



International
Labour
Organization

KOICA
Korea International
Cooperation Agency

- ▶ **FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs**

Copyright © International Labour Organization 2023
First published 2023



This is an open access work distributed under the Creative Commons Attribution 4.0 International License (<https://creativecommons.org/licenses/by/4.0/>). Users can reuse, share, adapt and build upon the original work, as detailed in the License. The ILO must be clearly credited as the owner of the original work. The use of the emblem of the ILO is not permitted in connection with users' work.

Attribution – The work must be cited as follows: Ritika Jain and Vinoj Abraham, *Report on FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs*, Geneva: International Labour Office, 2023

Translations – In case of a translation of this work, the following disclaimer must be added along with the attribution: *This translation was not created by the International Labour Organization (ILO) and should not be considered an official ILO translation. The ILO is not responsible for the content or accuracy of this translation.*

Adaptations – In case of an adaptation of this work, the following disclaimer must be added along with the attribution: *This is an adaptation of an original work by the International Labour Organization (ILO). Responsibility for the views and opinions expressed in the adaptation rests solely with the author or authors of the adaptation and are not endorsed by the ILO.*

This CC license does not apply to non-ILO copyright materials included in this publication. If the material is attributed to a third party, the user of such material is solely responsible for clearing the rights with the right holder.

Any dispute arising under this license that cannot be settled amicably shall be referred to arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL). The parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of such a dispute.

All queries on rights and licensing should be addressed to the ILO Publishing Unit (Rights and Licensing), 1211 Geneva 22, Switzerland, or by email to rights@ilo.org.

ISBN: 9789220398395 (print)
ISBN: 9789220398401 (web PDF)

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the ILO concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the ILO of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the ILO, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

Information on ILO publications and digital products can be found at: www.ilo.org/publns.

Printed in India

- 
- ▶ **FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs**

► Abstract

This study proposes to discuss and recommend policies and actions that may promote economic diversification and employment generation through private sector investments, with a special focus on foreign direct investment (FDI). We focus on the food processing and garments (including textile) sectors in Andhra Pradesh, Odisha and Rajasthan and analyse various aspects of the value chains of the two target sectors such as creation and formalization of jobs, product diversification and export growth. We also use enterprise level data to provide a detailed firm level account of the relationship between value chains, FDI and employment.

We find that all three States have a relatively larger share of the manufacturing sector compared to the national average. In addition, the pace of service growth in these States has been slower than at the all-India level. The three States, thus, have the potential to revive industrial growth in India. Both the food processing and textile sectors show similar spatial distribution, suggesting strong linkages across sectors and the presence of industrial clusters in all the three States. The development of such industrial clusters can serve as an effective instrument to fast-track the integration with global value chains (GVCs) through strategic interventions such as identifying anchor investors, offering limited period incentives, enhancing ease of doing business and streamlining approvals. These patterns indicate the need to work with State Governments in order to identify, create and promote additional clusters.

We discuss recommendations from five countries – Cambodia, Singapore, Malaysia, Philippines and the Republic of Korea – that have emerged as examples of successful linkage developments. We focus on government initiatives and actions by private parties to promote linkages between FDI and employment through increased competitiveness among local suppliers as well as industrial upgrading.

In order to attract FDI, the Government must foster a hospitable investment climate and frame conducive trade policies. Importantly, special economic zones (SEZs) and other business clusters should encourage the coexistence of foreign and domestic firms. This would enhance competition and allow strong spillover effects. Further, while wooing foreign investors, the Government should target investors that source inputs locally, offer complementary technology, service and skills, allow for larger domestic participation in ownership and have experience in establishing local suppliers. Foreign investors must be incentivized to facilitate local spillovers. Public-private partnerships, investment in infrastructure, R&D collaboration and training programmes are key to promoting FDI and strong linkages.

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

► Acknowledgements

We are grateful to Prof. S K Sasikumar for his advisory role during the preparation of this research paper. We thank Sudipta Bhadra, Project Manager, Promoting Sustainable Enterprises in India (PSEI) and Sandra Yu, Technical Specialist, SME enabling environment, ILO for their technical inputs and continued guidance. We wish to also express our gratitude to Korea International Cooperation Agency (KOICA) for their support in carrying this research under PSEI. We are also grateful to Manikantha Nataraj and Abdulsamad Majidi for their excellent research assistance. The responsibility for opinions expressed in this article rests solely with the authors and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in it.

► About the authors

Vinoj Abraham: Vinoj Abraham is a professor, holding the Ministry of Commerce Chair at the Centre for Development Studies, Thiruvananthapuram. He has published extensively in the areas of labour, gender, technology, regional development and plantations from a development perspective. He has been a consultant to the World Bank and ILO. He has worked on policy-oriented research for the UNICEF, NITI AAYOG and Kerala Planning Board. He is currently working on issues around the gig economy, non-farm self employment, producer cooperation in plantations, migration, unemployment and structural transformation of economies.

Ritika Jain: Ritika Jain is an Assistant Professor at the Centre for Development Studies, Thiruvananthapuram. She has published extensively in the areas of public policy and issues related to state-owned enterprises in India. She was recently awarded the CDS Prize for the best performing Assistant Professor in terms of publications (for the biennium 2019-2021) by Prof. Kaushik Basu. Her research interests include public policy, political economy and empirical industrial organization.

► Contents

List of Abbreviations

1. Introduction	9
2. Economic diversification in India	11
2.1 Value added and output	12
2.2 Exports	13
2.3 Private investment and FDI	15
2.4 MSME growth in India	17
2.4.1 MSMEs in food and textile sectors	19
2.4.2 Local sourcing by domestic firms	20
2.5 Employment	21
2.5.1 Food and beverage industry	21
2.5.2 Textile and garment industry	24
2.6 Participation in global value chain and potential for deepening economic linkages	26
2.7 Composition of gross exports	26
2.8 Labour market implications and projections	29
2.8.1 Food and beverages sector	29
2.8.2 Textile and garments industry	30
2.9 Linkage on the selling side	30
2.10 Extent of labour market linkages	31
2.11 Economic diversification in the two target sectors	32
2.12 Location of MSMEs	34
3. Lessons from experiences of other economies	37
4. Conclusion and policy recommendations	41
4.1 Policy recommendations	42
4.1.2 Food sector	42
4.1.3 Textile sector	43
References	44
Annexure A	46
Annexure B	47
Annexure C	48
Annexure D	50
Annexure E	53

► List of Tables

Table 1:	State-wise distribution of registered MSME in the food and textile sectors (%)	19
Table 2:	Employment in food and beverages industry and growth rates	22
Table 3:	Employment in textile and garment industry and growth rates	24
Table 4:	Projections on employment growth in inter-related sectors of food and beverages sector	29
Table 5:	Projections on employment growth in inter-related sectors of textiles and garments	30
Table 6:	Difference in attributes by ownership	32
Table 7:	Top five-ranked districts for food and textile sectors in each of the three States	34
Annex Table A1:	Export of services by product category (%)	46
Annex Table A2:	Export of goods by product category (%)	47
Annex Table C1:	Top five-ranked 3-digit NIC codes for food and textile sectors in each of the three States	48

► List of Figures

Figure 1:	Value added by broad sector (%)	12
Figure 2:	Concentration of economic activity	12
Figure 3:	Sectoral composition of state domestic product for the three target States	13
Figure 4:	India's trade to GDP ratio (%)	13
Figure 5:	State-wise share in total exports	14
Figure 6:	Ratio of GFCF to GDP (%)	15
Figure 7:	Ratio of GFCF to SDP (%)	15
Figure 8:	Ratio of FDI to GDP (%)	16
Figure 9:	State-wise share of FDI inflows (%)	16
Figure 10:	Share of MSME in GDP (%)	17
Figure 11:	Share of three States in total MSMEs (%)	18
Figure 12:	Share of three States in employment in MSMEs (%)	18
Figure 13:	Share of employment in manufacturing sector (%)	19
Figure 14:	Share of inputs sourced by domestic firms (%)	20
Figure 15:	Share of sales from industrial clusters (%)	21
Figure 16:	Employment in food and beverage sector by age, 2020-21 (%)	22
Figure 17:	Employment in food and beverage sector by gender (%)	23
Figure 18:	Employment in food and beverage sector by geography (%)	23
Figure 19:	Employment in textiles and garments sector by age (%)	24
Figure 20:	Employment in textile and garments sector by gender (%)	25
Figure 21:	Employment in textile and apparel sector by geography (%)	25
Figure 22:	GVC integration for India	26
Figure 23:	Value added components in India's gross exports (%)	27
Figure 24:	Gross value of exports by value added components (%)	27
Figure 25:	Composition of Indian food, beverages and tobacco products exports, value added by source industries, 2018 (% of gross exports)	28
Figure 26:	Composition of Indian textiles and leather products exports, value added by source industries, 2018 (% of gross exports)	28

Figure 27:	Share of sales as exports (%)	31
Figure 28:	Establishment and employment in foreign firms, India (%)	31
Figure 29:	India product space for food, 2000 vs 2019	33
Figure 30:	India product space for textiles, 2000 vs 2019	33
Annex Figure A1:	Goods and services export, India (%)	46
Annex Figure B1:	Herfindahl-Hirschman index of export concentration, India	47
Annex Figure C1:	MSME growth in India	48
Annex Figure C2:	Distribution of employment across States for the two sectors (%)	49
Annex Figure D1:	Economic complexity path for food products in India (2000 vs 2019)	50
Annex Figure D2:	Economic complexity path for textile products in India (2000 vs 2019)	50
Annex Figure D3:	Share of MSMEs across districts	51

► List of Abbreviations

EM	Entrepreneur Memorandum
FDI	foreign direct investment
FICCI	Federation of Indian Chambers of Commerce and Industry
GDP	gross domestic product
GFCF	gross fixed capital formation
GST	goods and services tax
GVCs	global value chains
HCIP	Heavy Chemical and Industrialization Plan
HS4	Harmonized Commodity Description and Coding System-4 digit
IDP	Industrial Development Policy
ILO	International Labour Organization
LIUP	Local Industry Upgrading Programme
MITI	Ministry of International Trade and Industry
MoFPI	Ministry of Food Processing Industries
MSME	micro, small and medium enterprises
OECD	Organization of Economic Co-operation and Development
PMKSY	Pradhan Mantri Kisan Sampada Yojana
SCORE	Sustaining Competitive Responsible Enterprises
SDP	state domestic product
SEZ	special economic zone
SITC4	Standard International Trade Classification-4 digit
SMEs	small and medium enterprises
TiVA	Trade in Value Added



1. Introduction

► Introduction

In this era of globalization, foreign investment is one of the fundamental drivers of economic growth. With the potential to create employment, raise incomes and reduce income inequality, foreign direct investment (FDI) can be crucial to developing economies.

In India, 90 per cent of the workforce works without any social insurance, thus putting most of them at risk of vulnerable employment, making inclusive growth a distant dream. Despite India being one of the fastest growing economies, the informality of the economy has been persisting for the past few decades (Mehrotra, 2019). In such situations, FDI has the potential to shift the workforce from the informal to the formal sector (Lipsey et al, 2013).

India's FDI policy is among the most liberalized worldwide and ensures, along with attracting investment, transfer of modern technology so as to improve overall productivity and competitiveness. Further, the policy contributes significantly to the micro, small and medium enterprises (MSME) sector, encouraging increased sourcing of goods from India and enhancing the competitiveness of Indian MSMEs. The sector contributes one-third share of India's gross domestic product (GDP), leading to wealth creation at the grass root level. However, a majority of MSMEs just about break even and are far from maximising profits and this limits their ability to expand and generate employment.

Additionally, structural transformation in India, post-Independence, has been atypical, with a decline in the share of agriculture in total output concurrent with a stagnant manufacturing sector and a dramatic rise in the share of the services sector. Further, the changes in sectoral shares have not been accompanied by a commensurate rise in employment shares. This employment crisis manifests in the Indian labour market in the form of an increasing unemployment rate, lack of quality jobs and persistence of under/unemployment (Basole, 2022). This is a serious constraint for the large number of youth in the working age population. Given India's enormity and diversity, an effective and sustainable solution to the employment crisis is to create jobs locally by increasing the resilience of the domestic economy and fostering local competition. The need for a local solution to this problem, while maintaining India's global presence, becomes more pertinent in the light of the COVID-19 pandemic. MSMEs can play an important role in addressing this employment crisis.

Against this background, the emergence of global value chains (GVCs) is an opportunity for developing economies to integrate into the world economy (Hollweg, 2019). GVCs provide an avenue for technology transfer from the developed to the developing economies and possible spillover effects in the form of additional learning. In addition, since GVCs cater to the global market, they can increase prospects for employment through their scale effect. However, since developing economies are abundant in unskilled and low-skilled labour, their participation may be limited to the lower-skilled segments of value chains. In this backdrop, it is important to discuss strategies that will enable a developing economy like India to design local development strategies that will catalyse upgradation in value chain.

This paper proposes to discuss and recommend policies and actions that may promote economic diversification and employment generation through private sector investments, with a special focus on FDI. We focus on the food processing and garments (including textile) sectors in the States of Andhra Pradesh, Odisha and Rajasthan.

This paper is divided into three sections, apart from this Introduction. Section 2 contains the main analysis, with sub-sections 2.1 to 2.3 reviewing the economic and labour market situation in India and identifying the challenges and potential for better economic linkages between private investment and local suppliers. Sub-sections 2.4 to 2.12 analyse various aspects of the value chains of the two target sectors, such as creation and formalization of jobs, product diversification and export growth. We also use enterprise-level data to provide a detailed firm-level account of the relationship between value chains, FDI and employment. Section 3 discusses policy lessons for India, drawing from the experience of select countries. Finally, Section 4 recommends a comprehensive set of strategies that the government, employers and workers in India in general, and the selected States in particular, may adopt for better and decent job creation through local sourcing and enhanced linkages in the value chain.

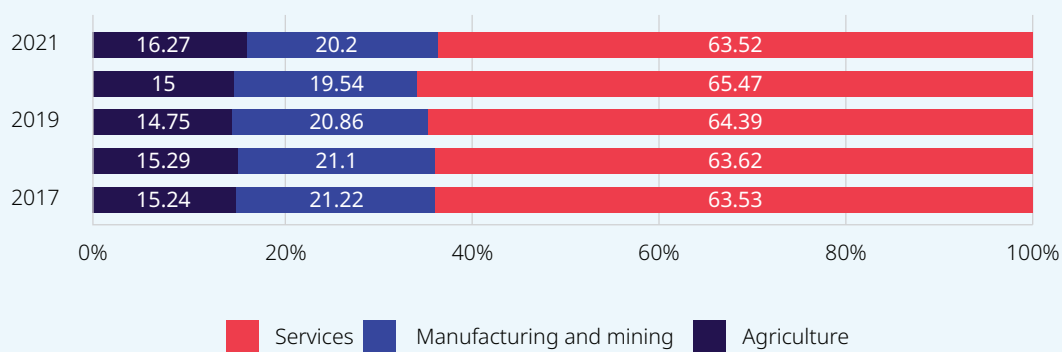


2. Economic diversification in India

► 2.1 Value added and output

The structural transformation of the Indian economy has been skewed. While the share of agriculture in India's GDP has declined considerably, the share of services has shown a robust expansion, without commensurate expansion in the manufacturing sector (Figure 1). In 2021, the service sector accounted for 63.5 per cent of the value added, while the agriculture sector accounted for 16.27 per cent. During the period 2000–2021, the share of the manufacturing and mining sector remained stagnant at about 20 per cent. The trends in structural transformation suggests lack of interlinkages between sectors in the process. Deindustrialization or service sector growth without sufficient interlinkages with the industrial sector is unsustainable in the long run (McMillan et al., 2013). Moreover, industrial growth is the key to economic growth, in line with Nicholas Kaldor's growth laws.

► Figure 1: Value added by broad sector (%)



Value added by each sector is calculated using constant prices with 2011-12 as the base year.

Source: EPW Research Foundation Time Series, 2022

The skewed structural transformation notwithstanding, the Indian economy is well diversified. The Herfindahl-Hirschman index (a measure of concentration) for India reflects low and declining levels of concentration of economic activity (Figure 2). Despite the decline being modest, it shows that the Indian economy has become more diverse over time.

► Figure 2: Concentration of economic activity



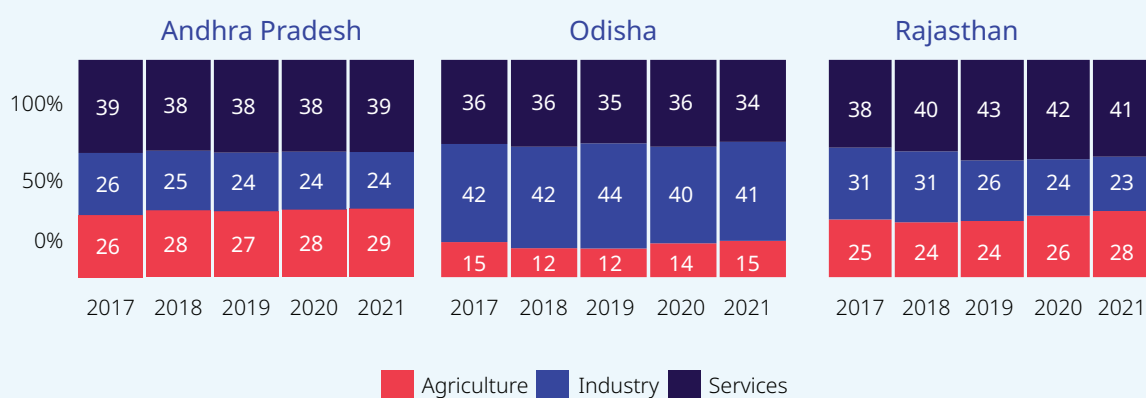
Note: We use the Herfindahl-Hirschman index to measure concentration across activities overtime ($\sum_{i=1}^n s_i^2$). We use the share of value added by manufacturing, mining and quarrying, agriculture, forestry and fishing, electricity, gas and other utility services, construction services, trade, repair, hotels and restaurants, financial services, real estate, ownership of dwelling, public administration and other services. Value added by each sector is calculated using constant prices with 2011-12 as the base year.

Source: EPW Research Foundation Time Series, 2022

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

Against the backdrop of India's stagnant manufacturing sector, three States chosen for this study – Andhra Pradesh, Odisha and Rajasthan – exhibit markedly different patterns in the performance of the sector. Figure 3 depicts the sectoral composition of state domestic product (SDP) for the three States. The share of the manufacturing sector is relatively larger in all three (24 per cent for Andhra Pradesh and Rajasthan, and 41 per cent for Odisha in 2021) compared to the national average. Further, the pace of service sector growth in these States has been slower than at the all-India level. The three States thus have the potential to revive industrial growth in India.

► **Figure 3: Sectoral composition of state domestic product for the three target States**

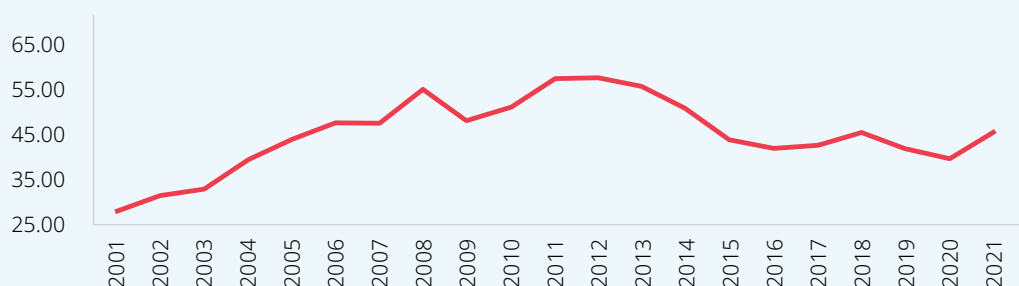


Source: EPW Research Foundation Time Series, 2022

► 2.2 Exports

Since trade liberalization in the early 1990s, India's integration with the global economy has been intensifying, with the trade to GDP ratio increasing from 27 per cent to 44 per cent between 2000 and 2021 and remaining fairly stable around 40 per cent in the last five years (Figure 4). This indicates that an increase in trade openness (an indication of global integration) could improve output growth and employment.

► **Figure 4: India's trade to GDP ratio (%)**



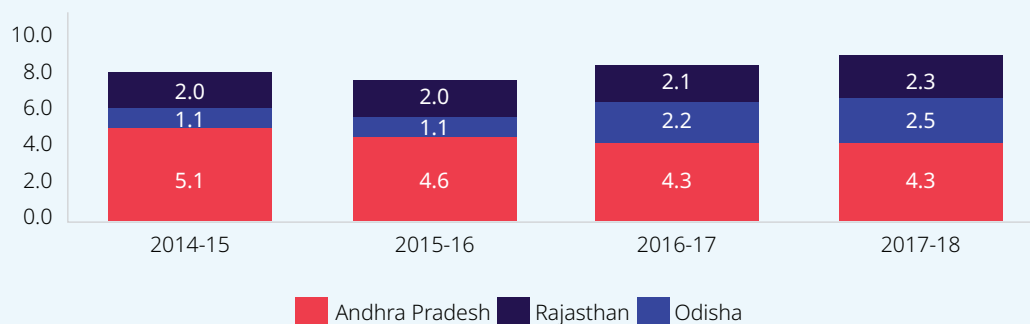
Source: World Bank data for countries, 2022

The Indian export basket had traditionally been dominated by extractive natural resources, such as gems and stones, agro-based manufactures such as textile and clothing, and agricultural products. In addition, more than 72 per cent of the export basket consisted of goods. However, after 2000, the share of services in the export basket has increased and that of goods has declined. The share of services in the country's total exports increased from 28 per cent to 39 per cent between 2000 and 2018, while that of goods declined from 72 per cent to 61 per cent over the same period (Annex Figure A1). In this context, the close linkages between goods export and growth of manufacturing sector needs to be borne in mind; an important source of growth of the manufacturing sector would be international trade.

The detailed product categories of exports reflect this change in the export basket. Transportation and travel, which are complementary producer services to goods exports, had accounted for 62.4 per cent of service exports in 2000. By 2018, with the decline in goods export, their combined share declined to just 23.1 per cent. (Annex Table A1). The rising component in service exports was computer and information services, which accounted for 40 per cent of India's service exports in 2018.¹ Given that computer services exports in India have limited interlinkages with other goods-producing sectors, its expansion had limited effects on the growth in trade in the rest of the economy.

Further, within the goods category, the biggest drop in export share was in the textile and clothing sector – from 26.3 per cent to 11.48 per cent between 2000 and 2018 (Annex Table A2). On the other hand, the share of the food sector in exports has remained stagnant at around 2 per cent. The low/declining shares of the food and textile sectors in India make them potential candidates for future export growth. Figure 5 presents the State-wise shares in total exports. The shares of Andhra Pradesh² and Rajasthan has remained stable while that of Odisha has expanded, especially since 2012.

► Figure 5: State-wise share in total exports



Source: EPW Research Foundation Time Series, 2022

When this is read along with Figure 3, it emerges that while the share of these three States in manufacturing sector output is higher than the national average, their share in exports is lower than the national average, implying that there is greater potential for goods exports from them.

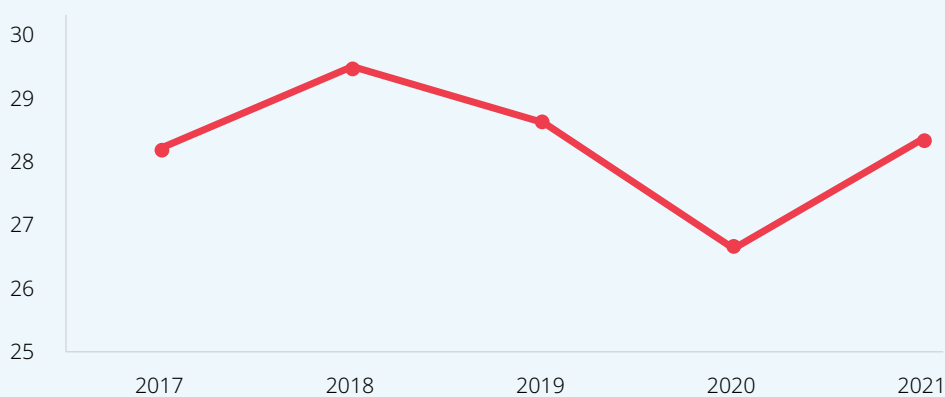
1 According to the Ministry of Commerce and Industry report, *India's export of ICT-enabled Services: an all-India survey, 2016-17*, export of computer services accounts for more than half of the sector's export value Source: https://unctad.org/system/files/non-official-document/tdb_edc_WG2019_c12_India_en.pdf

2 Erstwhile Andhra Pradesh was bifurcated in June 2014 into Andhra Pradesh and Telangana. The pre-2014 data is valid for the erstwhile Andhra Pradesh.

► 2.3 Private investment and FDI

Domestic investment and FDI complement each other. FDI tends to expand the local market, attracting large domestic investment, even as robust domestic investments pave the way for higher FDI. A rise in domestic private investment reflects the expansion of investment by existing firms and/or entry of new domestic investors. India's domestic private investment has been declining – from 35 per cent in 2007 to 28 per cent in 2021. Figure 6 shows gross fixed capital formation (GFCF) to be hovering around 28 per cent since 2017. This drop in the GFCF to GDP ratio signals the contraction of fixed productive assets in the economy, and has wider ramifications on the future productivity of the economy.

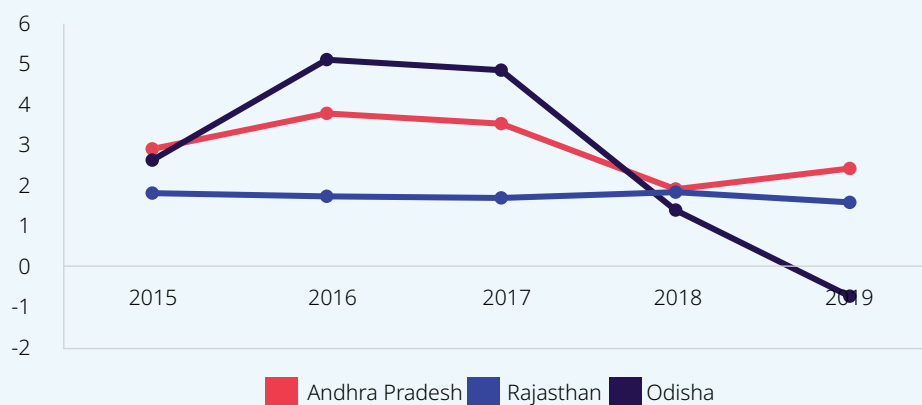
► Figure 6: Ratio of GFCF to GDP (%)



Source: World Bank, India data, 2022

At the subnational level, Andhra Pradesh and Rajasthan have had stable levels of private investment whereas Odisha has seen a decline since 2015 (Figure 7). However, the abysmally low levels of domestic investments is a common pattern across all the three States, signalling the role of FDI in bridging the investment gap.

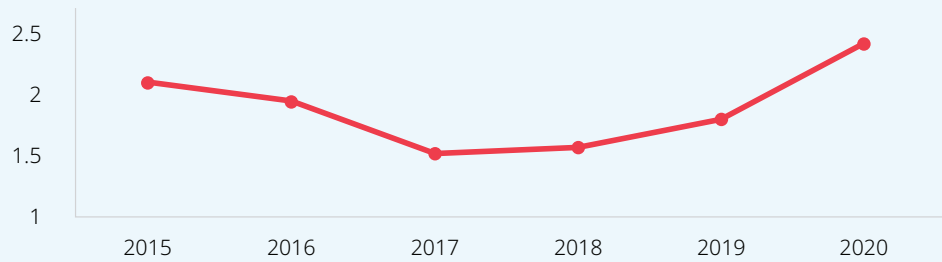
► Figure 7: Ratio of GFCF to SDP (%)



Source: RBI Handbook of Statistics on Indian States, 2022

FDI is not only a major source of technology and knowledge, but generates significant spillovers to the domestic economy as well by linking it with GVCs, which leverage local resources. India's FDI net inflows exhibited a rise since 2017, with some fluctuations (Figure 8).

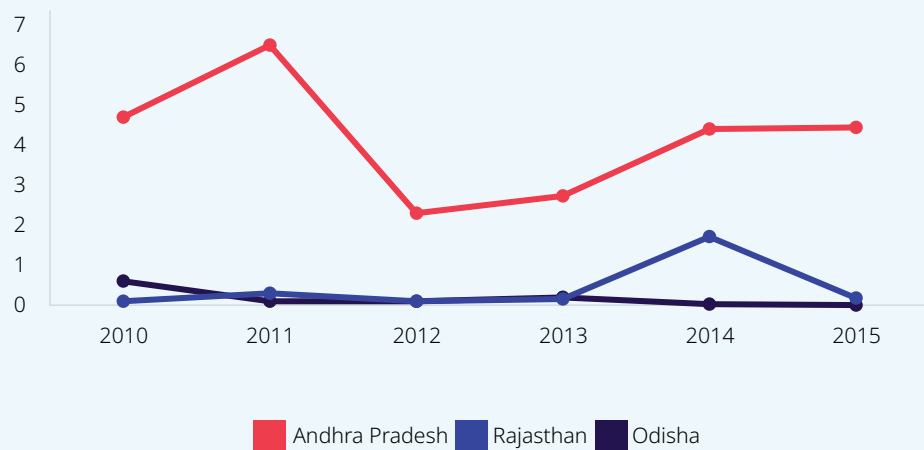
► **Figure 8: Ratio of FDI to GDP (%)**



Source: World Bank, India data, 2022

With the States of Maharashtra, Gujarat, Karnataka and Delhi accounting for more than 50 per cent of the share of FDI inflows, the shares of Andhra Pradesh, Odisha and Rajasthan are far from mirroring the national pattern (Figure 9). Since Andhra Pradesh was bifurcated in 2014, we focus on the shares of Odisha and Rajasthan, which have been fairly constant. This emphasizes the point that these potential regions can attract FDI by participating in GVCs.

► **Figure 9: State-wise share of FDI inflows (%)**

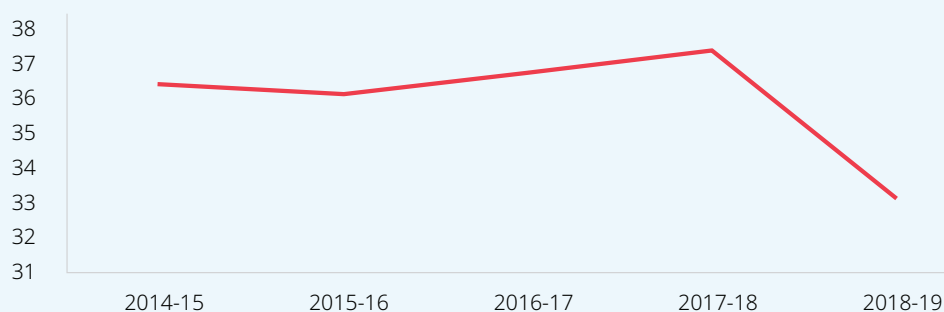


Source: Annual Report, Department of Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, various years.

► 2.4 MSME growth in India

The MSME sector plays a crucial role in the Indian economy by providing employment opportunities at comparatively lower capital cost than large industries, as well as through industrialization of rural and backward areas, thereby reducing regional imbalances and assuring more equitable distribution of national income (MoMSME, 2022). MSMEs accounted for one-third of GDP and almost half of total exports in 2019-20³ (Figure 10).

► Figure 10: Share of MSME in GDP (%)



Source: Data from various issues of annual reports of MSME

In India, the MSMEs are defined in terms of investment in plant and machinery or equipment and turnover.⁴ According to NSO (2018), in 2015-16, there were 633.88 lakh unincorporated non-agricultural MSMEs, employing 1,110 lakh individuals, engaged in manufacturing and services. Within the MSME sector, micro enterprises account for 99 per cent of enterprises and 97 per cent of those employed in the MSME sector.⁵ The large share of such “necessity entrepreneurs” poses a major challenge for them being integrated into the value chain. While the number of MSME enterprises in India has risen 75 per cent between 2006 and 2015, the increase in employment in the sector has been modest at 38 per cent. This reinforces the fact that employment generation in the MSME sector continues to be a challenge.

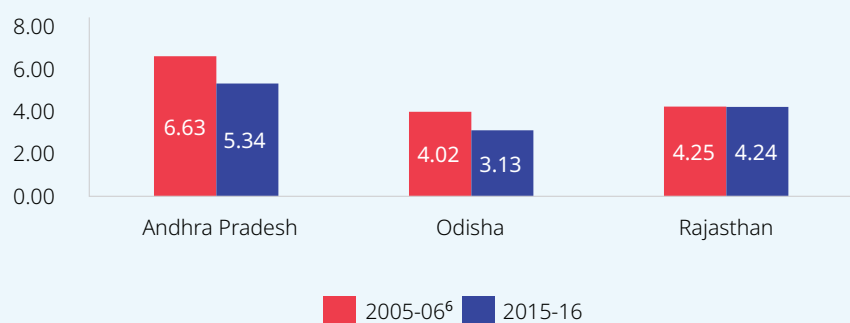
3 Source: <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1744032>

4 Under the MSME Act, 2006, a micro enterprise has an investment in plant and machinery or equipment of less than INR 1 crore and turnover of less than INR 5 crore; a small enterprise has an investment in plant and machinery or equipment of less than INR 10 crore and turnover not exceeding INR 50 crore; and a medium enterprise has an investment in plant and machinery or equipment not higher than INR 50 crore and turnover not exceeding INR 250 crore.
Source: <https://msme.gov.in/sites/default/files/MSMEENGLISHANNUALREPORT2021-22.pdf>

5 The Sixth Economic Census of MSMEs in India (2013-14), published in 2016, shows that 88 per cent of MSMEs are private establishments. According to this, the State-wise share of these enterprises is 7.25 per cent in Andhra Pradesh, 2.04 per cent in Odisha and 4.95 per cent in Rajasthan.

Figure 11 shows the share of the three States in this study in total number of MSMEs. While there has been an absolute increase in the number of MSMEs across all States between 2005-06 and 2015-16, it has reduced in Andhra Pradesh and Odisha and remained static in Rajasthan.

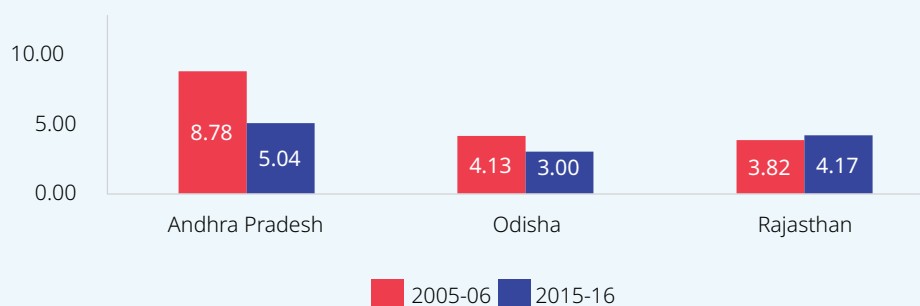
► **Figure 11: Share of three States in total MSMEs (%)**



Source: 2005-06 data is from the Fourth Economic Census of MSMEs and 2015-16 data is from NSO (2018)

The decline in Andhra Pradesh and Odisha is also reflected in the sluggish growth in the number of MSME Entrepreneur Memorandum (EM) filed – an indicator for commencement of businesses – between 2007-08 and 2015-16⁷ as well as a decline in the share of employment (Figure 12). It is worth noting that despite Andhra Pradesh registering a decline in the shares of number of MSMEs and employment in these enterprises, it continues to be one of the prominent states for MSME growth.

► **Figure 12: Share of three States in employment in MSMEs (%)**



Source: 2005-06 data is from the Fourth Economic Census of MSMEs and 2015-16 data is from NSO (2018)

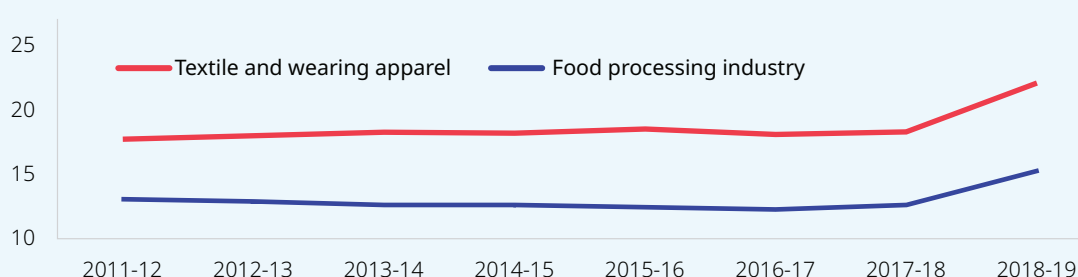
6 Erstwhile Andhra Pradesh was bifurcated in June 2014 into the current Andhra Pradesh and Telangana. The pre-2014 data is valid for the erstwhile Andhra Pradesh

7 Source: <https://msme.gov.in/sites/default/files/MEME%20ANNUAL%20REPORT%202015-16%20ENG.pdf> (Table 2.4)

► 2.4.1 MSMEs in food and textile sectors

According to the Udyam registration database, a repository of all MSMEs that have registered themselves with the Union Ministry of MSME (MoMSME), the food and textile sectors accounted for 33 per cent of the enterprises in 2021.⁸ Both the food sector and the textile and wearing apparel sector accounted for more than 30 per cent of the total employment in the manufacturing sector in 2011-12 and this has risen over time (Figure 13). Thus, the food and textile sectors are important target sectors due to their high share of establishments and employment.

► Figure 13: Share of employment in manufacturing sector (%)



Source: Annual Survey of Industries, MoSPI

According to Udyam registration data, as of 2021, the three target States account for 10 per cent of food MSMEs, with more than 4 per cent of them registered in Andhra Pradesh and Rajasthan each (Table 1). However, in the textile sector, Rajasthan had the highest share of MSMEs registrations (almost 6 per cent) among the three States.

► Table 1: State-wise distribution of registered MSME in the food and textile sectors (%)

State-wise share of MSMEs	Food	Textile
Andhra Pradesh	4.40	2.07
Odisha	1.61	0.87
Rajasthan	4.68	5.90
Rest of India	89.3	91.2

Note: The shares have been calculated using the number of manufacturing MSMEs registered on the Udyam registration portal as of 2021. Food sector comprises only of the beverages sector and the textile sector comprises only of the wearing apparel sectors.

Source: <https://www.udyogaadhaar.gov.in/UA/Reports/NIC2DigitReport.aspx>

⁸ The shares have been calculated using the number of manufacturing MSMEs registered on the Udyam registration portal as of 2021. The food sector comprises the total number of enterprises in the food and beverages sector and the textile sector comprises the textiles and wearing apparel sectors. The individual shares of the food and beverages sector is 16 per cent and that of the textile sector is 18 per cent.

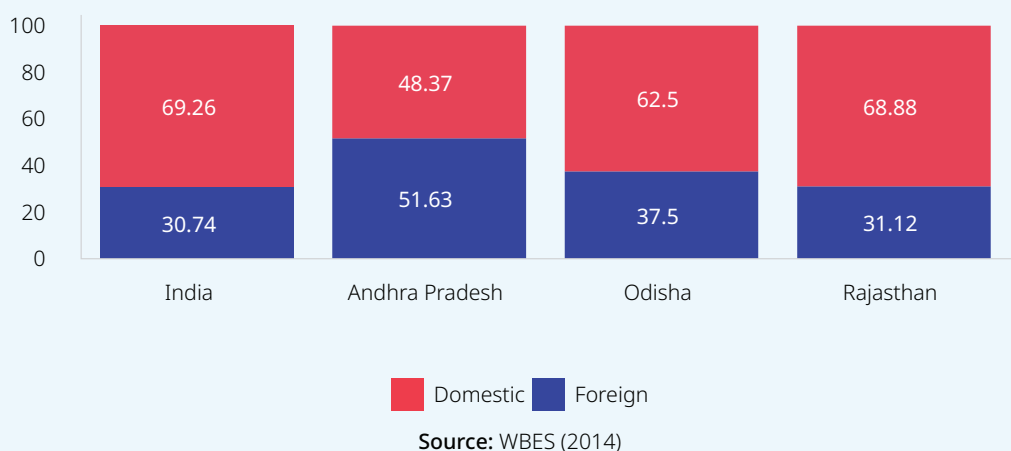
Source: <https://www.udyogaadhaar.gov.in/UA/Reports/NIC2DigitReport.aspx>

The similar spatial pattern for both food and textile in Table 1 indicates multi-product clusters at the State level. To test this further, we examine the major three-digit industry groups within the food and the textile sectors with the highest number of MSMEs in each of the States. We find that the concentration of MSMEs is uniform across the three States: food service contractors and retail sellers in non-specialized stores with food products dominate the food sector, while retail sale of textile in specialized stores, manufacture of all types of textile garments and manufacture of other textile groups dominate the textile sector (Annex Table C1). This indicates the presence of industrial concentration in India both across States and across products within the States.

► 2.4.2 Local sourcing by domestic firms

We use the World Bank Enterprise Survey for India, 2013-14⁹ to examine the intensity of local sourcing for domestic firms in India (Figure 14).¹⁰ More than 30 per cent of materials and supplies used by domestic firms in India is sourced from foreign sources. Firms in Andhra Pradesh, Odisha and Rajasthan have an even lower intensity of local sourcing, as compared to the national average. Despite being labour-intensive, India's manufacturing sector has not been able to lower barriers to domestic links. With a heavy reliance on foreign inputs, the entry of local suppliers poses a serious challenge.

► Figure 14: Share of inputs sourced by domestic firms (%)

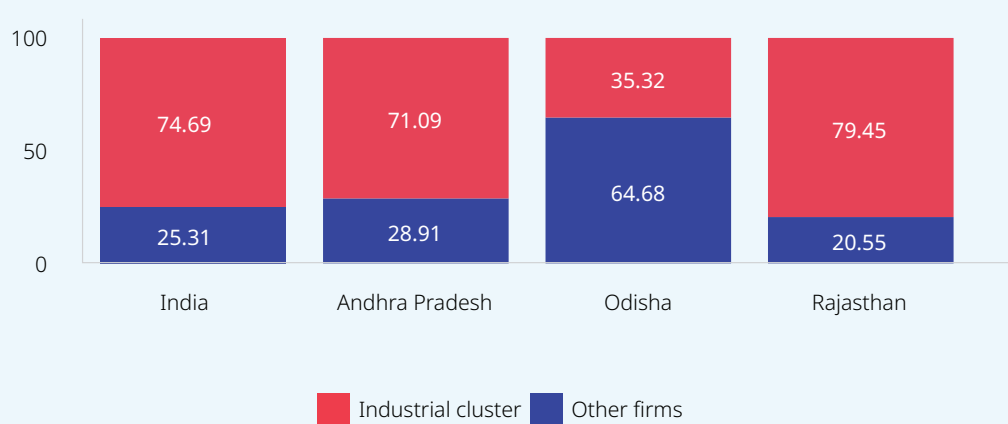


9 The Survey consists of a stratified sample (by firm size, sector and region) and covers 9,281 firms of which 9,121 are domestic private firms.

10 Domestic firms are defined as firms that are completely owned by private individuals, companies or organizations.

In order to attract FDI, special economic zones, export processing zones and other industrial parks provide the necessary physical infrastructure and management systems that facilitate the supply of raw materials and other inputs. These industrial parks enable adequate clustering and forging of economic linkages, thereby fostering better integration. Firms that are part of an industrial cluster account for three-fourth of the total sales in India (Figure 15). While these shares are similar to the all-India level in the case of Andhra Pradesh and Rajasthan, Odisha has a significantly lower contribution to sales by firms in industrial parks. These patterns indicate non-uniform spatial pattern at the sub-national level.

► **Figure 15: Share of sales from industrial clusters (%)**



Source: WBES (2014)

► 2.5 Employment

► 2.5.1 Food and beverage industry

Employment in the food and beverage sector in the three target States in 2020-21 amounted to 9.1 lakh workers, against 8.6 lakh in 2017-18. This increase of about 57,000 workers between 2017-18 and 2020-21 was a reversal of the trend seen in the period between 2011-12 and 2017-18, when employment growth in these three States as well as the rest of India was negative (Table 2). For the three States, employment decreased by -6.6 per cent between 2011-12 and 2017-18 as against -0.37 per cent for the rest of India. While employment picked up in Rajasthan and Odisha between 2017-18 and 2020-21, Andhra Pradesh continued to show a decline. The lower growth in these States compared to the national average points to the potential for higher growth in them. As of 2020-21, the food and beverage industry in Andhra Pradesh employed around 4 lakh workers, 3.2 lakh in Rajasthan and around 2 lakh in Odisha.

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

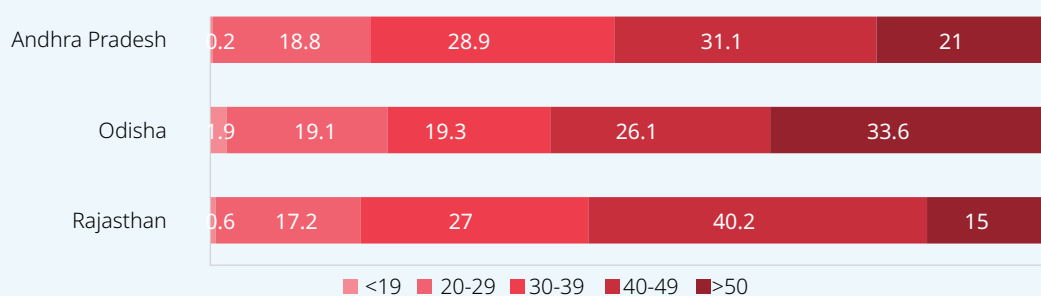
► **Table 2: Employment in food and beverages industry and growth rates**

	Employment (in lakh)			CAGR (%)	
	2011-12	2017-18	2020-21	2011-12 to 2017-18	2017-18 to 2020-21
Rajasthan	2.07	1.88	3.20	-1.59	19.40
Odisha	2.08	1.77	1.96	-2.62	3.49
Andhra Pradesh	8.80	4.91	3.97	-9.27	-6.83
Total	12.95	8.56	9.13	-6.67	2.18
Rest of India	63.62	62.24	135.96	-0.37	29.76
All India	76.57	70.79	145.09	-1.30	27.02

Source: Employment and Unemployment Surveys and Periodic Labour Force Surveys, various years

The youth belonging to the age group 20–39 comprise the majority of employed in the food and beverage industry, in all the three States – 48 per cent in Andhra Pradesh, 48.3 per cent in Odisha and 44.2 per cent in Rajasthan. Rajasthan and Odisha are undergoing a demographic transition with increasing share of the working age population. The relatively large presence of young adults in this sector in these States shows it has the potential to provide employment for future additions to the workforce. Fostering growth in these sectors will not only create additional employment, but will also take advantage of the demographic transition that India is going through.

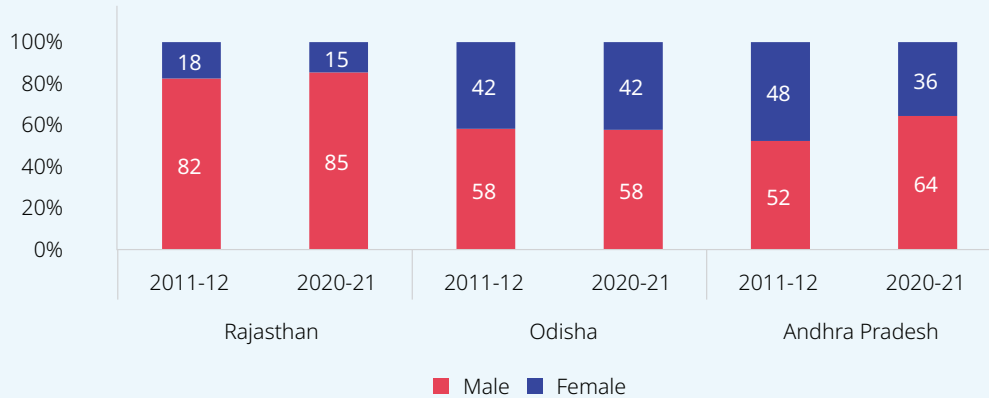
► **Figure 16: Employment in food and beverage sector by age, 2020-21 (%)**



Source: Employment and Unemployment Surveys and Periodic Labour Force Surveys, various years

Employment in the food and beverage industry in Rajasthan is highly male oriented. In 2011-12, males accounted for 82 per cent of employment in this sector in the State, which increased to 85 per cent by 2020-21. Accordingly, the share of women declined from 18 per cent in 2011-12 to 15 per cent in 2020-21. Andhra Pradesh had a much larger share of women, at 48 per cent in 2011-12, which subsequently declined to 36 per cent in 2020-21.

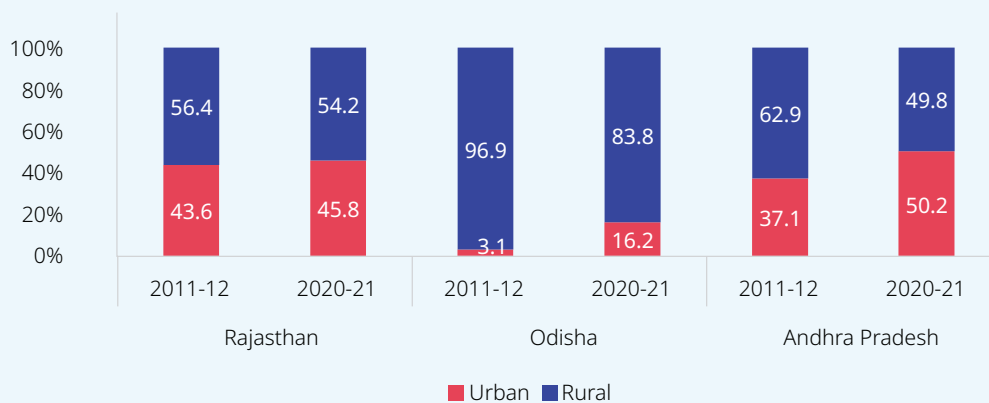
► **Figure 17: Employment in food and beverage sector by gender (%)**



Source: Employment and Unemployment Surveys and Periodic Labour Force Surveys, various years

The food and beverage industry is largely a rural industry. It follows, therefore, that in all the three States, the rural areas account for a majority of employment in the sector in both 2011-12 and 2020-21 (Figure 18). However, in a clear indication of the industry spreading to the urban areas, a fall in the share of rural employment is noticed between 2011-12 and 2020-21 in all three States.

► **Figure 18: Employment in food and beverage sector by geography (%)**



Source: Employment and Unemployment Surveys and Periodic Labour Force Surveys, various years

► 2.5.2 Textile and garment industry

Overall employment in the textile and garment sector was about 280 lakh workers in 2020-21, of which the three target States had 16 lakh. Andhra Pradesh had the largest number of 8 lakh workers and Odisha the lowest, at 2.2 lakh workers. The growth of employment in the three States was higher than the national average during the period 2011-12 to 2017-18. However, growth has fallen grossly behind the national average since then, though all three States saw a growth in employment in 2020-21 relative to previous years. The lower growth compared to the rest of India shows that these States are capable of growing much faster in terms of employment.

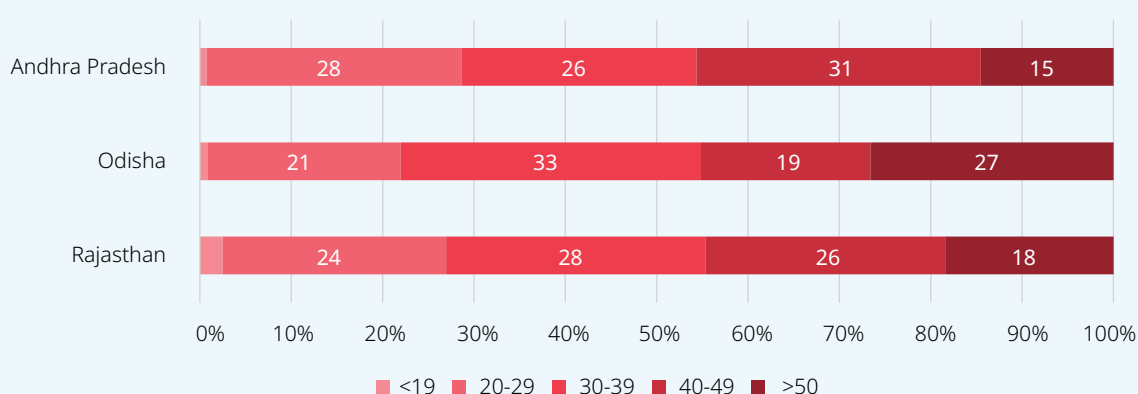
► **Table 3: Employment in textile and garment industry and growth rates**

	Total employment in textile and garment sector (in lakh)			Compound annual average growth rates	
	2011-12	2017-18	2020-21	2011-12 to 2017-18	2017-18 to 2020-21
Rajasthan	4.5	5.7	6.0	4.1	2.0
Odisha	1.3	1.7	2.2	3.8	9.0
Andhra Pradesh	7.9	7.0	8.1	-1.9	4.8
Total	13.7	14.4	16.3	0.8	4.2
Rest of India	129.8	130.2	268.9	0.1	27.4
All India	143.5	144.6	285.2	0.1	25.4

Source: Employment and Unemployment Surveys and Periodic Labour Force Surveys, various years

As in the case of the food and beverages sector, the youth forms a large share of the workforce in the textiles and garments sector as well in all three States, with those in the below 40 age group accounting for more than 50 per cent of the textiles and garments workers in 2020-21. This indicates that growth in the sector in these States would generate greater employment opportunities for the youth.

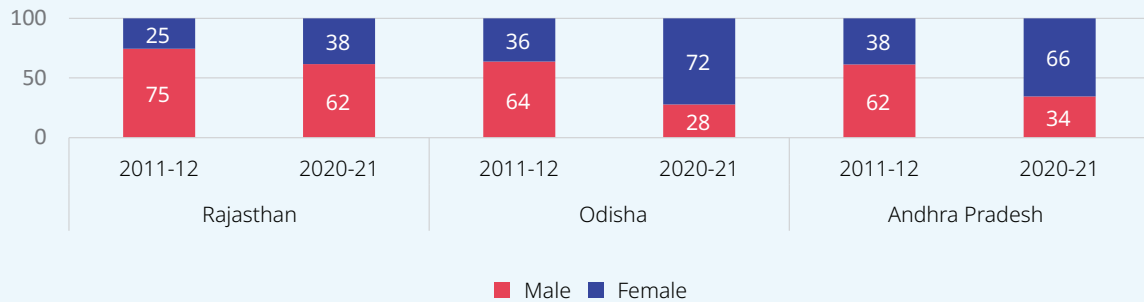
► **Figure 19: Employment in textiles and garments sector by age, (%)**



Source: Employment and Unemployment Surveys and Periodic Labour Force Surveys, various years

While these sectors were largely male oriented in all three States in 2011-12, there has been a shift towards higher female participation since then. In Odisha, the share of females in employment in this sector increased from 36 per cent to 72 per cent between 2011-12 and 2020-21, in Andhra Pradesh from 38 per cent to 66 per cent and in Rajasthan from 25 per cent to 38 per cent. Thus, growth in employment in this sector has thrown up opportunities of additional employment generation for women in these States.

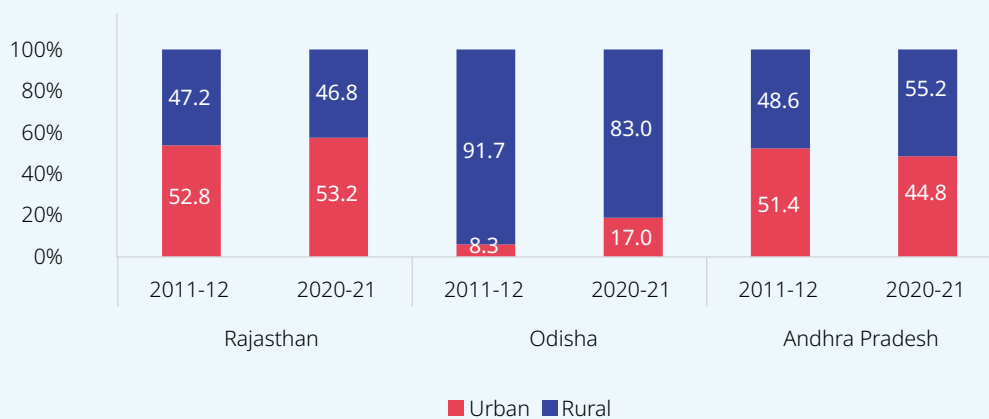
► **Figure 20: Employment in textile and garments sector by gender (%)**



Source: Employment and Unemployment Surveys and Periodic Labour Force Surveys, various years

One of the distinguishing characteristics of employment in this sector is its essentially rural nature. An overwhelming 83 per cent of the employment in Odisha was in the rural areas in 2020-21, while in Andhra Pradesh it was 55 per cent and Rajasthan 47 per cent. Thus, growth of this industry could lead to higher non-farm employment in rural areas.

► **Figure 21: Employment in textile and apparel sector by geography (%)**

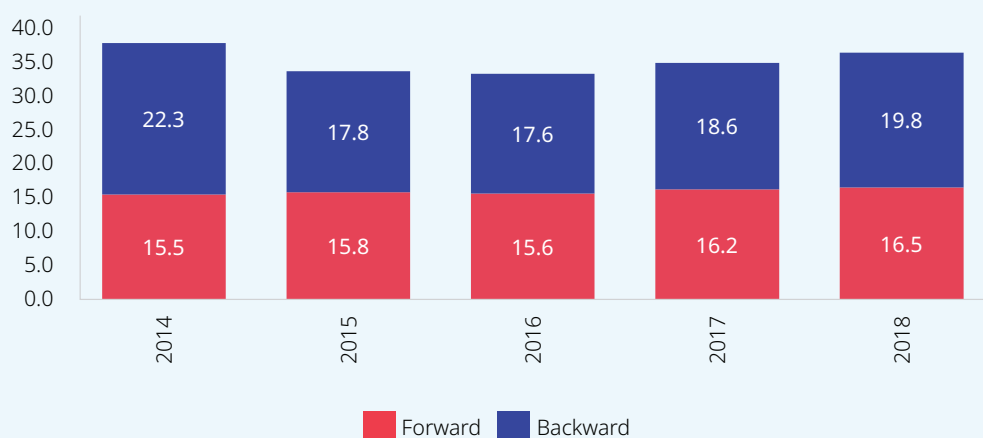


Source: Employment and Unemployment Surveys and Periodic Labour Force Surveys, various years

► 2.6 Participation in global value chain and potential for deepening economic linkages

We examine India's integration with GVCs by focusing on the forward and backward linkages. Forward GVC integration is the portion of a country's domestic value added embodied into total exports that are, in turn, exported to and used by partner countries' re-exports. A higher forward GVC integration rate means a country is exporting more intermediate goods and services. A lower rate implies that a country's exports consist largely of final consumption goods and services or that it is simply not integrated in GVCs. Only 16 per cent of India's exports were embodied in third-country exports in 2000 and this has remained stagnant since (Figure 22).

► **Figure 22: GVC integration for India**



Note: Backward = foreign value added embodied in gross exports (% of gross exports); Forward = domestic value added embodied in third country exports (% of gross exports)

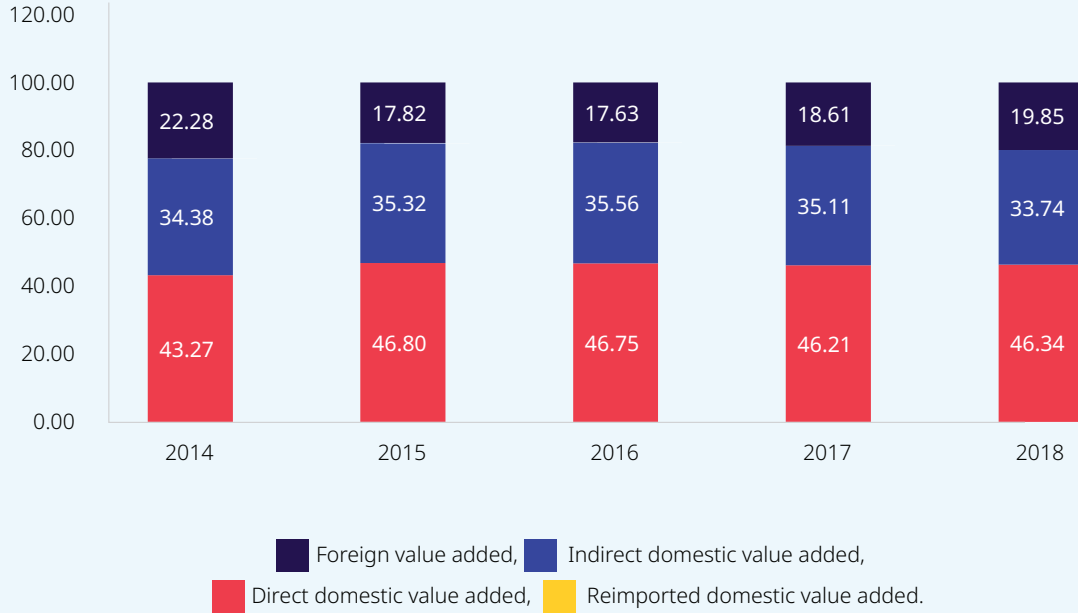
Source: OECD TIVA (2021) database

India also shows low backward integration into GVCs. A country's backward integration into GVCs is measured as the foreign value added portion embodied in its gross exports, as a percentage of total gross exports. Countries whose exports depend strongly on imported inputs that are processed for exporting goods, components or services show a large backward integration. India's backward integration into GVCs increased from 12.9 per cent in 2000 to 19.8 per cent in 2018. The nature of India's participation in GVCs is changing from forward participation to backward participation. This indicates an increasing reliance on importing value than generating value domestically, which might have some consequences on the nature of employment.

► 2.7 Composition of gross exports

Gross exports of a country comprise domestic and foreign value added components. Domestic value added can be further segregated into the direct contribution of a sector, the indirect contribution of the upstream sectors that supply inputs to this sector, and re-imported domestic value added (domestic value added that is exported and returns to the country in processed form). India's gross exports show high local-sourcing intensity (46 per cent), that is direct domestic value added (Figure 23). Additionally, there appears to be a simultaneous decline in the indirect domestic value added share and a sustained rise in the foreign share of India's exports over time.

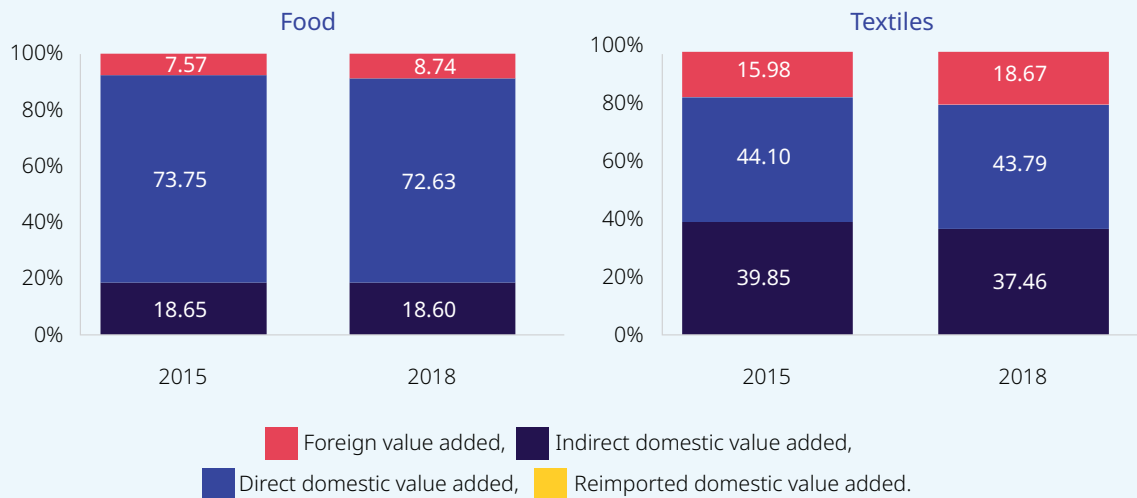
► **Figure 23: Value added components in India's gross exports (%)**



Source: OECD TiVA, 2021

Figure 24 gives a further breakdown of the composition of the export value added of the food, beverages and tobacco products and the textiles, wearing apparels and leather industry groups, by the source industry.

► **Figure 24: Gross value of exports by value added components (%)**



Note: "Food" means food, beverages and tobacco products and "Textiles" means textiles, wearing apparels and leather products.

Source: OECD TiVA, 2021

The composition of exports in the food sector has a very high contribution (above 70 per cent) of the domestic upstream sector, mostly agriculture, and a low contribution by the food sector itself, indicating that it is highly integrated into the domestic value chain. A breakdown of the export value added of the textile, wearing apparels and leather products sector reveals that the domestic value added is created within the sector. A common pattern seen in both the food and textile sectors is the declining share of the indirect domestic value added component, and a rise in the foreign value added component of gross exports. This indicates their reliance on foreign natural resource intensive inputs, including agriculture, mining and chemicals.

A closer look at the composition of the food, beverages and tobacco products sector shows that the agriculture, hunting and forestry sector makes the highest contribution to both indirect domestic value add as well as foreign value add (Figure 25).

► **Figure 25: Composition of Indian food, beverages and tobacco products exports, value added by source industries, 2018 (% of gross exports)**



Source: OECD TiVA, 2021

A breakdown of the composition of the export value added of Indian textiles and leather products shows that much of both domestic value added and foreign value added is generated from within the sector (Figure 26). There is also evidence of some indirect domestic value add from the agriculture, hunting and forestry sector as well as wholesale and retail trade. Similarly, wholesale and retail trade makes a significant contribution to the foreign value added of Indian textiles and leather products exports.

► **Figure 26: Composition of Indian textiles and leather products exports, value added by source industries, 2018 (% of gross exports)**



Source: OECD TiVA, 2021

► 2.8 Labour market implications and projections

► 2.8.1 Food and beverages sector

We had seen that the downstream and upstream industries associated with the food and beverage sector were distributive trade and transport, accommodation services and agriculture. The employment elasticity of these sectors with respect to employment in the food and beverage industries can be used to project employment growth in these interlinked sectors. In Rajasthan, a 1 per cent growth in employment in the food and beverage industry could lead to an addition of 4,125 workers. If the growth of employment is 5 per cent, then the employment addition in this sector would be to the tune of 20,623 workers. Table 4 shows that growth in employment in the food and beverages sector leads to substantial growth of employment in the inter-linked sectors. The only exception is in the trade and transport sector in Odisha, where a negative effect can be seen.

► Table 4: Projections on employment growth in inter-related sectors of food and beverages sector

		Growth rate during 2011-12 to 2020-21	Employment elasticity with respect to food and beverages	Growth of employment at 1% growth rate in food and beverages	Growth of employment at 5% growth rate in food and beverages
Rajasthan	Food and beverage	0.5	1.0	3 201	16 003
	Trade and transport	0.1	0.1	4 125	20 623
	Accommodation	0.4	0.8	2 177	10 885
	Agriculture and hunting	0.3	0.6	79 649	398 247
Odisha	Food and beverage	-0.1	1.0	1 962	9 808
	Trade and transport	0.0	-0.6	-12 586	-62 929
	Accommodation	-0.3	5.8	10 011	50 053
	Agriculture and hunting	-0.2	4.0	255 542	1 277 708
Andhra Pradesh	Food and beverage	-0.5	1.0	3 969	19 847
	Trade and transport	-0.5	0.8	25 870	129 348
	Accommodation	-0.1	0.2	1 133	5 667
	Agriculture and hunting	-0.4	0.8	86 893	434 466

Source: Various rounds of PLFS survey

We also examine the composition of the gross exports of both the sectors by source country. We find that India itself accounts for the majority of the export value added in both the sectors. Specifically, India's value added is 91.3 per cent in the food, beverages and tobacco sector and 81.5 per cent in the textile, wearing apparel and leather products sector. While the value added share of other countries is less than 1 per cent in food exports, the People's Republic of China, the United States of America and Saudi Arabia contribute 3.36, 1.57 and 1.32 per cent respectively to textile exports.

► 2.8.2 Textile and garments industry

Table 5 presents the projections of employment based on employment elasticity for the period 2011-12 to 2020-21 for each inter-related industry with respect to employment in the textile and garments industry. It shows that the effects are mixed for each State. The effect can be seen as complementary versus substitution effect. The growth in the textiles and garments sector in Rajasthan seems to be associated with positive growth in employment in all inter-related sectors, while such growth in Odisha and Andhra Pradesh appears to be producing negative employment growth in some sectors.

► **Table 5: Projections on employment growth in inter-related sectors of textiles and garments**

		Growth rate	Employment elasticity with respect to textiles and garments	Growth of employment at 1% growth rate in textiles and garments	Growth of employment at 5% growth rate in textiles and garments
Rajasthan	Textile and apparel	0.4	1.0	6 037	30 184
	Trade and transport	0.1	0.2	6 339	31 697
	Accommodation	0.4	1.2	3 346	16 729
	Agriculture and hunting	0.3	0.9	122 420	612 101
	Chemical	0.2	0.4	104	520
Odisha	Textile and apparel	0.6	1.0	2 187	10 936
	Trade and transport	0.0	0.1	1 117	5 585
	Accommodation	-0.3	-0.5	-888	-4 442
	Agriculture and hunting	-0.2	-0.4	-22 681	-113 403
	Chemical	2.0	3.2	574	2 871
Andhra Pradesh	Textile and apparel	0.0	1.0	8 067	40 337
	Trade and transport	-0.5	-20.0	-620 110	-3 100 550
	Accommodation	-0.1	-5.0	-27 170	-135 848
	Agriculture and hunting	-0.4	-19.5	-2 082 886	-10 414 431
	Chemical	-0.4	-19.5	-6 396	-31 982

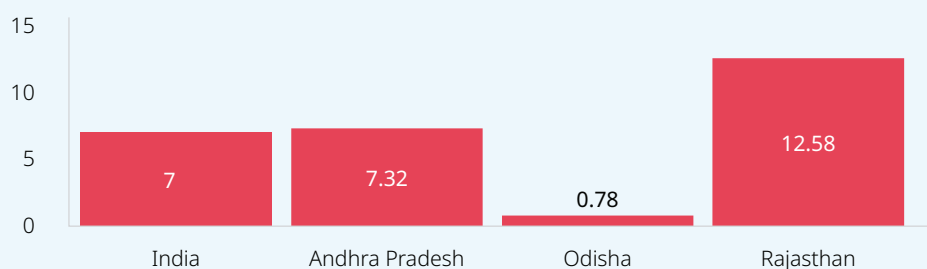
Source: PLFS Survey, various rounds

► 2.9 Linkage on the selling side

In order to examine the extent of linkages on the selling side, we present the share of sales that is exported by firms in India (Figure 27). Domestic firms in India sell only 7 per cent of their output to foreign markets. This share is less than 2.5 per cent for smaller firms.¹¹ At the subnational level, we observe a heterogeneous pattern, with firms in Rajasthan generating 12.5 per cent of their sales from exports and those in Odisha generating less than 2 per cent.

11 The World Bank Enterprise Survey defines firms as small if the number of employees is less than 20 but greater than 5.

► **Figure 27: Share of sales as exports (%)**

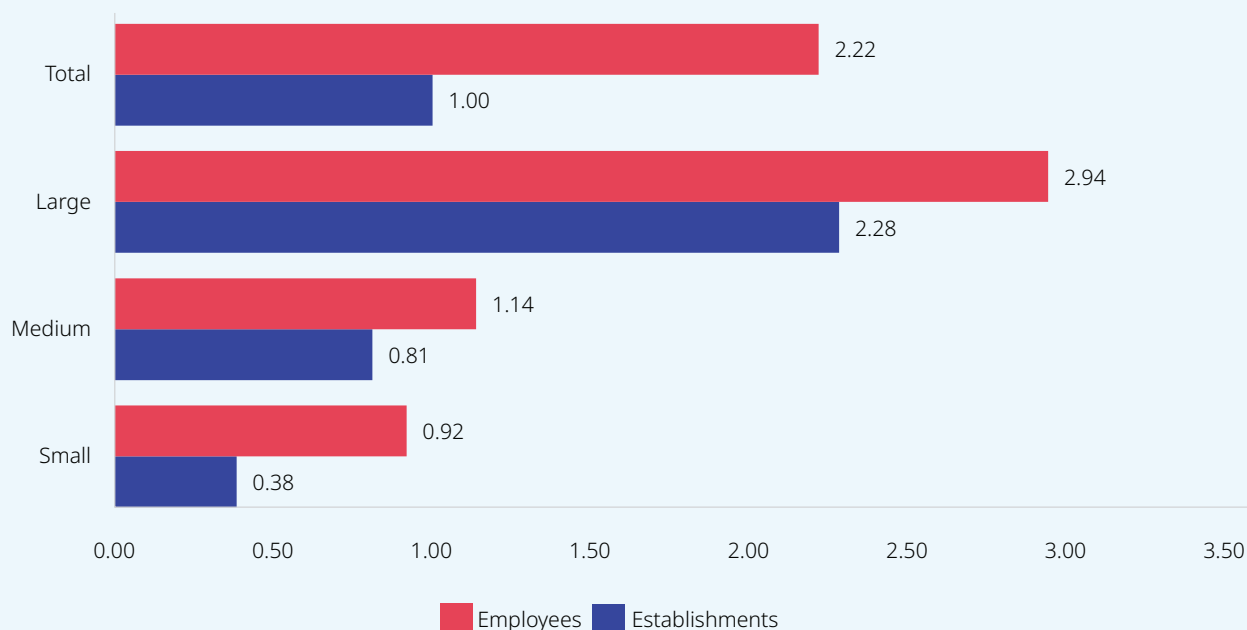


Source: World Bank Enterprise Survey, India 2013-14

► 2.10 Extent of labour market linkages

According to WBES (2014), only 1 per cent establishments in India are foreign, and foreign establishments employ 2.2 per cent of the workforce.¹² This percentage increases drastically with firm size (Figure 28).

► **Figure 28: Establishment and employment in foreign firms, India (%)***



Note: Small firms: 5<#employees<20; medium firms: 19<#employees<100; large firms: 99<#employees

* Share of establishments and employees by firm size are described as the share of foreign firms and share of individuals employed in foreign firms in each of the categories.

Source: WBES (2014)

¹² Foreign firms are defined as firms that have a positive foreign ownership.

Spillovers through labour turnover depend on the extent of training and knowledge that local workers receive in foreign firms, and the share of local workers in skill-intensive technical, supervisor or management positions. Table 6 examines differences in skill- and training-based attributes for foreign and domestic firms.

► **Table 6: Difference in attributes by ownership**

Attributes	Foreign	Domestic
<i>Overall skill levels</i>		
Percentage of employees with high school degree	65.75	51.51
Average years of experience of managers	15.69	3.34
<i>Training based attributes</i>		
Percentage of production employees receiving formal training	71.08	79.6
Percentage of non-production employees receiving formal training	44.03	64.51
Percentage of firms citing no need for formal training	53.33	66.78
Percentage of firms providing training with in-house resources	73.44	87.12
Percentage of firms providing training with private resources	21.88	8

Source: WBES (2014)

Foreign firms have better experienced managers and more skilled employees (who possess at least a high school degree). However, the share of employees that receive formal training is higher in Indian domestic firms. Thus, spillovers from foreign firms may not result in efficient transfer of knowledge and skill to local firms. Additionally, spillovers also depend on the investment policies, access to credit, business environment and other institutional capacities. India has a high share of informal markets and weak institutional quality, with high spatial variation at the state level. One of the important measures to capture inter-state differences in government regulations for opening businesses is the sub-national ease of doing business index.¹³ Andhra Pradesh has been ranked first in all years since 2016. Rajasthan has been more or less stable at the eighth rank and Odisha has been a laggard with its rank slumping from eleventh in 2016 to twenty-ninth in 2019.

► 2.11 Economic diversification in the two target sectors

We analyse India's product space in order to define possible routes towards economic diversification and upgrading in the two target sectors, using the Atlas of Economic Complexity. The Atlas of Economic Complexity categorizes products into 34 clusters, based on their relatedness and proximity in the product space network.¹⁴ A country's product space represents the connectedness between products, based on the likeness of technical know-how needed to produce them. They can contain both dense areas populated by highly inter-connected products, as well as sparse sections where capabilities are specific to the products, thus making diversification more difficult.

¹³ This is an initiative of the Department of Industrial Policy and Promotion of the Ministry of Commerce and Industry in collaboration with the World Bank.

¹⁴ While the *proximity* measure gives the probability that a country will export product A, given the information of what the country is already exporting, *relatedness* pertains to the similarity of two products in terms of the know-how and capabilities required to produce them. Products that have shorter distance between them (close to zero) have similar skill requirements, thereby making it easier to diversify to one or the other.

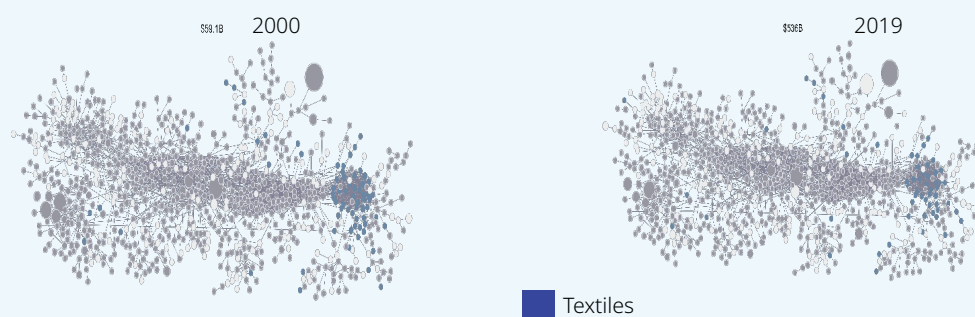
- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

► **Figure 29: India product space for food, 2000 vs 2019**



Source: Atlas of Economic Complexity (<https://atlas.cid.harvard.edu/>)

► **Figure 30: India product space for textiles, 2000 vs 2019**



Source: Atlas of Economic Complexity (<https://atlas.cid.harvard.edu/>)

Figure 29 shows that the bulk of food exports where the country has a revealed comparative advantage (that is, $RCA \geq 1$) is dispersed towards the periphery, making economic diversification a challenge. Further, the number of exported food products with comparative advantage has been more or less stagnant over the last 20 years – 26 SITC4¹⁵ categories in 2000 to 27 in 2019. For the textile product space (Figure 30), the bulk of exports where India has a comparative advantage are located in the periphery of the product space, where the similarity of skills with other products in the core is low. The textile products with comparative advantage, although clustered, have recorded a sharp decline from 68 HS4¹⁶ categories in 2000 to 55 in 2019. Unfortunately for both the sectors, since the production capabilities are located on the periphery of the product space, the scope for diversification and upgrading seems to be a challenge.

To explore this issue further, we focus on economic complexity as the basis to explore the economic capabilities and growth prospects of the food and textile sectors. The economic complexity of a product is determined by analysing the capabilities required in producing units of that particular commodity. Annex Figures D1 and D2 measure how the economic complexity index of both the product groups varies with the distance between the country's current export capabilities and the capabilities needed to export a new product.¹⁷ Both figures indicate that the diversification space for both the food and textile sectors in India has slightly widened between 2000 and 2019, since the feasible products in 2019 are further away from the top exports. Additionally, in 2019, these feasible products were more clustered than in 2000 for both the sectors, indicating that India has moved to creating feasible opportunities in similar products. Both the sectors have increases in opportunity gains, with the food sector in India diversifying more than the textile industry between 2000 and 2019.

15 Standard International Trade Classification- 4 digit

16 Harmonized Commodity Description and Coding System- 4 digit

17 Distance on the x-axis indicates a higher value for products whose requirements are largely different from the current capabilities.

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

These patterns suggest that for the food and textile industry, India has had stagnant – or at best modest – upgradation and economic diversification. The fact that the number of products in which India has a comparative advantage in exports has not increased in the 20-year period suggests that active policy intervention is more of a necessity than a choice. The fact that the products with the highest opportunity gains are also the most dissimilar to the country's capabilities pose a further challenge for policy makers. This requires purposeful investment and policy support to expand the domestic skill set.

► 2.12 Location of MSMEs

We next focus on the location of MSMEs within the three States for both the target sectors. Using the Udyam registration data, we list the districts with the highest share of MSMEs in the food and textile sectors for Andhra Pradesh, Odisha and Rajasthan.

► **Table 7: Top five ranked districts for food and textile sectors in each of the three States**

	Rank	Food	Textile
Andhra Pradesh	1	YSR	West Godavari
	2	Krishna	Ananthapur
	3	West Godavari	Krishna
	4	Guntur	Guntur
	5	East Godavari	Chittoor
Odisha	1	Khordha	Khordha
	2	Koraput	Cuttack
	3	Cuttack	Ganjam
	4	Ganjam	Puri
	5	Jagatsinghpur	Baleshwar
Rajasthan	1	Jaipur	Jaipur
	2	Jodhpur	Jodhpur
	3	Bikaner	Bhilwara
	4	Bhilwara	Barmer
	5	Ajmer	Pali

Source: PLFS Survey, various rounds

Table 7 indicates that most MSMEs in both the food and textile sectors are situated in location clusters. In each of these States, there are three districts that have the highest share of both sectors. According to the website of the Government of Rajasthan's Commissioner of Industries, Jaipur, Jodhpur and Bhilwara have a total of 17 sanctioned clusters.¹⁸ Similarly, the common top districts in Odisha – Khordha, Cuttack and Ganjam – have been home to a large number of MSMEs since the early 2000s.¹⁹ The spatial correlation in the share of MSMEs for both the sectors is clearer in Annex Figure D3.

Both the sectors show similar spatial distribution, suggesting strong linkages across sectors and the presence of industrial clusters in all the three States. The development of such industrial clusters can serve as an effective instrument to fast-track the integration with GVCs through strategic interventions such as identifying anchor investors, offering limited period incentives, enhancing ease of doing business and streamlining approvals. These patterns indicate the need to work with State Governments in order to identify, create and promote additional clusters.

18 Source: <https://industries.rajabsthan.gov.in/content/industries/doi/rscdp/clusters-list.html>

19 Source: <https://pc.odisha.gov.in/sites/default/files/2020-03/Anx9-3.pdf>

► Summary

We find that all three States have a relatively larger share of the manufacturing sector compared to the national average. In addition, the pace of service growth in these States has been slower than at the all-India level. The three States, thus, have the potential to revive industrial growth in India.

In contrast, the share of exports from these States in all-India exports is on the lower side. Concurrently, the share of Andhra Pradesh in FDI inflows has been declining constantly, while the shares of Odisha and Rajasthan have been stagnant. These patterns imply that there is a lot of potential for goods exports and FDI. Further, we find higher concentration of MSMEs and lower intensity (than the national average) of local sourcing across the three States. With a heavy reliance on foreign inputs, the entry of local suppliers faces a serious challenge.

Growth of employment in the target sectors in these States are lower than the national average. However, the large presence of young adults and faster employment growth in these sectors in the rest of the country point to the potential for higher growth in these States. The growth in the textile sector in Rajasthan seems to be associated with positive growth in future employment in all inter-related sectors, while such growth in Odisha and Andhra Pradesh seems to be producing negative employment growth in some sectors. In terms of gender composition, these sectors were largely male oriented in 2011-12, but over time there has been a shift towards increasing female employment. Another notable characteristic of employment in this sector is its essentially rural nature.

Our employment projections predict that in Rajasthan, a 1 per cent growth in employment in the food and beverage industry could lead to an addition of 4,125 workers. If the growth of employment is 5 per cent, then the employment addition in this sector would be to the tune of 20,623 workers. With growth in employment in the two target sectors, other sectors will also witness employment expansion through backward and forward linkage effects. The only exception appears to be in the trade and transport sector in Odisha, where a negative effect can be seen. Further, the growth in the textile sector in Rajasthan is associated with positive growth in employment in all inter-related sectors, while such growth in Odisha and Andhra Pradesh appears to be producing negative employment growth in some sectors.

One of the important measures to capture inter-state differences in government regulations for opening businesses is the DIPP's ease of doing business index. Andhra Pradesh has been ranked first in all years since 2016. Rajasthan has been more or less stable at the eighth rank and Odisha has been a laggard with its rank slumping from eleventh in 2016 to twenty-ninth in 2019.

In terms of the composition of gross exports, a common pattern in both the food and textile sectors is the declining share of the indirect domestic value added component and a rise in the foreign value added component of gross exports, indicating its reliance on foreign natural resource-intensive inputs, including agriculture, mining and chemicals. With the nature of India's participation in GVCs tending towards backward integration, there seems to be an increasing reliance on importing value rather than generating value domestically, which might have some consequences on the nature of employment.

The composition of food sector exports has a high domestic contribution of the domestic upstream sector (above 70 per cent), mostly agriculture and a low contribution by the food sector, itself indicating that the food sector is highly integrated into the domestic value chain. A breakdown of the export value added of the textile and footwear sector reveals that the domestic value added is created within the sector.

Additionally, the diversification space for both the food and textile sectors has slightly widened between 2000 and 2019, since the feasible products in 2019 are more far away from the top exports. Additionally, in 2019, these feasible products are more clustered for both the sectors than in 2000, indicating that India has moved to creating feasible opportunities in similar products. These patterns suggest that for the food and textile industry, India has had stagnant – or at best modest – upgradation and economic diversification. The fact that the number of products in which India has a comparative advantage in exports has not increased in the 20-year period suggests that active policy intervention is more of a necessity than a choice. This requires purposeful investment and policy support to expand the domestic skill set.

Both the sectors show similar spatial distribution, suggesting strong linkages across sectors and presence of industrial clusters in all the three States. The development of such industrial clusters can serve as an effective instrument to fast-track the integration with GVCs through strategic interventions, such as identifying anchor investors, offering limited period incentives, enhancing ease of doing business and streamlining approvals. This highlights the need to work with State Governments to facilitate and promote additional clusters.

The background is a complex geometric pattern composed of various shades of blue, yellow, and red triangles. A large red triangle is prominent in the center, surrounded by yellow and blue shapes. The overall effect is a dynamic, abstract composition.

3. Lessons from experiences of other economies

► Lessons from experiences of other economies

India's backward and forward participation in GVCs has been lower than most East Asian economies. The depth of integration in the South Asian region has also been stagnant since the last few decades. Further, the product complexities of Indian exports has been low since the 1990s. Though the performance of firms critically depends on the business environment, India's institutional quality, logistic support and business environment has not been the most conducive, as reflected in the World Bank's Ease of Doing Business Index and the Organisation for Economic Cooperation and Development (OECD) Trade Facilitation Index.

Data compiled by the Reserve Bank of India²⁰ shows that the number of sick MSMEs has risen significantly between March 2013 and March 2015, contributing to massive job losses. The Make In India programme, launched in 2014, has been instrumental in upgrading the value chain by encouraging domestic companies as well as multinationals and transnationals to manufacture in India. The programme has enormous consequences for creating strong positive spillovers and job generation.

The International Labour Organization's (ILO) global programme, Sustaining Competitive Responsible Enterprises (SCORE), has been offered to the MSMEs since 2010, in collaboration with the Federation of Indian Chambers of Commerce and Industry (FICCI), Ministry of MSME and the Ministry of Labour and Employment. It provides an enabling environment for MSMEs in the form of a five-module practical training in upgrading management practices, improving workplace cooperation, quality, increasing productivity through cleaner production, providing workforce management, occupational safety and health and sharpening the sectoral supply chain competitiveness (ILO, 2016).²¹ Additionally, the existing trade policy, comprising free trade agreements, reduction in import duties and tariffs, has also contributed to better global integration.

We discuss recommendations from five countries – Cambodia, Singapore, Malaysia, Philippines and South Korea – that have emerged as examples of successful linkage developments. We focus on government initiatives and actions by private parties to promote linkages between FDI and employment through increased competitiveness among local suppliers as well as industrial upgrading.

The Industrial Development Policy of Cambodia 2015–2025 (a) discusses the need for local sourcing through backward linkages in the apparel sector, (b) underscores the high potential of the agribusiness sector and (c) emphasizes the potential of forward linkages in the agribusiness, apparel and tourism sectors. These sectors are of immense importance in India as well and this makes the Cambodian framework relevant for Indian policy makers. Only through increased forward linkages in these sectors can Cambodia be more integrated with, and upgraded in, GVCs (Winkler, 2019). Different actors in Cambodia are setting up industrial clusters, information technology clusters, agro-industrial clusters and manufactured/handicraft clusters. In order to increase participation by private players, the Government of Cambodia has initiated public-private partnerships to develop these special economic zones. It has also taken the lead in areas which are of common interest for both the public and the private sectors, and encourages the private sector to invest in physical infrastructure.

The Singaporean experience of the 1970s to shift from production of labour-intensive products towards those with higher technological content also provides a worthy lesson for India. This was a calculated move initiated by the Government of Singapore, acting in unison with the private sector, to reap the benefits of the electronic offshoring boom. Currently, Singapore's Local Industry Upgrading Programme (LIUP) is instrumental in enabling FDI spillovers to small and medium enterprises (SMEs),

20 <https://pib.gov.in/newsite/PrintRelease.aspx?relid=123629>

21 Source: https://www.ilo.org/newdelhi/info/public/fs/WCMS_520919/lang--en/index.htm

which may be useful to India. The LIUP has three phases: first, improving the overall operational efficiency of SMEs; second, transferring new products or processes to SMEs; and third, joint innovation with the foreign partner. The programme has the potential to upgrade local firms in value chains, since it provides financial and institutional support, such as government-sponsored salaries of foreign representatives in local firms, relocation of local suppliers following their multinational customers to other locations, especially in South East Asia (Winkler, 2019).

Malaysia's policies in the late 1980s and the 1990s to incentivize investors to source from local suppliers provides another framework that India could use. The Vendor Development Program gave local suppliers preferential rights to supply parts and components to the Malaysian carmaker giant, Proton. In the 1990s, the expansion of the programme to non-domestic SMEs and other sectors brought in competition in the Malaysian industrial sector. Currently, these programmes go beyond linkage supports and focus on helping SMEs access information for investment decisions, overcome scale and financial constraints and invest in innovation (Winkler, 2019). India should also focus on enabling a comprehensive systematic development that facilitates value upgradation and local sourcing from SMEs.

The Philippines also faced a similar trajectory of structural transformation of industry with the manufacturing sector recording sluggish growth, and its policy focus could be useful for India to strengthen its linkage effects. The policy approach adopted was to identify and address key constraints resulting from market and coordination failures. The Government also offered fiscal and non-fiscal incentives. It actively supported small-holder farmers and agriculture cooperatives as well as local parts manufacturers through product development (especially green products), access to finance, training for standards compliance, clustering, incubation, shared service facilities, quality testing facilities, among others. These policies enable integration of MSMEs with large industries, especially for marketing and financing. With respect to value chain integration, the focus has been to provide access to raw and natural materials, equipment and software through the creation of supply hubs (ILO, 2021). However, this institutional entrepreneurship will be successful only if all stake holders – government, public sector and private sector – work in unison.

Another useful example for India is the Republic of Korea's experience of ensuring that the education system was designed in a way that it catered to the demand for labour by the industrial sector. For instance, in the early 1970s, the government undertook a campaign to promote vocational education during the implementation of its Heavy Chemical and Industrialization Plan (HCIP), which resulted in a three-fold increase in the flow of graduates into the labour market. In addition, the Republic of Korea also enacted a law requiring large firms to train 15 per cent of their workforce. The result was a 90 per cent increase in craftspeople five years after the enactment of the law.

Another important factor for the Republic of Korea's success story is the government's approach to credit. The Government used its control of credit to ensure credit flowed to sectors that were deemed critical for industrial catch up. These policies and measures shaped the economic diversification, linkage of FDI and local integration. To summarize, the Republic of Korea was able to rapidly catch up with advanced economies, because GVCs motivated lead firms to upgrade their local SME suppliers, and this led to an overall higher investment in innovation (ILO, 2021).

The Government of Japan also facilitates linkage development policies. Japan's Ministry of International Trade and Industry (MITI), is a centralized coordinating body that played a critical role in the development of a cohesive vision for achieving rapid local integration. The administrative guidance by MITI was critical since the strength of Japan lay more in effective implementation more than planning

Details of individual country experiences are given in Annexure E.



4. Conclusion and policy recommendations

► Conclusion and policy recommendations

This section suggests strategies and suitable policies for linkage development, based on the analysis of the circumstances in India in Section 2 and the experience of the five countries in Section 3. These strategies and policies are based on the premise that linkage development, expansion of absorptive capacity and inflow of foreign investment go hand in hand. We begin with the common key points from our case studies.

Successful linkage development initiatives require a multi-dimensional approach. As observed in the case of Malaysia and Singapore, a comprehensive plan for supplier development is instrumental in attracting FDI and foreign investors. Additionally, linkage development plans must be part of a much broader reform package that focus on the development of industrial clusters or identification of potential sectors, as in the case of Cambodia, that can accelerate linkages. Successful programmes integrate firms and innovation by designing an education system that will cater to the skills of the industrial sector. Identification of key SMEs as high potential actors and supporting them may be critical in order to channelize spillover effects within domestic firms more rapidly. The government needs to be proactive in the industrial sector by moving beyond fiscal support and actively facilitating access to finance and expansion of markets. The private sector has an important role to play in financing infrastructure through public-private partnerships, providing training and engaging with foreign investors. Finally, the role of foreign investors is also crucial in, among other things, local sourcing of inputs, joint research with local firms and technology transfer and licensing.

Coming to the Indian experience, our analysis reveals concentration of MSMEs at the sectoral and regional level within each State. In fact, the spatial pattern of MSME distribution is common to the food and textile sectors for each of the three target States, implying inter-sectoral concentration. This requires policy intervention by State Governments to encourage diversification to other related products as well as to other districts in a State. Setting up of industrial clusters and special economic zones, providing financial and organizational support to MSMEs in those areas may be helpful. Further, at the sectoral level, governments must provide incentives for firms to diversify to products that are related and feasible for India to export in the next few years. They also need to reduce barriers to MSME development in terms of access to finance and compliance with international standards.

Learning from the experiences of countries with successful experience in linkage development, the Government of India must promote domestic MSMEs while wooing foreign firms. To attract FDI, the Government must foster a hospitable investment climate and frame conducive trade policies. Importantly, special economic zones (SEZs) and other business clusters should encourage the coexistence of foreign and domestic firms. This would enhance competition and allow strong spillover effects. Further, while wooing foreign investors, the Government should target investors that source inputs locally, offer complementary technology, service and skills, allow for larger domestic participation in ownership and have experience in establishing local suppliers. Foreign investors must be incentivized to facilitate local spillovers. Public-private partnerships, investment in infrastructure, R&D collaboration and training programmes are key to promoting FDI and strong linkages.

The Government must also ensure that the education system and upskilling efforts cater to the demands of industry. The most pressing issue that the Government needs to address is the reduction in the number of informal and unskilled workers. An important task in this respect would be to involve universities and research institutes in imparting appropriate training to workers.

Other important tasks the Government of India should take up are improving the institutional framework by addressing information asymmetries between different actors and improving contract enforcement as well as coordination between local suppliers.

► 4.1 Policy recommendations

It is important for India to undertake a comprehensive mapping of imported inputs of products in the food and textile sectors used for manufacturing exports. It should explore policy options to neutralize the effects of duty paid on imported inputs. Some options to consider could be reducing the tariff on imported inputs to zero or allowing 100 per cent drawback on these. Additionally, the current design of the goods and services tax (GST) needs to be revamped to enhance the participation of firms in both food and textile value chains.

The Government of India should usher in reforms related to trade and transport facilitation for easy clearance of goods and seamless cross-border movement of cargo. Export and import clearance at land and sea ports is ridden with procedural and administrative complexities. Inefficient customs clearance, excessive use of paperwork, absence of testing agencies and failure of internet links are only some of the many issues that lead to delays in the clearance of goods and affect the functioning of the whole supply chain.

The textile value chains are highly fragmented and it is difficult to consolidate these in a cluster format. It is important for the Government to revitalize the Scheme for Integrated Textile Parks²² by making suitable changes in order to integrate value chains. One option could be mapping the whole domestic value chain on the basis of comparative cost advantage of individual states and identifying selective activities which can be clustered in one particular State (Kabir et al, 2019). This could help in achieving economies of scale and garnering higher benefits. In addition, single-window clearance for legal and business related procedures must be ensured so that there is no delay in getting clearance certificates for setting up textile and food parks.

► 4.1.2 Food sector

With a view to improving India's contribution to the value chain in the food sector, the Government of India designed policies to create modern infrastructure facilities for food processing along the entire chain from farm to market, with strong forward and backward linkages through a cluster-based approach. The Agri Export Policy 2018 also lays stress on clusters and food parks. The Union Ministry of Food Processing Industries (MoFPI) is committed to increasing the processing levels of various food commodities. The Ministry is implementing the Pradhan Mantri Kisan Sampada Yojana (PMKSY), a scheme for the creation of modern infrastructure with efficient supply chain management from farm gate to retail outlet.

The Mega Food Parks scheme was one of the schemes implemented under the PMKSY umbrella. Under this, mega food parks – 22 of them are operational – were set up in different States and the three target States of this study are among them.²³ The scheme, which was discontinued in 2021,²⁴ provided financial assistance up to INR 50 crore to set up modern infrastructural facilities. Mega food parks typically consist of supply chain infrastructure including collection centres, primary processing centres, central processing centres, cold chains and around 25-30 fully developed plots for entrepreneurs to set up food processing units. This enables the bringing together of farmers, processors and retailers to ensure improvement of value addition and reduction of waste.

22 This scheme was launched in 2005 to provide the textile industry with state of the art infrastructure facilities for setting up new textile units

23 Source: <https://www.tpci.in/indiabusinesstrade/blogs/mega-food-parks-to-add-value-and-reduce-food-wastage/>

24 Source: <https://www.mofpi.gov.in/Schemes/mega-food-parks>

► 4.1.3 Textile sector

India has been one of the most attractive destinations for FDI in the textile and garments sector, as several initiatives have been taken to promote investment in it, including permitting 100 per cent foreign equity. The Government of India has also set up a special FDI Cell in the Union Ministry of Textiles that provides advisory support to foreign firms.

The Integrated Skill Development Scheme (ISDS) was launched in 2010 to address concerns related to the shortage of skilled workforce. The key objective of the scheme was to increase the employability in certain designated regions through training and development programmes. As part of the Atmanirbhar Bharat scheme announced in 2020, the Government of India approved, in 2022, the setting up of seven Pradhan Mantri Mega Integrated Textile Region and Apparel (PM MITRA) Parks, which will develop an integrated large-scale and modern industrial infrastructure facility for the entire textiles value chain from spinning, weaving, processing and printing to garment manufacturing in a single location. This will reduce logistics costs and improve the competitiveness of Indian textiles. The scheme will help India attract investments, boost employment generation and position itself strongly in the global textile market. Though the states where these parks are to be located are yet to be selected, Andhra Pradesh, Odisha and Rajasthan have expressed interest in the scheme.²⁵

To summarize, for India to be better integrated into the global value chain and for better local supplier development, the Government, foreign investors and domestic suppliers must have a coordinated and constructive approach.

25 Source: <https://www.india.gov.in/spotlight/pm-mega-integrated-textile-region-and-apparel-pm-mitra>

► References

Basole, A. 2022. Structural Transformation and Employment Generation in India: Past Performance and the Way Forward. *The Indian Journal of Labour Economics*, 65(2), 295-320. Online- July 17, 2022

Hollweg, C. H. 2019. Global value chains and employment in developing economies. In *Global Value Chain Development Report 2019: Technological Innovation, Supply Chain Trade, and Workers in a Globalized World (English)*. Washington, D.C. World Bank Group.
<http://documents.worldbank.org/curated/en/384161555079173489/Global-Value-Chain-Development-Report-2019-Technological-Innovation-Supply-Chain-Trade-and-Workers-in-a-Globalized-World>

ILO. 2016. *Making SMEs productive and competitive to create more and better quality of jobs in India*. Available at https://www.ilo.org/newdelhi/info/public/fs/WCMS_520919/lang--en/index.htm

_____. 2021. *Diversification, jobs and the COVID-19 recovery: Exploring opportunities for economic diversification and productive employment in the Philippines*. Policy Brief Series. International Labour Organization, United Nations Development Programme, United Nations Industrial Development Organization.

Kabir, M., Singh, S., and Ferrantino, M. J. 2019. The Textile-Clothing Value Chain in India and Bangladesh. World Bank Policy Research Working Paper Series, Washington DC

Lipsey, R. E., Sjöholm, F., and Sun, J. 2013. Foreign ownership and employment growth in a developing country. *The Journal of Development Studies*, 49(8), 1133-1147.

Mehrotra, S. 2019. Informal Employment Trends in the Indian Economy: Persistent informality, but growing positive development. International Labour Organization (working paper No. 254).

McMillan, M., Rodrik, D., and Verduzco-Gallo, Í. 2013. Globalization, structural change, and productivity growth, with an update on Africa. *World Development* Vol. 63, Issue-C, pp.11–32. Available online. November 20, 2013.

MoMSME. 2022. *Annual Report, 2021-22*. Delhi. Ministry of MSME. Government of India.

NSO. 2018. *Unincorporated Non-Agricultural Enterprises (Excluding Construction)*. NSS 73rd Round, July 2015-June 2016. Delhi. Ministry of Statistics and Programme Implementation, Government of India.

Ray, S. and Miglani, S. 2020. *India's GVC integration: An analysis of upgrading efforts and facilitation of lead firms*. Working Paper (No. 386). Delhi. Indian Council for Research on International Economic Relations

Winkler, D. 2019. *A policy guide on local sourcing in Cambodia: The role of government and the private sector*. International Labour Organization

WBES. 2014. *World Bank enterprise survey questionnaire 2014 for India including the data sets*. Washington D.C. World Bank. available at: <https://www.enterprisesurveys.org/en/enterprisesurveys>



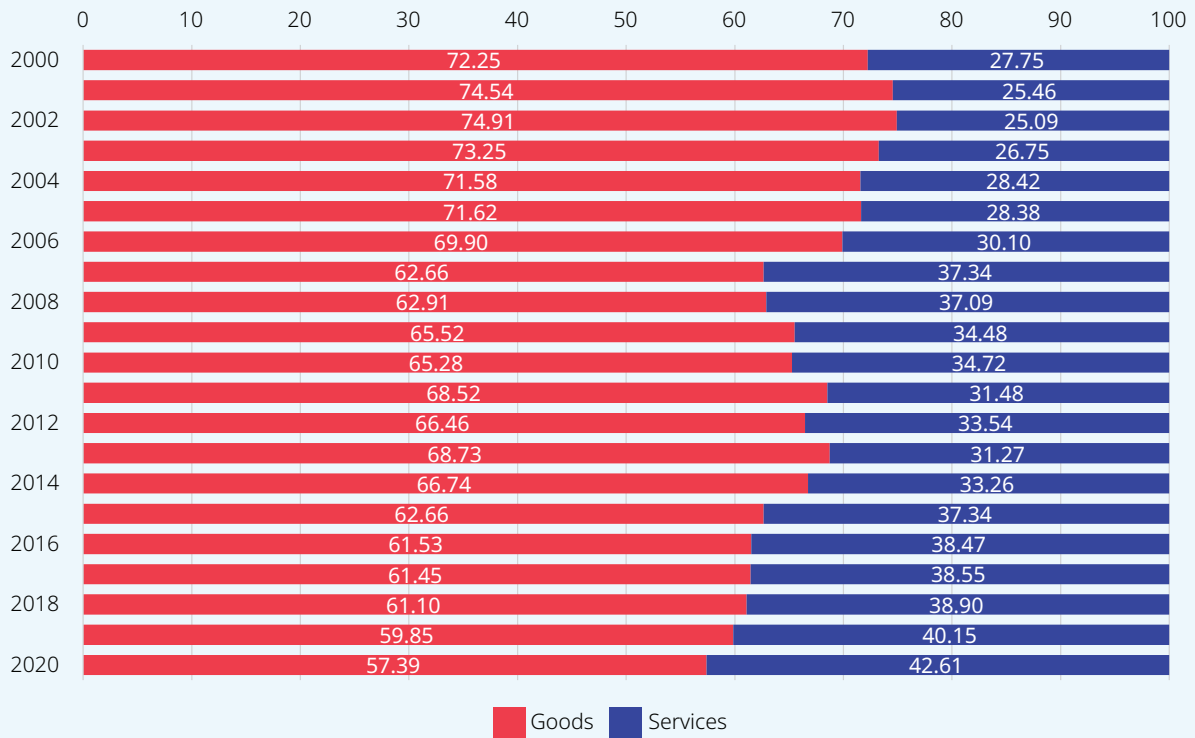
Annexure

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

► Annexures

► Annexure A

► Annex Figure A1: Goods and services export, India (%)



Source: UNCTAD

► Annex Table A1: Export of services by product category (%)

	2000	2018
Transportation	23.04	9.24
Travel	39.39	13.92
Communication	12.82	1.18
Construction	6.04	1.55
Insurance	3.04	1.26
Financial services	3.91	2.45
Computer and information services	0.00	40.07
Royalties and license fees	0.68	0.38
Other business services	3.76	19.46
Personal, cultural and recreational services	0.00	0.92
Government services	7.33	9.58

Note: Sectors are based on the Extended Balance of Payment System of codes, EBOPS2, 2002.

Source: UN Comtrade data

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

► **Annex Table A2: Export of goods by product category (%)**

Categories	2000	2018
Animal	4.06	3.30
Vegetables	7.44	5.60
Food products	2.32	2.11
Minerals	2.04	1.21
Fuels	3.41	15.07
Chemicals	9.43	13.83
Plastic or rubber	2.21	3.42
Hides and skin	3.14	1.02
Wood	0.60	0.84
Textile and clothing	26.32	11.48
Footwear	1.57	0.96
Stone and glass	19.57	13.38
Metals	6.81	8.25
Machinery and electronics	5.59	10.00
Transportation	2.27	7.55
Miscellaneous	3.22	1.98

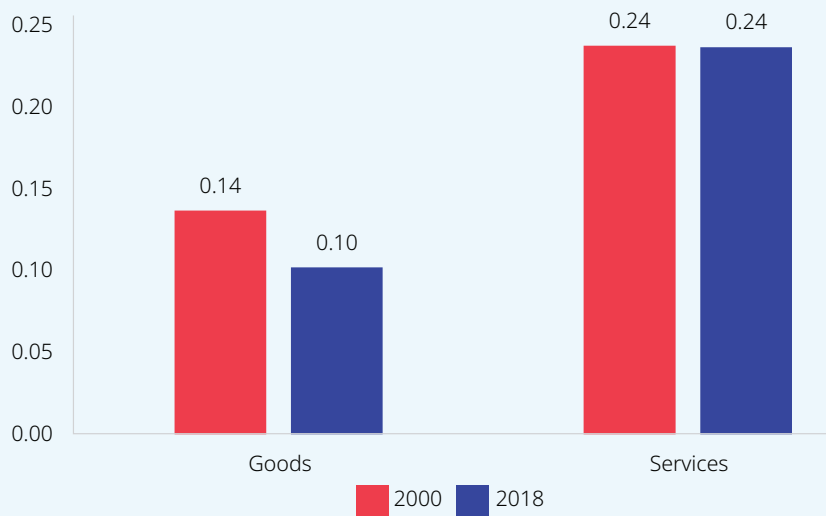
Note: Sectors are based on the Harmonized System of codes, HS2, 1988/92.

Source: World Bank World Integrated Trade Solution (WITS), Based on UN Comtrade data

► Annexure B

We examine whether India's goods and services export has become more diversified or not, by calculating the Herfindahl-Hirschman index of concentration for both the services and product groups.²⁶ Goods sector exports have become more diversified driven by the drop in the export share of textiles. Service sector exports are more concentrated than the goods sector and remain stagnant.

► **Annex Figure B1: Herfindahl-Hirschman index of export concentration, India**

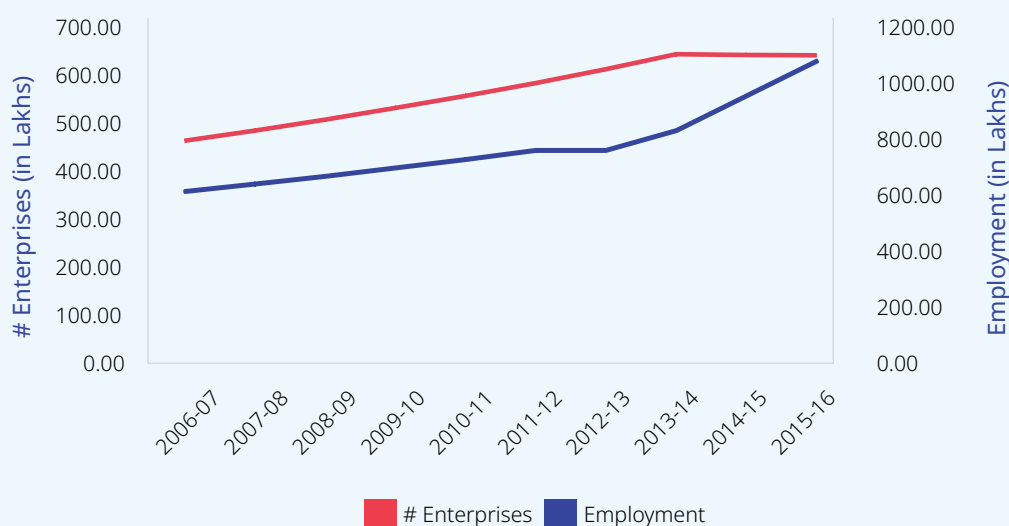


²⁶ Herfindahl-Hirschman index for a group with n members is $(\sum_{i=1}^n s_i^2)$ where s_i is the share of the i th individual.

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

► Annexure C

► Annex Figure C1: MSME growth in India



Source: Data from various issues of annual reports of MoMSME

► Annex Table C1: Top five-ranked 3-digit NIC codes for food and textile sectors in each of the three States

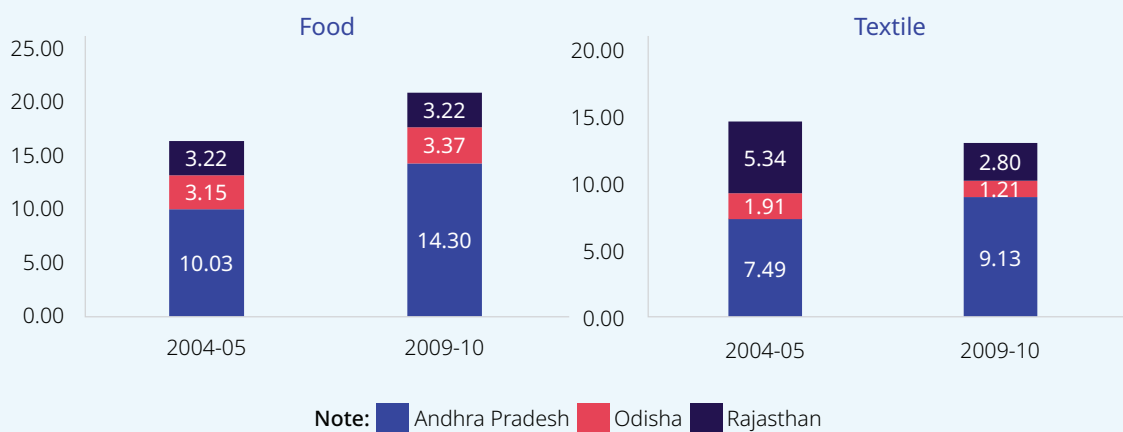
	Rank	Andhra Pradesh	Odisha	Rajasthan
Food	1	56291	56291	56291
	2	47110	47110	47110
	3	10799	47219	10799
	4	47219	10799	56102
	5	56102	56102	47219
Textile	1	47510	14101	14101
	2	14101	47510	13999
	3	13999	13999	47510
	4	46411	96010	46411
	5	96010	46411	96010

Note: 56291: Activities of food service contractors (e.g. for transportation companies); 47110: Retail sale in non-specialized stores with food, beverages or tobacco predominating; 10799: Other semi-processed, processed or instant foods n.e.c*. except farinaceous products and malted foods and manufacturing activities like manufacture of egg powder, sambar powder etc.; 47219: Retail sale of other food products n.e.c.; 56102: Cafeterias, fast-food restaurants and other food preparation in market stalls; 47510: Retail sale of textiles in specialized stores; 14101: Manufacture of all types of textile garments and clothing accessories; 13999: Manufacture of other textiles/textile products n.e.c.; 46411: Wholesale of textiles, fabrics, yarn, household linen, articles of clothing, floor coverings and tapestry, sports clothes; 96010: Washing and (dry-) cleaning of textile and fur products

* not elsewhere classified

Source: Udyam Registration Portal, 2021

► **Annex Figure C2: Distribution of employment across States for the two sectors (%)**



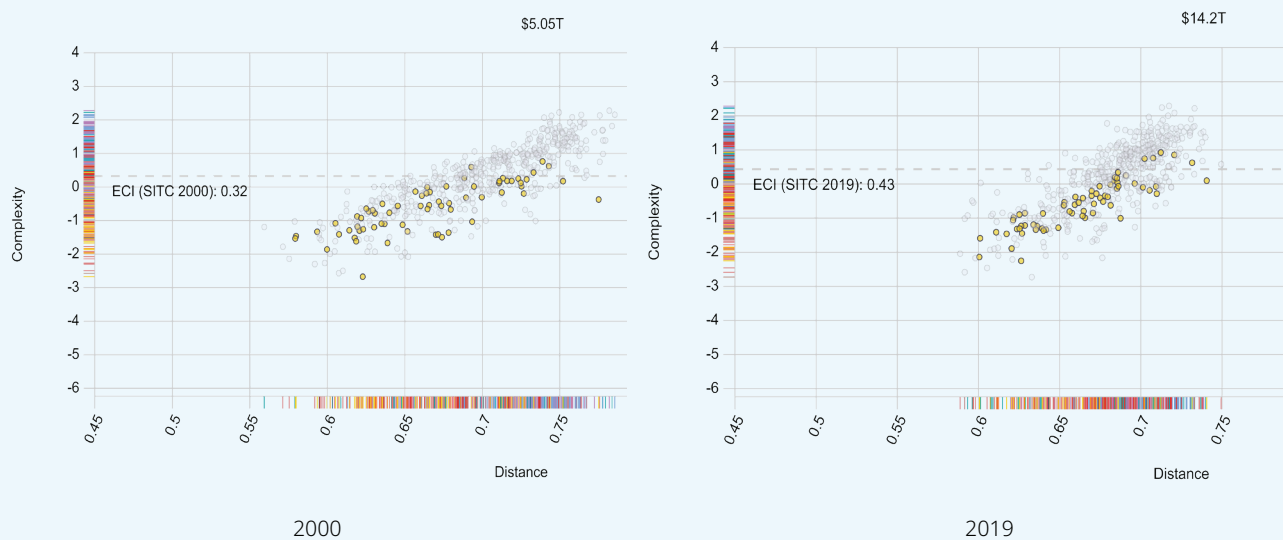
Source: Compiled from NSSO - http://iamrindia.gov.in/writereaddata/UploadFile/report2_1135.pdf;
http://iamrindia.gov.in/writereaddata/UploadFile/report1_1340.pdf

Figure C2 indicates the State-wise share of employment in the food and textile sectors. It shows that in Andhra Pradesh, both the sectors recorded a rise in the share of employment. Conversely, while the employment shares of Odisha and Rajasthan in the food sector remained stagnant during the period, employment shares for the textile sector witnessed a decline. In other words, employment in food and textile sector exhibit spatial and temporal changes.

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

► Annexure D

► Annex Figure D1: Economic complexity path for food products in India (2000 vs 2019)



► Annex Figure D2: Economic complexity path for textile products in India (2000 vs 2019)

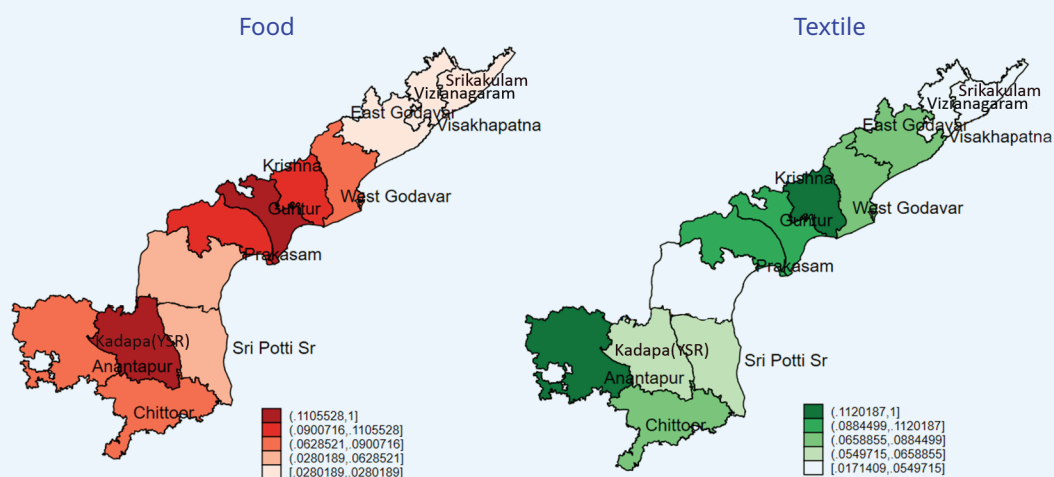


Source: Atlas of Economic Complexity (<https://atlas.cid.harvard.edu/>)

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

► Annex Figure D3: Share of MSMEs across districts

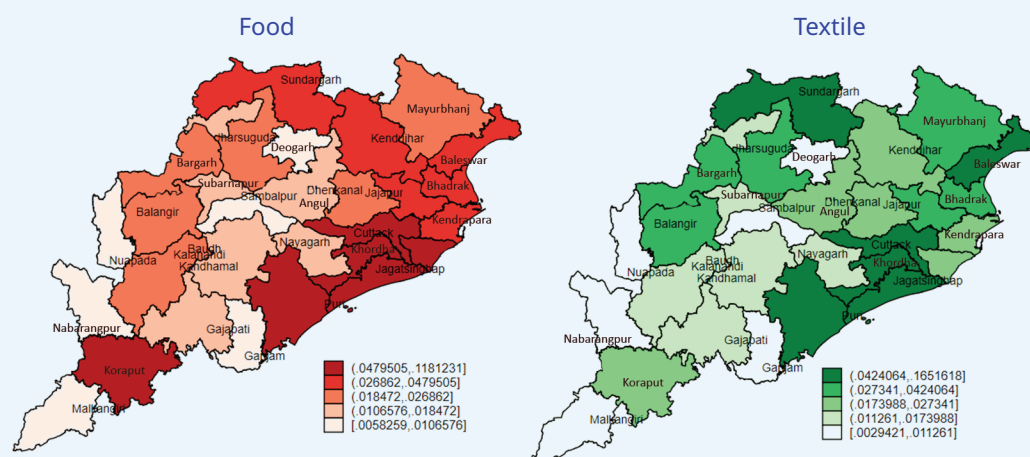
Share of MSME in Andhra Pradesh



Source: Udyam Registration Portal, 2021

► Annex Figure D3: Share of MSMEs across districts

Share of MSME in Odisha

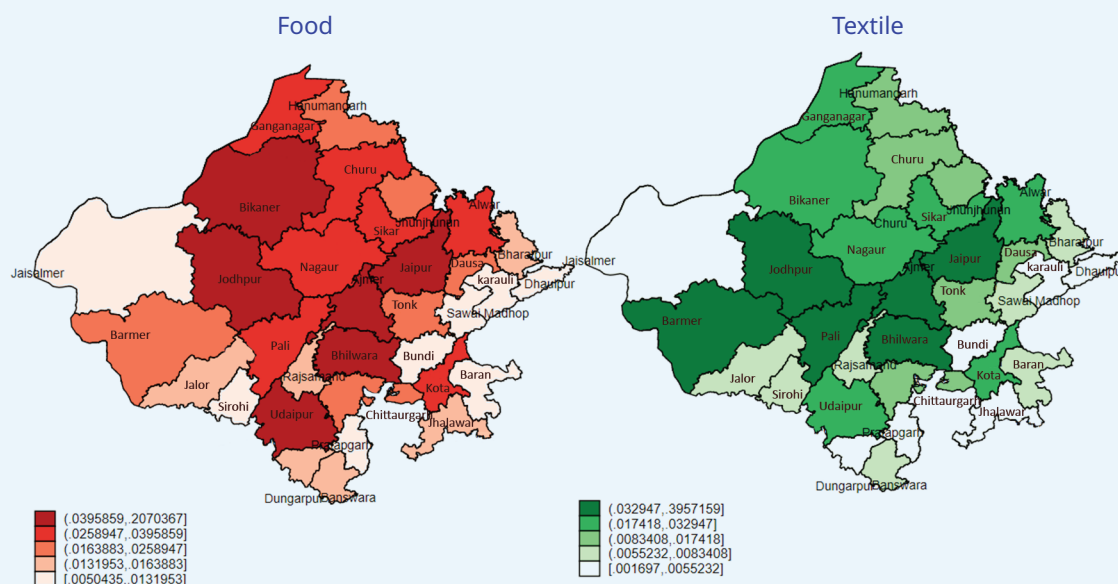


Source: Udyam Registration Portal, 2021

- FDI and private sector-led local development strategies for sustainable growth and more and better quality jobs

► Annex Figure D3: Share of MSMEs across districts

Share of MSME in Rajasthan



Source: Udyam Registration Portal, 2021

Note: In each of these maps, districts with higher share of MSMEs in the concerned sector have been given darker shades.

► Annexure E

► Cambodia

In March 2015, Cambodia adopted the Industrial Development Policy (IDP) 2015-2025, as a guide to achieving industrial development through economic diversification, strengthening competitiveness and improving productivity. The IDP 2015-2025 outlines an array of policy measures and actions to attract foreign investors and to address linkage developments. The policy discusses the instrumental role of FDI, private investment, expansion of export markets and technology transfer in industrial development. The plan also emphasizes the dual role of foreign investors and domestic firms and hence targets specific sectors (agribusiness, apparel, tourism and others), specific source countries (Japan, Republic of Korea, Singapore and so on) and potential SMEs to enable linkages to multinational enterprises.

For promoting foreign investment, IDP serves as an open-door policy, with no restrictions on extent of foreign ownership, country of origin and export status. There are several incentives in the form of tax holidays, exemptions on import duties on raw materials, machinery and inputs. In order to improve investment, the action plan promotes provision of additional incentives for investment projects that focus on skill training, innovation and incentivizing firms in SEZs. Finally, the Government of Cambodia has been trying to increase access to information, easing of procedures and cooperating with foreign investors to create joint skills training centres to improve the investment climate.

Measures focusing on facilitating formal registration of SMEs as well as developing and modernizing them have also been central in strengthening the absorptive capacity in Cambodia. For strengthening the links between foreign investors and domestic firms and to internalize spillovers, measures that promote technology development and transfer, developing skills and enabling knowledge sharing, and improvement of industrial standards and property rights are adopted. This is to be achieved through the development of soft skills, better access to, and quality of education and training (including technical and vocational), and better matching of education and training to the actual needs of the labour market.

► Singapore

The early 1970s marked a shift by the Government of Singapore from specializing in labour-intensive manufacture of products towards those with higher technological content. This was a calculated move by the Government since, at that time, Singapore was already reaping the benefits of the electronic offshoring boom. Consequently, the Government's aim in the late 1970s was to be at the centre of an information technology based industrial revolution. Singapore addressed the shortage of skilled computer professionals by establishing a National Computer Board that would help firms comply with international industry standards and turn Singapore into a hub for computer services. By the mid-1980s, Singapore was the largest global producer of disk drives and parts.

With the entry of the machine industry and ICT synergies in the industrial revolution, the benefits trickled to other sectors, including textile, printing and publishing. For attracting FDI, the Government went beyond tax breaks and subsidies for foreign firms and customized the delivery of infrastructure and technical skills to meet the needs of these firms through pro-active engagement. The Government also put in place protectionist policies that ensured the survival of, and competition among, domestic firms, alongside a free trade regime. The Government provided financial and organizational support to foreign firms and local suppliers to incentivize foreign investors to buy from local suppliers. There was also support in the form of subsidies, programmes to build skills and other policy tools for increasing the absorptive capacity of SMEs. For better technological absorption and diffusion from foreign firms to domestic firms, these policies were accompanied by intensive skill development programmes for local suppliers.

For maximization of spillovers, the Government implemented several linkage development programmes such as the Local Industry Upgrading Programme (LIUP) of 1986. The education system was modified to cater to the needs of industrialization. These institutional changes were monumental in accelerating economic diversification. The Vocational and Industrial Training Board of Singapore created the market for skill matching between firms and individuals. The Ministry of Trade and Industry was also a centralized coordinating body for achieving rapid economic growth emphasizing on the role of institutional entrepreneurship for effective implementation. Currently, the LIUP is instrumental in enabling FDI spillovers to SMEs. The programme has the potential for upgradation of local firms in the value chains. To summarize, proactive government support, institutional entrepreneurship and actions by firms reflect active participation by all players.

► Malaysia

The Government of Malaysia initiated various linkage development programmes in the late 1980s to incentivize investors to source from local suppliers. One such programme, the Vendor Development Program, gave local suppliers preferential rights to supply parts and components to the Malaysian carmaker giant, Proton. This arrangement helped SMEs develop and grow through the opportunity to participate in joint venture related activities. While this made Proton the anchor firm, the company lacked the capacity to deliver the expected quality, thereby facing damage to its brand value and reputation loss as an automotive producer, and this resulted in hampering the growth of SMEs.

In response, the Government, in the mid-1990s, expanded the scope of the Vendor Development Program to non-domestic SMEs. This resulted in a huge influx of Chinese SMEs that benefited from the programme. The programme was also extended to other sectors such as the electric and the electronic sectors, and it continues to be relevant in Malaysia even now, though it has been modified slightly.

Malaysia has similar programmes that target SME linkage developments. For instance, the Industrial Linkage Programme is reserved for domestic firms and the Global Suppliers Programme targets both the domestic and foreign SMEs. These programmes go beyond linkage support and focus on helping SMEs access information for investment decisions, overcome scale and financial constraints and invest in innovation. These targets are achieved through collaboration with investors in production, market and innovation. Along with fiscal incentives, these programmes also provide additional support such as access to finance, capacity building and expansion to new markets. To summarize, Malaysia had a systematic approach to improve linkage and bring in value chain upgradation.

► Philippines

The Philippines committed itself to the liberalization process in the early nineties, slashing average nominal tariffs in the manufacturing sector, which was further reduced in 2000. This marked a shift in policy focus from boosting domestic production to increasing international trade. Fiscal incentives were offered to attract FDI, which led to technological spillovers to domestic firms, resulting in higher earnings and employment, and eventually higher growth in local SMEs. This further accelerated export growth and the entry of new firms in the mid-1990s.

However, this expansion did not progress into the structural transformation of industry, as the manufacturing sector continued to witness sluggish growth in the 2000s. Contrary to the expectations that trade liberalization will accelerate industry growth rates by inducing efficient resource allocation, it was the services sector instead that expanded and created jobs. Meanwhile, the shares of various manufacturing sectors remained stagnant. This unusual pattern in the structural transformation of the Philippines economy is very similar to the Indian experience.

► Republic of Korea

With an overriding policy objective to build a self-sufficient industrial structure since its first plan in 1962, the Republic of Korea focussed its ambitions on heavy and chemical industries, iron and steel and other heavy basic metal industries. In the mid-1970s, the objective of policy shifted to boosting domestic industries that would be able to compete effectively in the world's industrial export market. In 1982, the sales of heavy chemical industries doubled and exports increased to half of the output. However, the import substitution policy started burdening the country's funds. Consequently, the Government introduced a reform package in 1978.

At the same time, it still maintained a government surveillance programme to ensure that domestic SMEs were not unduly burdened by reforms. A large share of early locators were focussed on labour-intensive technology, which were already available in the country. While there was know-how transfer in the form of managerial, organization and quality control skills, the principal gain was in the generation of employment and foreign exchange.



Contact details

ILO DWT for South Asia and Country Office for India
Core 4B, 3rd Floor, India Habitat Centre, Lodhi Road, New Delhi – 110003, India

T: +91 11 4750 9200 | E: delhi@ilo.org