

Industrial Sector, the Eleventh Five Year Plan and Special Economic Zones

7.55 As stated in the Approach Paper to the Eleventh Plan, to "... absorb all new entrants into the labour force, non-agricultural employment would need to increase at over 6 per cent per annum during the 11th Plan. This poses a major challenge not only in terms of generating non-agricultural employment but also in matching its required location and type". Thus, generation of adequate employment is one of the crucial elements in the Eleventh Plan's vision of "inclusive growth". And, this major target of employment generation in the non agricultural sector is intimately linked with the growth of the industrial sector.

7.56 The performance on the employment front in the organized manufacturing sector in the period up to 2003-04 raises some disturbing questions in this context. As per the figures published by Annual Survey of Industries, there was a decline in the absolute number of persons engaged in the organized manufacturing sector between 1987-88 and 2003-04 (Table 7.17). The decline actually took place during the period 1996-97 to 2003-04, when average annual growth rate of IIP was

5.5 per cent, and such growth of the manufacturing sector was even higher at 5.9 per cent. Profitability (i.e., share of profits in the net value added) during the period 1987-88 to 2003-04 increased substantially from 11.6 per cent to 45.5 per cent, while share of wages came down from 56.4 per cent to 35.7 per cent. With a bias towards capital-intensive technology, there was a drop in total employment in the sector. The trend of sluggish employment growth in organized manufacturing is also corroborated by the lacklustre performance of the historically labour-intensive manufacturing sub-sectors like leather, food products, jute and jute products and leather and leather products in more recent years.

7.57 As per Planning Commission estimates, an annual average growth rate of about 12 per cent of the manufacturing sector is necessary to ensure that the targeted average annual growth of 10 per cent of the industrial sector is achieved during the Eleventh Plan. Upgradation of infrastructure, an enabling fiscal structure, technological modernization, amendment of labour laws and corporate laws and enhanced accessibility to institutional credit are some of the crucial policy aspects which need to be addressed

Table 7.17 : Employment trends vis-à-vis IIP growth in the organized manufacturing sector (1987-88 to 2003-04)

(Value figures in lakh and others in numbers)

Characteristics	1987-88	1991-92	1996-97	2001-02	2002-03	2003-04
No. of factories	102,596	112,286	132,814	128,549	127,957	129,074
Fixed Capital	7,847,463	15,190,240	38,004,439	43,196,013	44,475,938	47,333,140
No. of Workers	6,061,786	6,269,039	7,208,143	5,957,848	6,161,493	6,086,908
No. of employees	7,785,580	8,193,590	9,448,643	7,686,654	7,870,529	7,803,395
Total persons engaged	7,903,826	8,319,563	9,536,282	7,750,366	7,935,948	7,870,081
Wages to workers	893,370	1,358,263	2,655,459	2,743,824	2,968,905	3,047,777
Total emoluments	1,408,105	2,097,048	4,640,358	5,105,957	5,515,801	5,833,675
Other benefits	189,157	421,840	947,074	1,238,964	1,318,412	1,411,758
Total inputs	11,938,728	23,302,799	55,691,484	77,922,749	91,618,549	103,962,377
Value of output	15,397,307	29,919,581	74,180,838	96,245,663	113,056,111	128,738,002
Depreciation	625,220	1,134,080	2,753,467	3,892,702	4,203,558	4,482,349
Net value added	283,360	5,482,702	15,735,887	14,430,212	17,234,004	20,293,276
Rent paid	44,751	119,117	426,234	375,118	379,356	416,084
Interest paid	862,606	1,881,190	3,994,437	4,221,788	3,835,182	3,397,229
Profits	3,28,741	963,507	4,197,844	3,488,385	6,185,254	9,234,531
IIP growth (%)	7.3	0.6	6.1	2.7	5.7	7.0

Source : Annual Survey of Industries

immediately to ensure that the targets are met.

7.58 The challenge ahead lies in appropriately sequencing to sustain the popular support for reforms and reconciling the conflicting interests of the various reforms constituencies. The recent debate about Special Economic Zones (SEZ) illustrates the kind of considerations that have to be taken into account in the formulation of policies. Some of the apprehensions against the SEZs are (a) generation of little new activity as there may be relocation of industries to take advantage of tax concessions, (b) revenue loss, (c) large-scale land acquisition by the developers which may lead to displacement of farmers with meagre compensation, (d) acquisition of prime agricultural land having serious implications for food security, (e) misuse of land by the developers for real estate and (f) uneven growth aggravating regional inequalities. Many of these apprehensions, however, could be addressed through appropriate policies and safeguards.

7.59 SEZs have been established in many countries as testing grounds for implementation of liberal market economy principles. They are viewed as instruments to

enhance the acceptability and credibility of transformation policies, to attract domestic and foreign investment, and generally, for the opening up of the economy. With its genesis in the Export Processing Zones (EPZ), the SEZs in India seek to promote value addition component in exports, generate employment and mobilize foreign exchange. EPZs and SEZs were employed with considerable success by China and other ASEAN countries in the 1970s and 1980s to create regional islands, where export-oriented manufacturing could be undertaken. While EPZs in some of these countries had their share of early difficulties, they provided scope for cultivating manufacturing competitiveness when licensing, labour rigidities and high import duties and taxes acted as a disincentive for investment in the rest of the areas. However, in India, the EPZ experiment was much less of an unequivocal success; and since 1965, when the first EPZ in Kandla was set up, a total of only 11 such zones have come into existence. The Exim Policy of 1997-2002 then introduced the more comprehensive and liberal SEZ concept, after which a bill was drafted and passed by Parliament in the form of the SEZ Act, 2005.