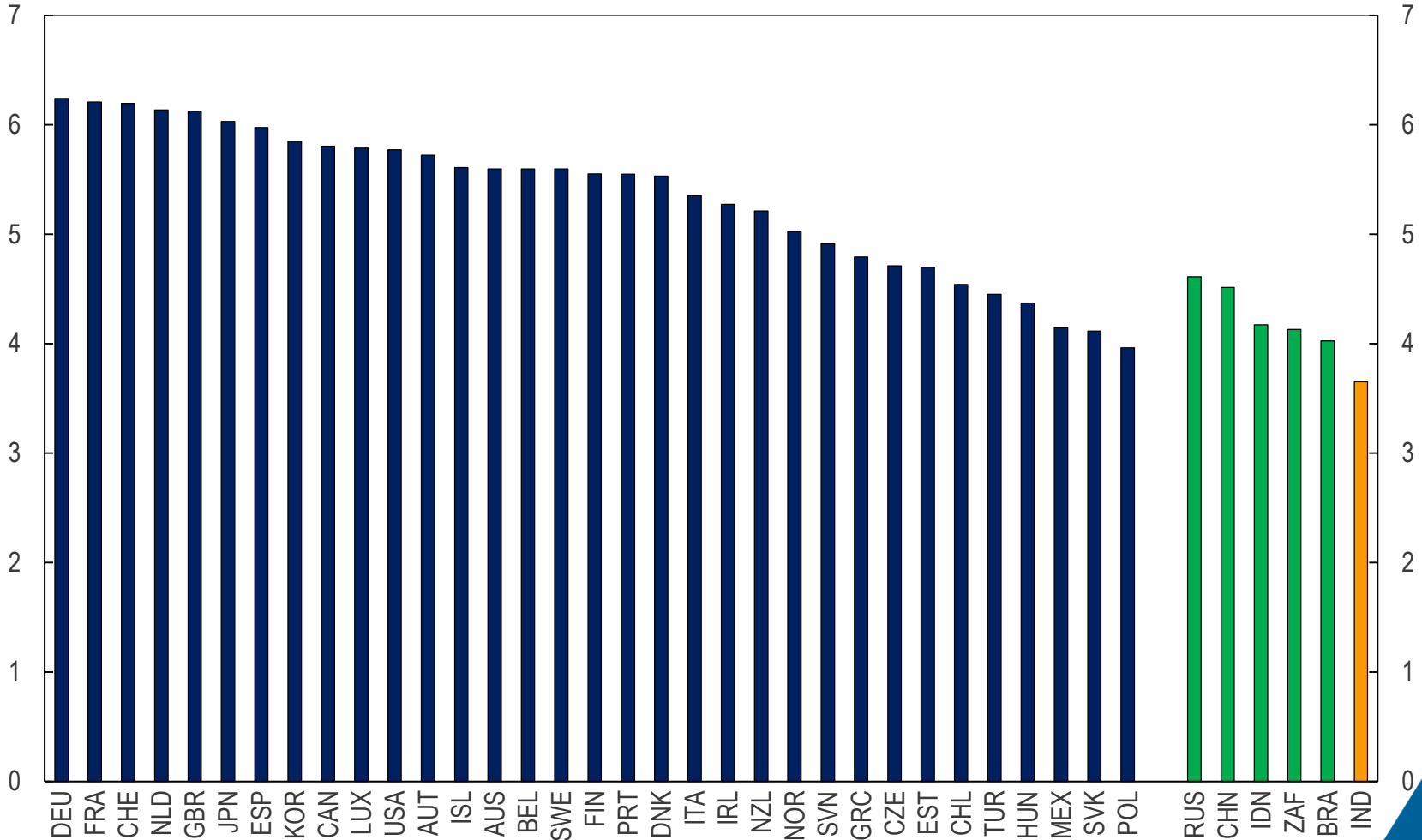




Poor infrastructure

The bottlenecks

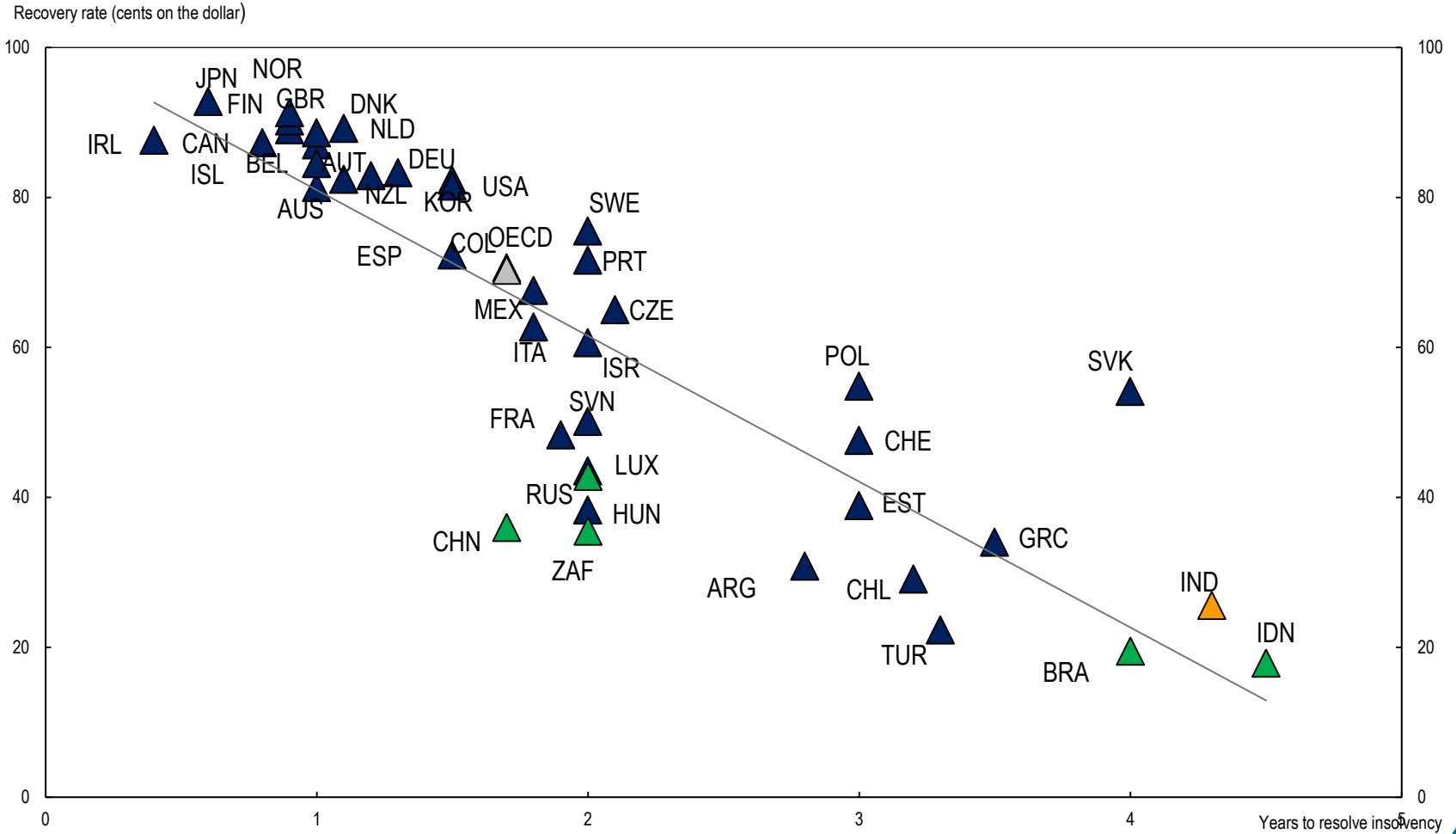
World competitiveness indicator - Infrastructure score





Inappropriate business environment – e.g. the bankruptcy law, ...

The bottlenecks



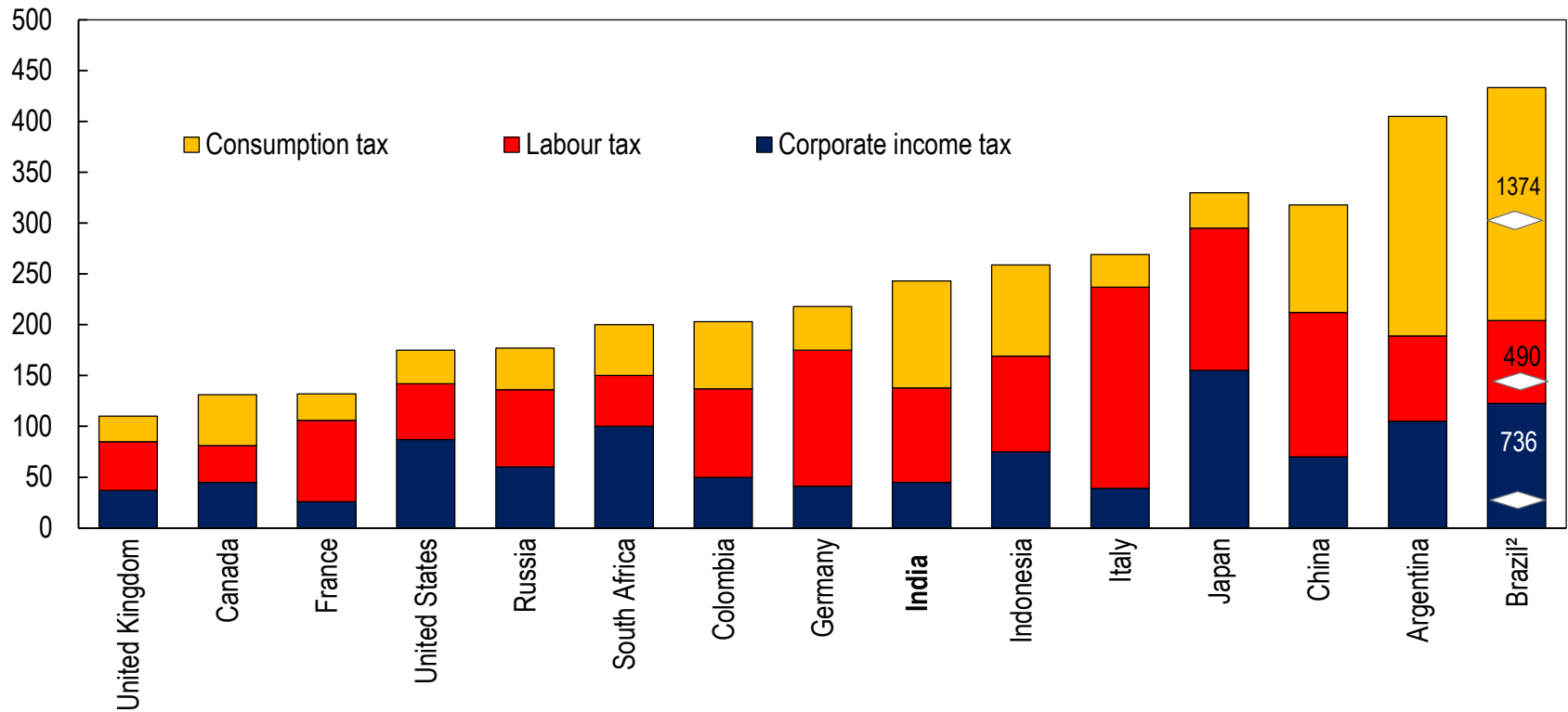


...a complex tax system

The bottlenecks

Hours per year

A. Time to comply with taxes for small and medium-sized enterprises¹





Key recommendations

The policy recommendations

- Reduce barriers to **formal employment** by introducing a simpler and more flexible labour law which does not discriminate by size of enterprise.
- Continue improving access to **education**, especially at the secondary level, and better focus on the quality of education. Provide better and earlier vocational training.
- In the **infrastructure** sector, impose clear timelines, rationalise documentation, and implement single-window clearance.
- Continue improving the **business environment** and opening up the economy.
- Implement swiftly the **GST**, streamline special tax regimes



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Additional information



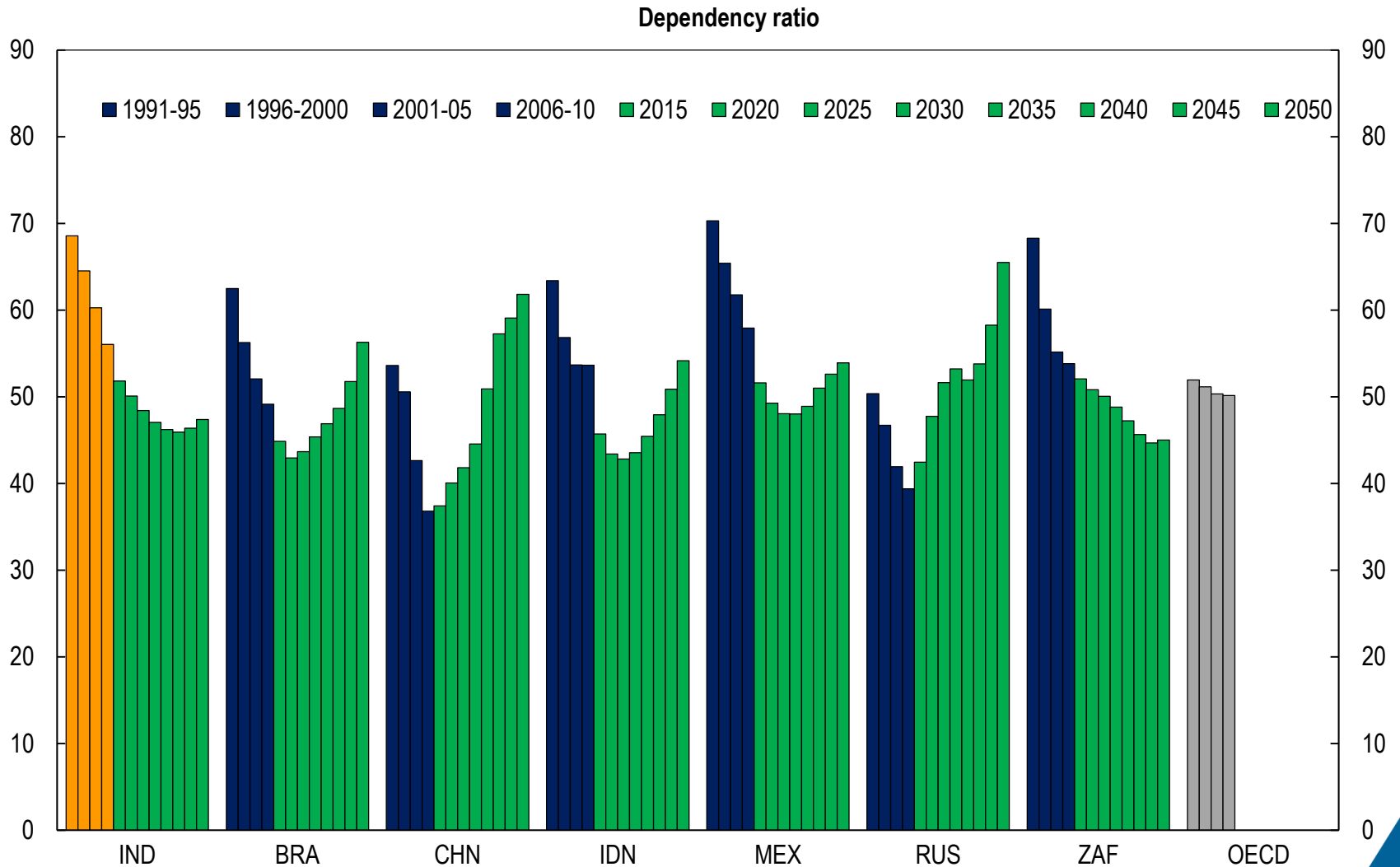


Creating better quality jobs is key to promote inclusive growth





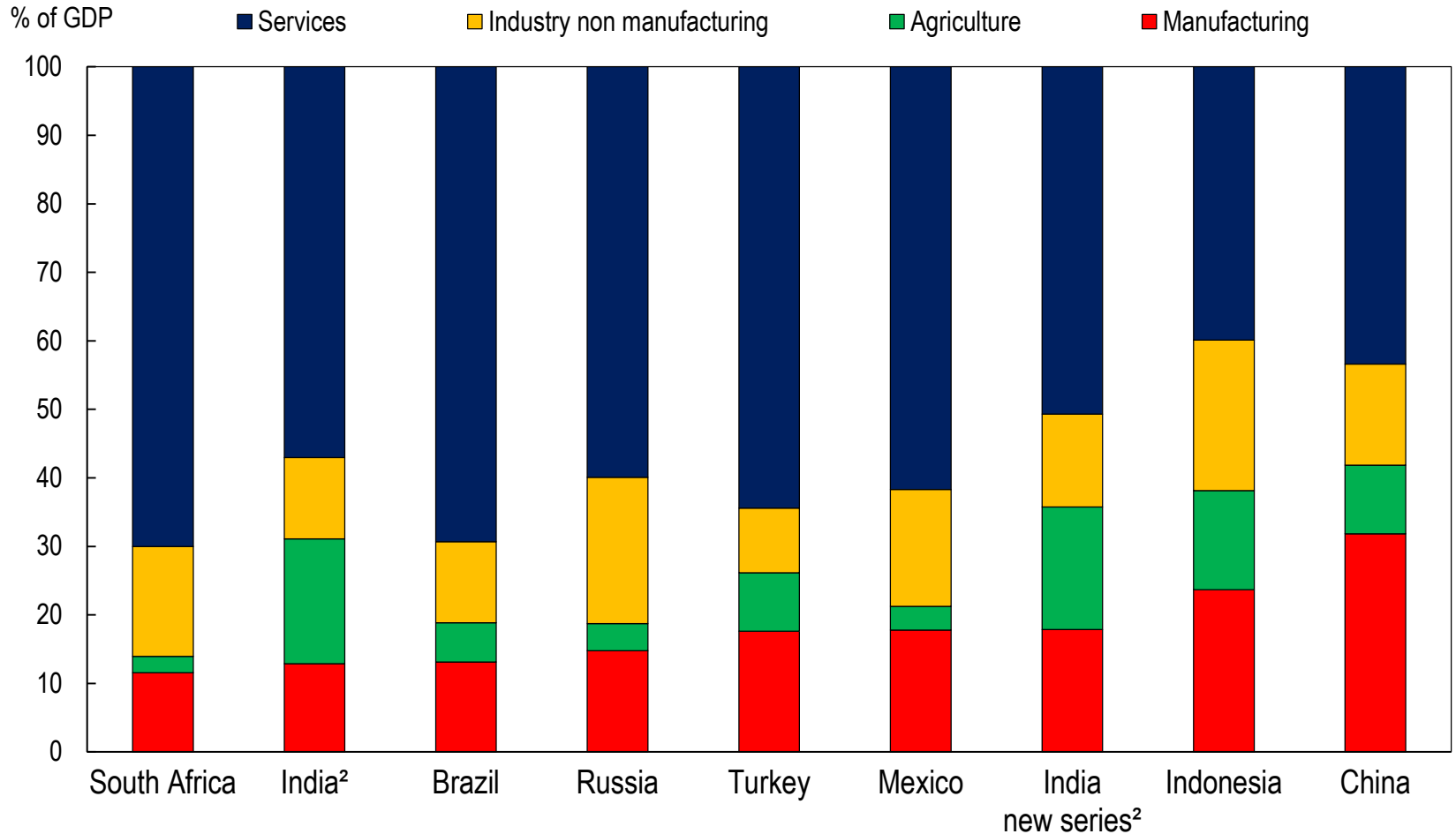
Demographic dividend or lost generation?





Manufacturing share in GDP is low

Shares in GDP, 2012

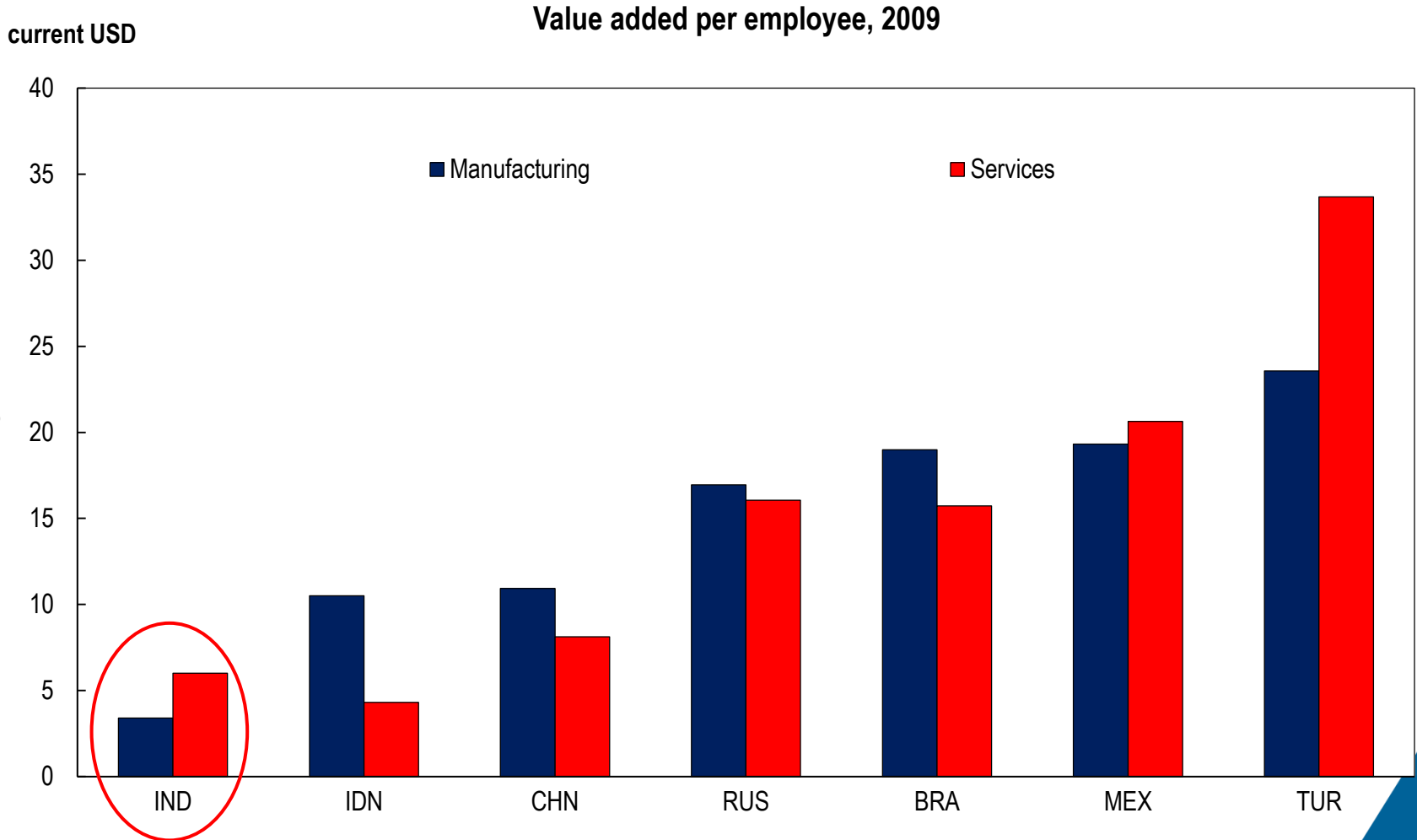


The symptoms



Productivity is relatively low in the manufacturing sector

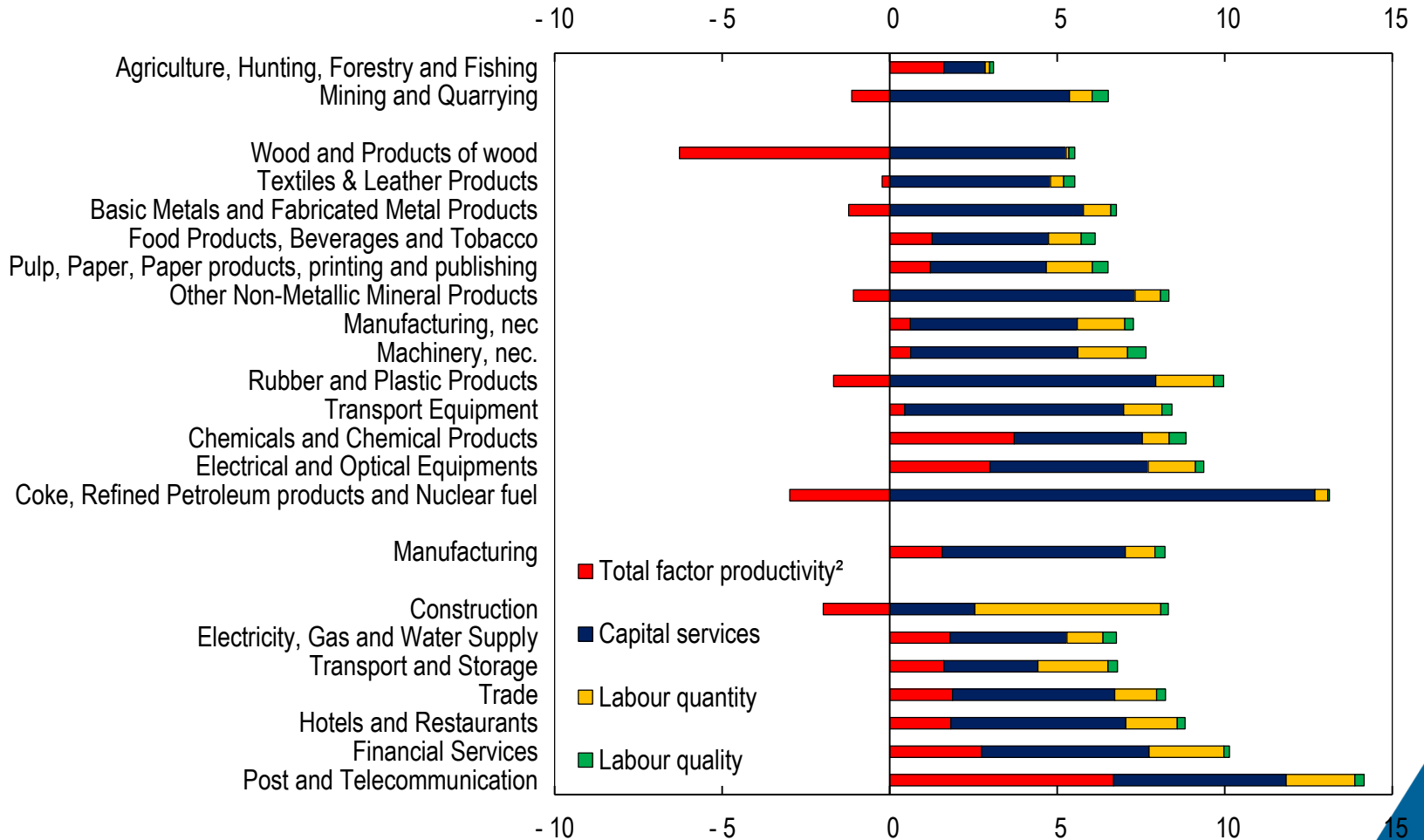
The symptoms





Productivity gains have been low

Productivity gains have been negative in some manufacturing subsectors over the period 1980-81 to 2011-12
 (Average annual contribution to growth in value added)



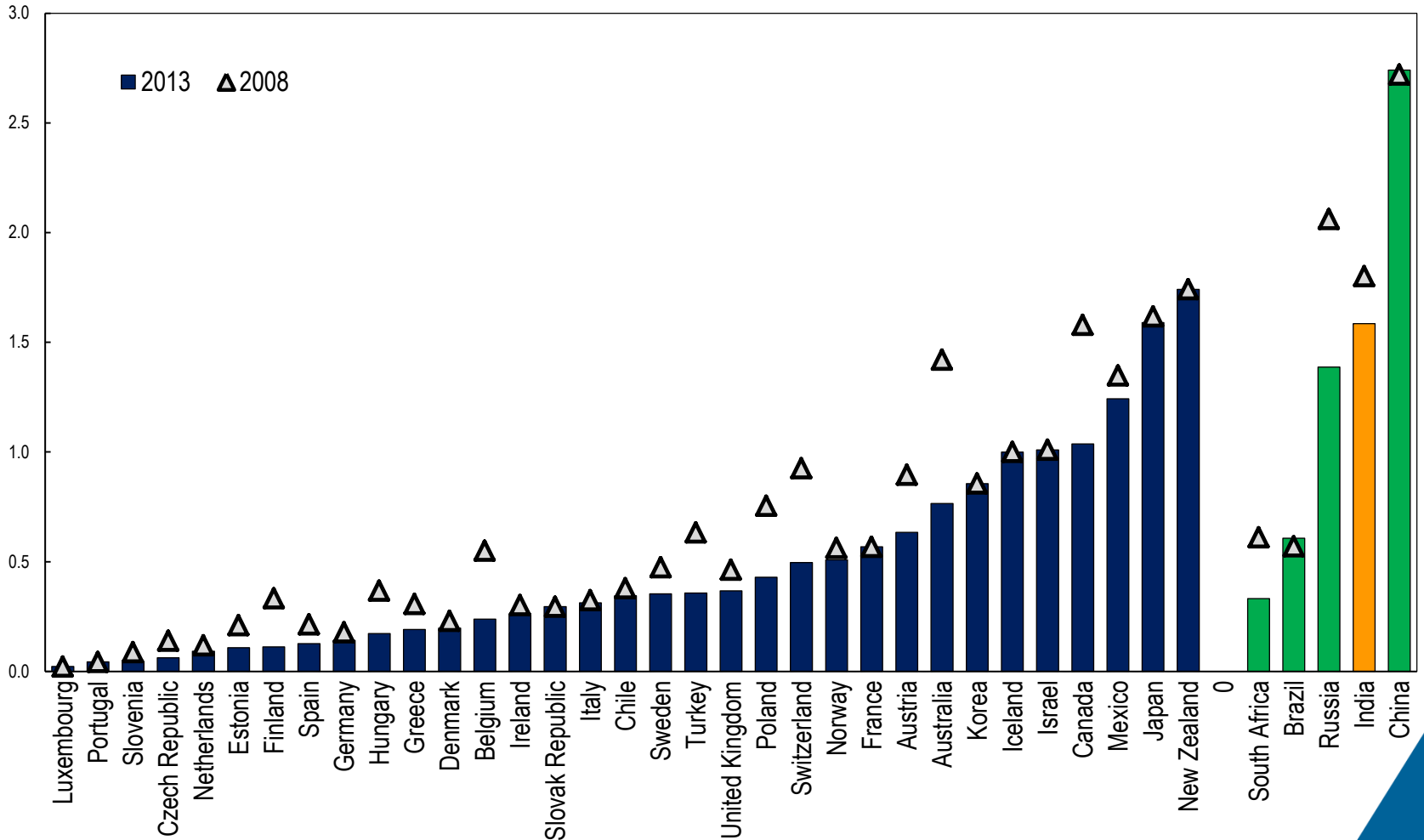
The symptoms



...with still high limits to FDI

The bottlenecks

OECD Indicators of Product Market Regulation - Barriers to FDI





...and some scope to facilitate trade

The bottlenecks

