Q2

Account for the failure of manufacturing sector in achieving the goal of labour-intensive exports rather than capital-intensive exports. Suggest measures for more labour-intensive rather than capital-intensive exports.

UPSC Civil Services Mains 2017 · GS III · 10 marks · Indian Economy

Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Core demand of the question

- Account for why Indian manufacturing failed to build labour-intensive exports and leaned toward capital-intensive exports
- Suggest measures that would raise labour-using export lines such as apparel, leather, gems and food

Revision summary

India's export growth after reforms was real, but the mix was more petroleum, engineering and chemicals than garments and leather.

Rigid factory labour rules, costly land and power, and capital subsidies encouraged automation and small size.

Bangladesh and Vietnam took buyer-driven apparel chains that hire many workers.

Correctives are labour flexibility, the apparel and leather packages, MUDRA and clusters, GST refunds, Sagarmala, and skills tied to orders.

The aim is jobs per unit of export, not only a larger export bill.

Introduction

East Asia grew rich by exporting **garments, shoes and simple assembly** that hired large numbers of workers. India after 1991 expanded **merchandise exports**, but the mix tilted toward **refined petroleum, engineering goods, chemicals and pharmaceuticals**, which use more capital and skills per job. **Labour-intensive** lines stayed smaller than in Bangladesh or Vietnam. That is a failure of the employment engine, not only of the export total.

Body

Why labour-intensive exports lagged

- **Labour regulation** in the organised factory (hire-and-fire, contract labour, inspections) pushed firms to stay small or to automate, so they never reached the scale East Asian exporters used.
- **Land, power and logistics** costs are high; a garment cluster needs cheap sheds, reliable electricity and fast ports more than a capital-heavy refinery does.

- **Skill and quality gaps** in stitching, finishing and compliance with buyer codes kept India out of large global apparel chains.
- Policy often **subsidised capital** (cheap credit, tax holidays on plant) more visibly than wages, so the relative price of machines fell.
- **Inverted duties**, delayed refunds (before GST settled), and a strong rupee in some years hurt thin-margin labour exports more than high-value chemicals.
- China, then Vietnam and Bangladesh, took the **buyer relationships** in ready-made garments and leather while India specialised where it already had capital and engineers.

Measures for more labour-intensive exports

- **Complete** labour-law simplification **for export units:** easier fixed-term contracts, overtime flexibility, and one-stop compliance, as tried in some State reforms and special packages.
- Scale the **2016 apparel and made-ups package** (rebate of state levies, overtime relief) and similar support for **leather, footwear, gems and jewellery, and marine products**.
- Use **Make in India**, **MUDRA**, and **cluster and mega food park** tools so MSMEs can meet volume without each unit buying heavy capital.
- Cut turnaround time at ports through **Sagarmala**, electronic trade facilitation, and full **GST** refunds so working capital is not trapped.
- **Pradhan Mantri Kaushal Vikas Yojana** and apparel training centres should be tied to actual export orders, not only certificates.
- Coastal **employment zones** and plug-and-play sheds lower the land-and-power barrier that kills labour-intensive scale.
- Keep a competitive real exchange rate and avoid inverted duty structures that tax the labour-using input more than the finished good.

Flow diagram

Labour rules logistics capital bias -> Capital-intensive export mix

Apparel leather packages -> Labour-intensive exports

Skills GST refunds Sagarmala -> Labour-intensive exports

Clusters coastal sheds -> Labour-intensive exports

Conclusion

India failed at labour-intensive exports because regulation, logistics and a capital-biased incentive mix made machines cheaper than large workforces. Apparel, leather and food packages, skills, GST refunds and coastal clusters can still shift the mix. The test is factory jobs in export sheds, not only a higher engineering-export number.

Facts & figures

Apparel package 2016

Union package for ready-made garments and made-ups: rebate of state levies, flexibility on overtime, and related export support.

Make in India

2014 industrial campaign to raise manufacturing and exports, including labour-using sectors if States ease land and labour.

MUDRA

Micro Units Development and Refinance Agency: collateral-light credit for small non-farm units that populate labour-intensive clusters.

Sagarmala

Port-led development programme to cut logistics time and cost, which matter most for thin-margin labour exports.

PMKVY

Pradhan Mantri Kaushal Vikas Yojana: skill training that can feed apparel, leather and food-processing export floors if industry is the buyer.