CREATION OF EMPLOYMENT THROUGH GVC INTEGRATION IN INDIA. PROSPECTS AND CHALLENGES

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India has been experiencing persistent employment crisis since the 1980s, however the nature of the crisis varied from jobless growth in the organised manufacturing sector till 2004-05 (Kannan and Raveendran, 2009) to overall jobless growth till 2011-12 (Mehrotra. et al, 2014) and finally to a job-loss growth which is perhaps a completely new experience for independent India (Abraham,2017; Kannan and Raveendran, 2019). Under this background, the Economic Survey (ES) 2017-18 and the latest ES-2019-20 have attempted to address this crisis via reforming the trade policies, particularly by promoting export activity and emphasising on integrating into Global Value Chains (GVC). Here, I will attempt to analyse the Government's approach in addressing the rising employment crisis by critically reviewing Chapter 5 of Economic Survey-2019-20 titles "Creating Jobs and Growth by Specializing to Exports in Network Products".The review is in two parts. Firstly, I will briefly summarise the major arguments of the chapter. Secondly, I will discuss the implication of the arguments for the Indian employment scenario.

Part 1: Summary

The chapter makes the following arguments.

1. The current world trade environment, highly influenced by USA-China trade war, labour shortages in China and increasing wages in the Chinese labour market, is opening up an opportunity for the Indian economy to enhance its export performance and reap benefits from it.

2. Since liberalisation, Indian export performance though have shown improvements, but its market share of the global export is significantly low in comparison to China. The share of merchandise export is drastically low in comparison to the world average and is experiencing a trade deficit. However, the service sector export is performing at par with that of the world average and also generating trade surplus thus reducing the current account deficit to some extent.

3. India's under performance in the global trade of merchandise products vis a vis China is driven by specialization effect rather than diversification effect. In other words, India is almost catching up with China in the varieties of goods exported, but falls far behind in terms of the value of the

goods exported. This value is low for India especially due to exporting of fewer quantity than for exporting at a lower price. Further, China's better market share in export is found to be due to their timely participation in GVCs which led to higher market penetration into the high-income OECD countries in comparison to India.

4. Within the non-oil merchandise export, India's share is highest in the capital-intensive commodities. From the point of view of employment creation, the concern is the fall in export share of traditional labour-intensive commodities. China, on the other hand, has a strong export share of labour-intensive commodities till 2000. Besides, although Chinese export share has witnessed a transition to capital-intensive commodities, it covers a significant proportion from the labour-intensive task, like assembling of parts and components, due to their early entry into GVCs.

5. India in spite of being a labour abundant country, has not been able to export labour intensive merchandises. Integrating into the GVC can be a way to resolve this issue. By opening up the economy to import of intermediate goods, India can integrate into the GVC. By participating into the upstream activities like assembling of the imported parts and components, India can create employment and increase its share of domestic value added in the gross export. This is a potential path to address her lower share in the export market.

6. Prioritising assembling of "network products" (NPs) like office machines and equipment, telecommunication and allied equipment, electrical machinery, road vehicles, professional and scientific equipment and photographic apparatus along with production of traditional products like textiles, clothing and footwear, in GVC participation is expected to create jobs along with improved export performance.

7. NPs export cover a significant share of total export for many Asian countries like Japan, Korea, Vietnam, and China. However, India's export share of NPs is not only drastically low it also is undergoing a trade deficit. Even within NP export, India is behaving anomalously. For majority of the Asian countries, NP export is led by assembling then followed by production of parts and component. But India's export is led by parts and components. To reap benefits from GVC, India needs to reverse the order, especially because India is at a neonatal stage in GVC activities. However, the NP export performances of these countries have followed a "flying geese" model. For instance, the falling export of Japan from 1994 was accompanied by a rising export of China. From 2010, China is showing a downturn that is where India can become prominent. Though NP export is low, but if the current global trade environment prevails and the pattern of the global NP export persists, then India can exploit the situation and reap benefits from it in terms of improving export share as well as creating jobs.

Part 2: Review

It's been an ongoing trend since the ES 2017-18 where employment crisis is not been explicitly acknowledged in spite of numerous reporting revealing its severity. Though this latest ES has addressed the employment situation through the medium of promoting export and growth performance, which is, to me, a skewed approach. The argument, from the point of view of employment, in this chapter was confined to- can GVC create jobs? The major effort in the paper was directed towards finding a solution to enhance the export performance of the country, and as a corollary-job will be created. This is a narrow approach as it is not a comprehensive attempt to consider all the possible ways to address the employment crisis.

The chapter proposed to imitate "China-like" labour intensive export promoting policy. However, China since its reform period has undertaken public policies in capital creation and distribution, infrastructure and R&D much aggressively than what India did (see Figure 1, Figure 2 and Figure 3).

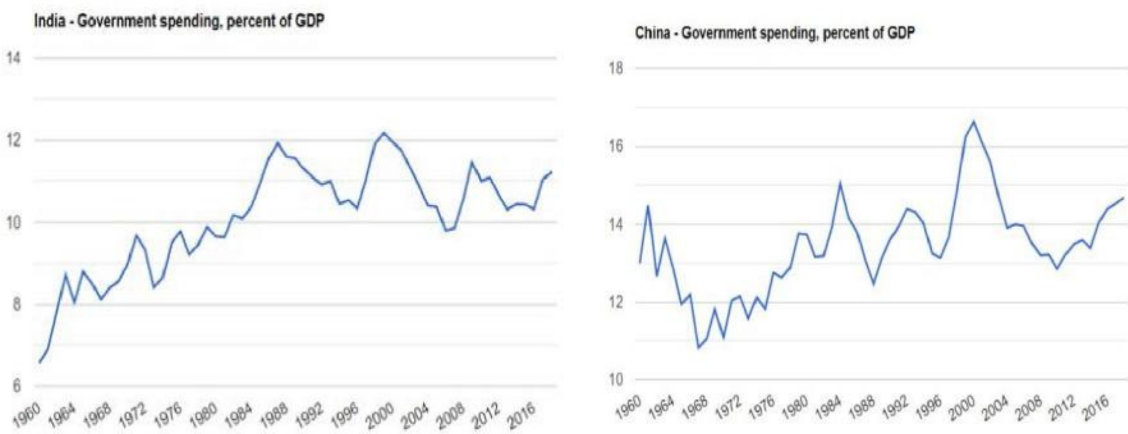

Figure 1: Government Expenditure as a Percentage of GDP

Source: World Bank.

This provided them with a stronger domestic economy, a crucial foundation with which they entered the global market with both diversification and specialization at their repertoire. India on the other hand, dwindled by high poverty, inequality and unemployment is suffering from a severe demand-side crisis. Lack of domestic demand is a major reason behind the draught in the job market. The proposal to create jobs via export promotion is to substitute the weak local market with the relatively stronger global market. China's entry into the global market was not for lack of domestic demand but for expansion of their local market into the global economy and they were much better prepared to compete globally than what India is even today. To reap benefits from global competition, public investment to strengthen the domestic macroeconomic situation should be prioritised.

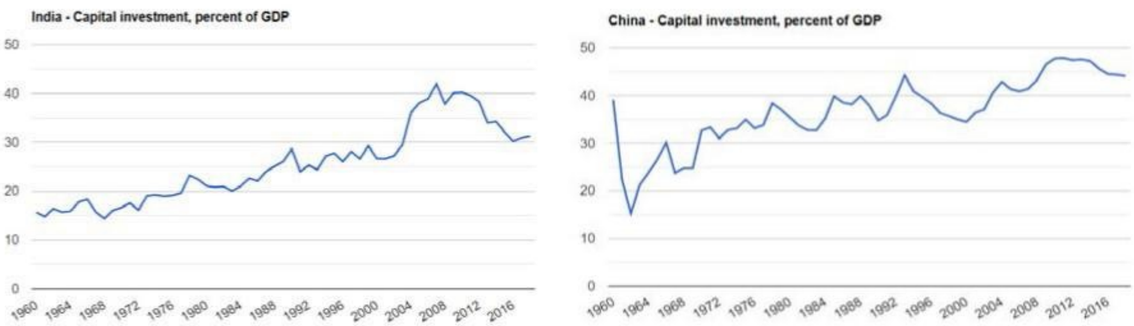

Figure 2: Capital Investment as a Percentage of GDP

Source: World Bank.

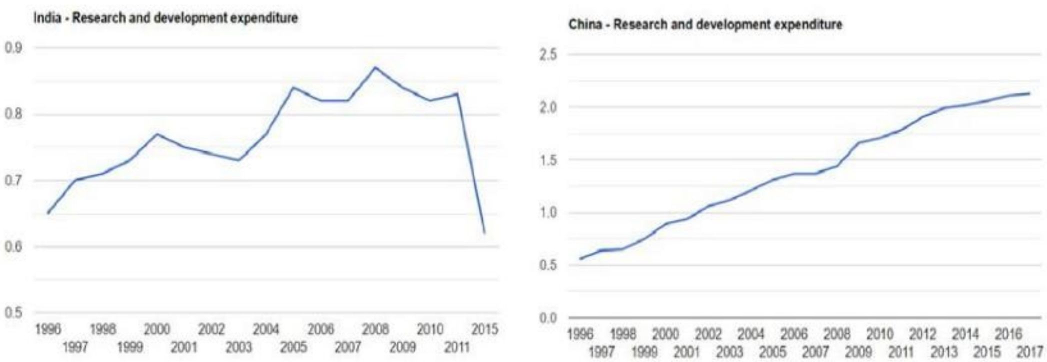

Figure 3: R&D Expenditure as a Share of GDP

Source: World Bank.

China's remarkable performance has been credited to its strategic entry into GVCs. There is a false convention to measure GVC participation only via the backward or import channel which is adopted by the ES also. This holds true mainly for the countries focussed on downstream or post production activities like marketing and advertising who are mainly the "developed" north. For "developing" countries like India the backward channel is of a much smaller length as they perform the upstream activities like manufacturing. If we see China only, their marvellous performance in the GVC is driven by higher performance of domestic value addition in export (DVA/GE). This ensures not only increasing integration into GVC but also capturing the gains from it (Figure 4). This figure also reveals that China's forward participation or contribution in export was not led by import content..

This strategy of integrating into GVC via a backward channel with comparative advantage at the upstream tasks can have a negative impact on employment creation by tying the economy at the low value adding activity. This is because import basket for upstream activity will include intermediate goods like semi-finished products, parts and components. There remains little scope to add value over them by assembling only as compared to manufacturing the assembled parts too. After all, the high value-added activity falls outside the manufacturing activity altogether and lies in packaging, managerial, marketing and branding activities were India is incompetent. This is mainly because of the unequal global capital endowment. Under this condition, focusing only on assembling is a missed opportunity especially if we consider the fact that Indian manufacturing of parts and components is already performing better than assembling. In other words, I will argue, diversification of activities is not a problem, but a required strategy at the upstream level. Besides, diversification is not the cause for lack of specialization. It is the lack of public investment and that is where the immediate priority should be given.

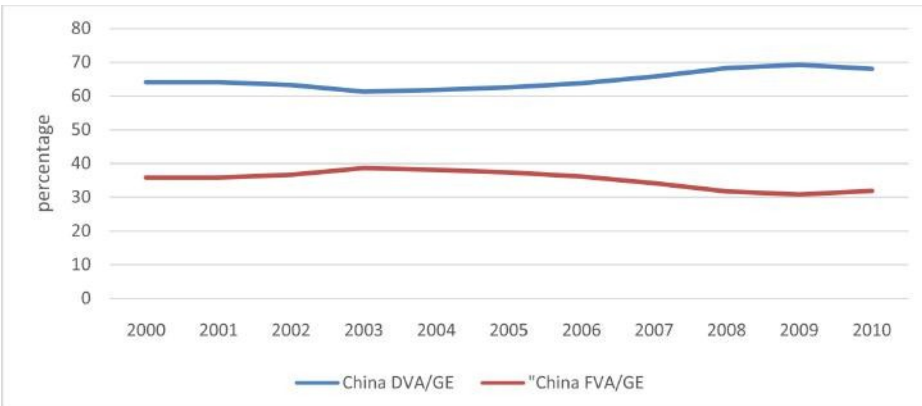

Figure 4: China's GVC Participation Driven by Domestic Value Addition Since 2000

Source: OECD TiVA, 2016.

Increasing the import of intermediate goods and assembling them will for sure create jobs as assembling of parts is a highly labour-intensive activity, but on the other side, importing will destroy jobs as it is basically substituting local production with foreign production. The net effect can be positive provided the scale of activity is sufficiently large. The ES also mentioned that there is a potentiality of job loss estimated to be around 2% per year and acknowledged it to increase in labour productivity. However, it is a much clearer option if the focus is on traditional manufacturing sector like textiles and footwear which is labour intensive and India's dependence on foreign import is lower. Besides, being a traditional sector India has some default advantage in terms of labours capability, experience and skills. If sufficient investment is done along with market enabling policies in this sector, then the potential gains are probably higher than that of NPs.

The chapter has acknowledged this traditional sector but has not emphasised it. It can be argued that the possible reason for emphasising NPs over the traditional sectors is that the latter is buyer driven in GVCs and the global market is oligopsonistic in nature which hinders the possibility of industrial upgrading. This is a deeper concern which bothers every decision regarding GVC participation. The potential solution to prevent the creation of market power in GVCs is not avoiding the buyer driven sectors but to create regional value chains and domestic value chains. This will reduce the overall dependency on the GVC and also create a competitive pressure on the buyers of the north. However, the paper has expressed a contradictory desire to integrate into GVCs exclusively thus eliminating the possible gains from integrating traditional sectors into the value chains altogether.

The usual argument which is put forward behind explaining when a GVC will be buyer driven or seller driven is the requirement of skills and complexity of the task (Gereffi, 1999). But what should also be considered is how much the possibility remains to automatize and standardise the process of production. If a task can be technologically substituted then the determinant of the driver will be ownership of capital. There is no guarantee that manufacturing of NPs is secured from this transformation. This is a broader concern and we should be prepared for it if we want to exploit GVCs to our benefit.

We can learn from China here as well. Firstly, Chinese upstream activities are diversified into both manufacturing and assembling activities. Secondly, their stronger domestic economy and better capital ownership is keeping them more competent to tackle the situation of a potential transformation in production process. The ES tried to argue that India is nearly as diversified as China in terms of trade performance but lacks behind in specialization and came to a conclusion to substitute diversification with specialization. The need is specialization at diverse activities especially because Indian activities are in the upstream like limited account manufacturing. If the focus is pinpointed at industrial upgrading then advanced account manufacturing and innovation activities have to be brought into the purview. But these sectors have lower labour absorbing capacity and also requires higher investment in R&D, education and skill development. By binding the condition of employment creation via GVC and then only focussing on assembling will possibility neither create sufficient employment nor result in industrial upgrading.

A final concern which the paper puts us into is the brave assumption of the prevalence of "usual scenario" till 2030, which will ensure creation of 148 million jobs via export promotion of NPs. Firstly, just like India, countries like Vietnam, Thailand, Indonesia and Hong Kong can exploit the changing scenario in the world trade environment. In fact, many of them have already a head start. Secondly, even if the growth rate of world export increases at an "usual way" it does not necessarily mean that the "usual" process of production with the " usual" capital-labour ratio will also continue. Then export share even if rises will not raise employment. Thirdly, we cannot expect the global trade also to follow the same trend as it did from 2010 to 2018 because of the gradual weakening of the WTO, creation of new bilateral and multilateral trade agreements and closing of old ones. This makes us sceptical to the hasty projected figures on future employment in a chapter were no statistics on the present and the past employment is mentioned.

Conclusion

India has a long run persistent employment crisis which needs to be resolved to reap the benefits of the demographic dividend. GVC can be a potential solution to this problem. But to capture the gains from GVC India can enter the global market only after strengthening its local economy. China like India has a huge labour force. But before entering into GVC they made strategic government intervention by investing in labour-intensive sector, capital formation and technology. India, on the other hand, believes to utilise the GVC to strengthen their local economy. But unlike free market-if there is any, GVC is influenced by market power and unequal capital endowment. Under this circumstance, entering into GVC will most probably make India tied at a low value-added activity and reduce the scope for industrial upgrading. Besides, the transformation of production process with automation and technology is remarkably evident within GVC. This puts the labour creation opportunity under threat. Finally, India is going to participate in a supplier base where the competition is intense. This creates a concern for the creation of a job only of low quality with low domestic value-addition. Under this circumstance, India should put effort to create regional and domestic value chains and thus limit the dependency on "north". To do this, she has to empower her local economy first by investing in capital creation, R&D and strengthening the local consumption power. After all, GVC does not make a country strong, it exploits the strength of a country for its growth. As far as creating employment is concerned, it should be prioritised over GVC integration because irrespective of export or GVC performance, employment has to improve. In that respect, a comprehensive national employment policy should be developed. GVC maybe is one of the options but not the only one.

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