



As part of its Golden Jubilee Celebrations

Madras Institute of Development Studies (MIDS)

in collaboration with

New Political Economy Initiative, IIT-Bombay

invites you to a day-long workshop on

Industrial Policy in Indian States

Date

Wednesday, 20 March 2024, 9:30 am to 5:30 pm

Venue

Conference Hall, Krea University

Admin Office, No. 196, T.T.K. Road

Alwarpet, Chennai 600018

Concept Note

There has been a resurgence of Industrial policy across the world. While economic rationale and policy instruments proposed may vary given the needs of each country, Industrial policy is back in development discourse.

The Inflation Reduction Act in the United States, the European Green Deal and China's Belt and Road Initiative are some examples. Industrial policy flourishes. India's Atmanirbhar Bharat and PLI schemes resonate the country's direction towards industrial policy. However, the standard rationales and instruments of industrial policy widely vary between Global South and Global North. While India cannot go back to its interventionist strategy of the 1980s rooted in reckless protection, black markets, and rampant rent-seeking, it certainly needs to embrace a new industrial policy. India is today under-industrialised and deindustrialized given its per capita income. Contrary to received academic wisdom, opening up India's economy didn't result in labour-intensive industrialization. Manufacturing technologies have instead become more capital and skill-intensive. Integration with the global economy has only intensified competition resulting in "premature deindustrialization" as is the case with many lower income countries.

The Make in India strategy came up with the objective of increasing the share of manufacturing to 25% and generating 100 million jobs but did not take off. The strategy at best worked in improving India's position in global ranking in ease of doing business. Instead of augmenting value addition, India has now become an import-dependent economy. Evidence suggests that the emphasis was more on fintech and IT than manufacturing. Indian manufacturing is suffering from low value addition as India is increasingly becoming a place for assembling rather than real manufacturing by producing parts and creating value addition. For instance, on average, a mobile phone made on our shores has around 80-85 per cent of imported content (India Cellular and Electronics Association, 2022). There is now a real danger India may get locked into a structurally-dependent position in the world economy unless the appropriate policy environment is created.

During COVID, India launched *Atmanirbhar Bharat Abhiyan*—and restricted Chinese imports—but soon reversed it, as it hurt its domestic production. Even the foreign direct investment (FDI) India received goes to acquiring existing productive assets, firms and brands, rather than augmenting new investment.

India's tryst with New Industrial policy has to take into account these challenges. But it also requires its own vision rather than a mere return to the policies of the past or a mere copying of practices in East Asia. The Madras Institute of Development Studies (MIDS) in collaboration with Indian Institute of Technology (IIT-B) and Guidance, Tamil Nadu proposes to organise a day-long workshop to deliberate on the following themes.

Policy Instruments

What are the lessons that India can learn from global experience in adopting policy instruments to generate manufacturing jobs? While investment grants, subsidies, tax and duty incentives are important, building capacities and value chains between big/foreign and small/local firms are just as important. A portfolio of business services, including marketing, management and technical assistance, seed capital/loans for directed technologies are new entries in the policy lists in many countries. But a voluminous literature shows, successful industrial policy has always combined these measures with strict performance standards for firms and time limits for subsidies given the threat of rent-seeking.

Key Questions

- How might these be built in at the state level given the threat of capital flight to other states and thus a race to the bottom?
- How do we ensure that state resources will actually be used to build local firm capacities and sustainably generate jobs that can compete in domestic and foreign markets?
- Given that the economic rationale for industrial policy remains the same for services, how can industrial policy be aimed at the service sector?

Sub-national Variation

Given the multilevel governance, India has to coordinate its strategies across the levels of governing units particularly with its states. Market-oriented economic reforms since the 1990s were accompanied by the downscaling of resource mobilisation responsibilities to state governments. Until then, the union government had played a key role in mobilising resources for investment and in locating economic activity. Since the 1990s, the union government shifted the onus of resource mobilisation considerably to state governments which were encouraged to attract private

investments through various incentives. Many state governments have managed to attract a number of multinational firms to set up operations, and have also drawn investments into urban infrastructure development through promotion of public-private partnerships (PPPs). Any industrial policy thus requires multilevel coordination across governance units. Given India's federal structure, it is all the more important how the industrial policy of the states aligns with the policies at the Centre.

Key Questions

- Given the vast differences in state capacities and manufacturing experience, how do we create policy space for industrial policy at the state level?
- Can we imagine bilateral agreements between states so that destructive competition between states might be avoided?

Sector-specific Industrial Policies

India is unique in having a large number of relatively high-tech firms for a country at its level of development in terms of per capita income. While this is a huge matter of pride that enables the nation to meet its current account deficit, this high-tech prowess is also embedded in a set of inequalities in social capital and a persistent "dualism" in our economy. This leaves India in a situation where we need industrial policies that cater to two very different needs.

On the one hand, we need to generate jobs in relatively low-skilled, labour-intensive industries such as textiles and garments, footwear, toys, and simple electronic items which will generate the jobs we desperately require. On the other hand, we need a quite different set of policies catering to R&D-intensive firms in sectors like automobiles, pharmaceuticals, software and advanced electronics in order to move them up the value chain, compete for export markets, and alleviate reliance on foreign imports. Even better off states like Tamil Nadu have internal inequalities and thus require both sets of interventions.

Key Questions

- How can we design such sector-specific policies in a consistent manner?
- What incentives will push Indian hi-tech firms to invest more in R&D?
- How can we promote innovation that is simultaneously green and generates jobs?

Programme

9:30–10:00 am

Inauguration

Chair's Address

Prof M Suresh Babu
IIT Madras

Keynote Address

Prof C. Rangarajan
Former Governor, RBI

10:00–11:30 am

Session I

Sectoral Firms

Chair

Dr Anush Kapadia
IIT- Bombay

Speaker 1

Dr Madhuri Saripalle
KREA University

Speaker 2

Mr P Kanniappan
Managing Director
ZF Commercial Vehicle Control
Systems India Ltd

Speaker 3

Mr Ramasubramanian V
Rane Group

11:30–11:45 am

Tea Break

11:45 am–1:15 pm

Session II

Aligning Policy Instruments at the Centre and States

Chair

Prof Pulapre Balakrishnan
KREA

Speaker 1

Mr S K Sundaraman
Managing Director
Shiva Taxyarn

Speaker 2

Mr S. Narayan IAS
Member
TN Economic Advisory Panel

Speaker 3

Dr Aravind Mayaram IAS
Former Finance Secretary, Gol

Speaker 4

Mr S. Krishnan, IAS
Secretary
Ministry of Electronics &
Information Technology, Gol.

1:15–2:00 pm

Lunch

2:00–3:30 pm

Session III

State Experiences

Chair	Prof R. Nagaraj Distinguished Senior Fellow New Political Economy Initiative IIT-Bombay
Speaker 1	Ms. Yamini Aiyar CEO, Centre for Policy Research
Speaker 2	Mr Jayesh Ranjan, IAS Principal Secretary Govt of Telangana
Speaker 3	Mr Vishnu Venugopal, IAS Guidance TN
Speaker 4	Mr Sujoy Ghosh Managing Director First Solar

3:30–3:45 pm

Tea Break

3:45–5:15 pm

Session IV

Open-house

Chair	Dr. A. Kalaiyaran MIDS
Speaker 1	Prof R. Nagaraj Distinguished Senior Fellow New Political Economy Initiative IIT-Bombay
Speaker 2	Prof M. Vijayabaskar MIDS
Speaker 3	Prof M. Suresh Babu IIT-Madras
Speaker 4	Prof Pulapre Balakrishnan KREA
Concluding Remarks	Dr Anush Kapadia IIT- Bombay