

ILLUSTRATION: AJAY MOHANTY



In particular, we are missing the huge firms in export-oriented labour-intensive sectors that employ millions in China, Vietnam and Bangladesh. This matches anecdotal observation too. Foxconn's largest factory in China, making i-phones, among other products, reportedly employs 400,000 people — in a single factory — of the 1+ million it employs in the country overall. Samsung employs 100,000 people in its largest phone assembly plant in Vietnam. These giant factories are simply missing in India.

Consider the most labour-intensive sectors. A large garment factory in India employs 3,000-5,000 people whereas a large garment factory in Bangladesh employs 30,000-50,000 people. A company we met in Vietnam on a recent CII visit manufactures *Agarbattis*. They learnt how to make *Agarbattis* by sending 10 workers to a factory near Chennai for training. They today employ 10,000 people making *Agarbattis*, which they mainly export from Vietnam to India. What does it say when the technology is Indian and the market is India — but the economics says mass manufacture is more efficient 4,000 km away from India?

**Labour reform**

The mention of labour reform prompts the reaction that this is in the interests of industry and capitalists. This is wrong. Labour reform is in the interests of labour. Labour regulations protect incumbents — those already in permanent jobs in large factories. Making it easier to hire people is the other side of the same coin of making it easier to fire people. We must ensure adequate social safety nets so that those displaced are protected, but providing a flexible labour market could transform our market for jobs. We otherwise prompt behaviour contrary to the national interest — with firms first avoiding labour-intensive manufacturing, and then relying on contract labour where possible instead of direct employment. The result is that our fastest-growing large private-sector employer in the country is Teamlease, a provider of temporary and contract manpower, which currently employs over 100,000 people. In recent years, we reportedly added 7 million jobs in security services and 1 million jobs as private drivers in the National Capital Region alone. These contractual jobs are welcome to those who get them in the absence of alternatives, but they are not the high-quality jobs we need.

This government came to power promising to reform our outdated labour policies. It is unfortunate that this key area has since vanished from the agenda — and is not spoken about at all in this election. If we wish to attract the millions of jobs in garments and footwear and assembly moving out of China, an environment where one can cheaply increase and reduce hiring as needed is essential. We may rightly express concern about the "sweat-shops" making garments in Bangladesh, but given the choice workers have chosen by the million to move off the rice field and into the sweat-shop. Indian workers should have the same choice.

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To be concluded

# It's about jobs in industry

Creating millions of high-quality jobs requires we prioritise labour-intensive industry

On April 1, 2019, in the article "It's about jobs" (*Business Standard*), I argued that India's essential need is to create millions of high-quality jobs, those with the potential for consistent productivity growth. That requires us to get the supply of quality talent right — improving our skilling programme, school quality, and female participation in the workforce. This second article in the series is about demand in industry: We need millions of good jobs in manufacturing companies to absorb the supply of millions of well-educated and trained women and men.

**Labour-intensive industry**

Most emerging markets have put millions of people in work in low-skilled labour-intensive manufacturing. China, for example, employs over 100 million people in export-oriented labour-intensive manufacturing. As a middle-income country (with a per capita GDP of \$10,000), low-wage jobs have been moving out of China, encouraged by uncertainty over trade policy. Vietnam and Bangladesh are picking up millions of such jobs in the thriving garment, footwear and assembly industries. Why aren't they coming to India?

We occasionally make the argument that while large Indian manufacturing firms have not created millions of jobs, our small firms have. A recent CII (Confederation of Indian Industry) MSMEs (micro, small and medium enterprises) survey, the largest ever undertaken, surveyed more than 100,000 small firms on job creation between 2014 and 2018. The great bulk of firms were micro-firms — employing on average three people. The 105,000 firms, among them, added 330,000 jobs in the four years, about 3 per cent annually, with most of the jobs added by micro enterprises. From this we

must subtract the average mortality of firms. Small enterprises live a tenuous existence. In the most vibrant entrepreneurial environments — the US, Taiwan and Israel — firms enter and exit constantly, and the government data on employment is consistently adjusted for the entry and exit of enterprises. While large Indian firms have long, lingering deaths (only in India do firms fall "sick" — everywhere else in the world they either exist or don't), small enterprises in India are constantly starting up and vanishing. Think of the churn in your neighbourhood — street vendors, barbers, restaurants and shops. But here, too, there is no good Indian data. The best we can do is to look at typical mortality rates for enterprises in other countries. The Organisation for Economic Cooperation and Development (OECD) reports firm mortality across 23 of its 34 member economies: Firm mortality in 2015, the most recent year available, ranges between 2 per cent and 15 per cent annually, with a median of 7.7 per cent. So while we cannot arrive at an accurate net employment number, it would seem that we need a rate of job creation well above 3.3 per cent in small firms to make up for the enterprises that die each year.



**INDIA'S WORLD?**

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What is true of small industry is even more true of large industry: Between 1991 and 2017, according to the Annual Survey of Industry (ASI) data, industrial output increased five times in real terms. Labour employed in ASI firms increased 1.8 times, by an average of a little over a quarter million people a year. This made firms roughly three times more productive — decent progress for industry, but not for industrial employment. With 15 million people employed in the firms the ASI surveys (those employing over 10 people), India is missing mass-scale industrial employment.