Lopsided Industrialisation*

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It is now widely recognised that, despite a long history and much promise, the pace and level of India's industrial development has been well below even conservative expectations and far short of potential. Conventionally this has been captured in the fact that the maximum recorded value of the share of manufacturing value added in GDP has never exceeded 19 per cent in India. In sharp contrast that figure peaked at above 34 per cent in Brazil, 40 per cent in China, 31 per cent in Korea and 31 per cent in Malaysia. The comparison in terms of employment in industry relative to total employment was no better, with India recording values below 25 per cent, whereas the figure peaked at 36 per cent in Korea, 34 per cent in Malaysia and 30 per cent in China.

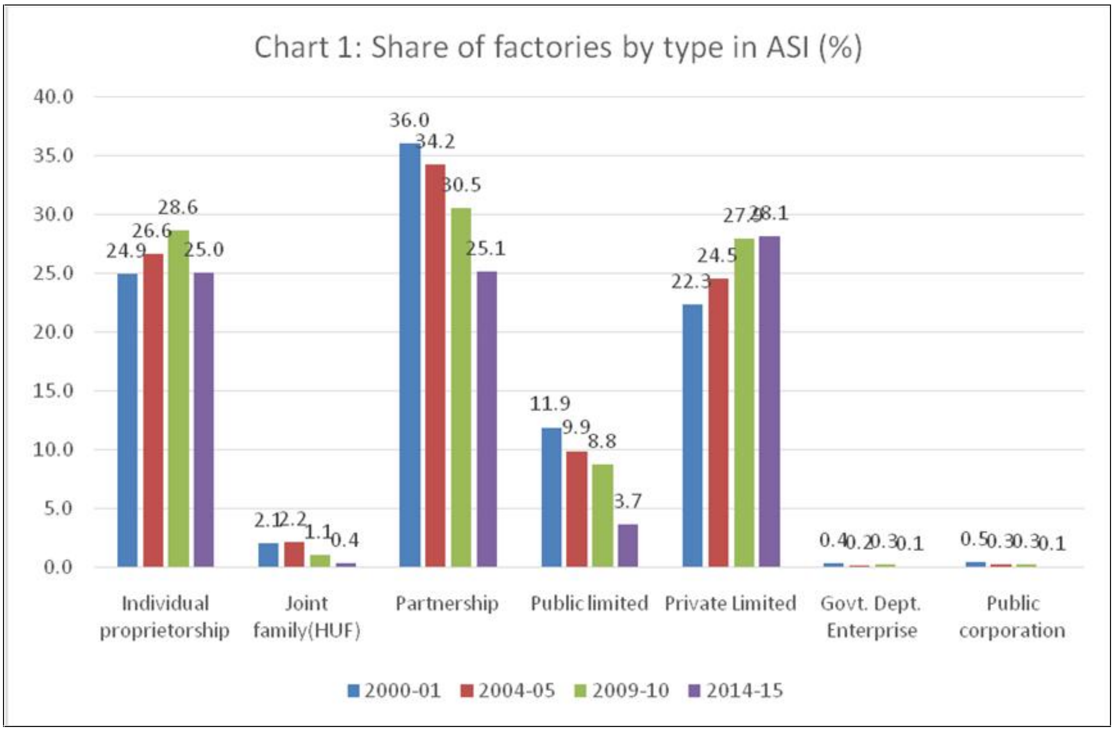
Thus, seen in terms of the diversification of economic activity, India has diverged from many other erstwhile underdeveloped countries, inasmuch as the shift away from agriculture in terms of shares of value added and employment in favour of manufacturing has been limited. Such diversification was seen by pioneer analysts of economic development like Simon Kuznets as a characteristic feature of modern development.

But recent evidence shows that India's deviation from the norm does not stop here. In Kuznets' view, besides the diversification of economic activity away from agriculture, modern economic growth would be accompanied by an increase in the size of non-agricultural enterprises and a growing role for impersonal and more formal types of organisation (such as the joint-stock company).

It could be expected that this would be even more true in periods of rapid economic growth, such as the period since 2001 in India, when global trends and domestic policies substantially increased the cross-border transfers of capital and technology from the developed to the less developed countries. However, India's Annual Survey of Industries (ASI), reputed for its comprehensive coverage of the registered factory sector based on part census and part sample survey, seems to suggest that even within the factory sector, the limited shift in favour of more 'modern' and impersonal forms of organisation is being reversed. (The ASI also covers khadi and village industry and handloom units, besides some in the cooperative sector, but these account for a negligible share of the total number of firms surveyed).

According to this data for the period 2000-01 to 2014-15, the share in the total number of firms of those organised as "private limited companies" rose from 22.3 per cent at the turn of the century to 28.1 per cent in 2014-15, whereas the share of public limited companies and partnerships declined from 11.9 to 3.7 per cent and 36 to 25.1 per cent respectively. Given earlier trends, the increase in the 2014-15 figure for private limited companies may have been higher, since in that year the proportion of companies for which the share in number of factories was not reported was unusually high at 16.4 per cent. In sum, a shift away from partnership forms, on the one hand, and organisation as public limited companies, on the other, to firms registered as private limited companies has been occurring.

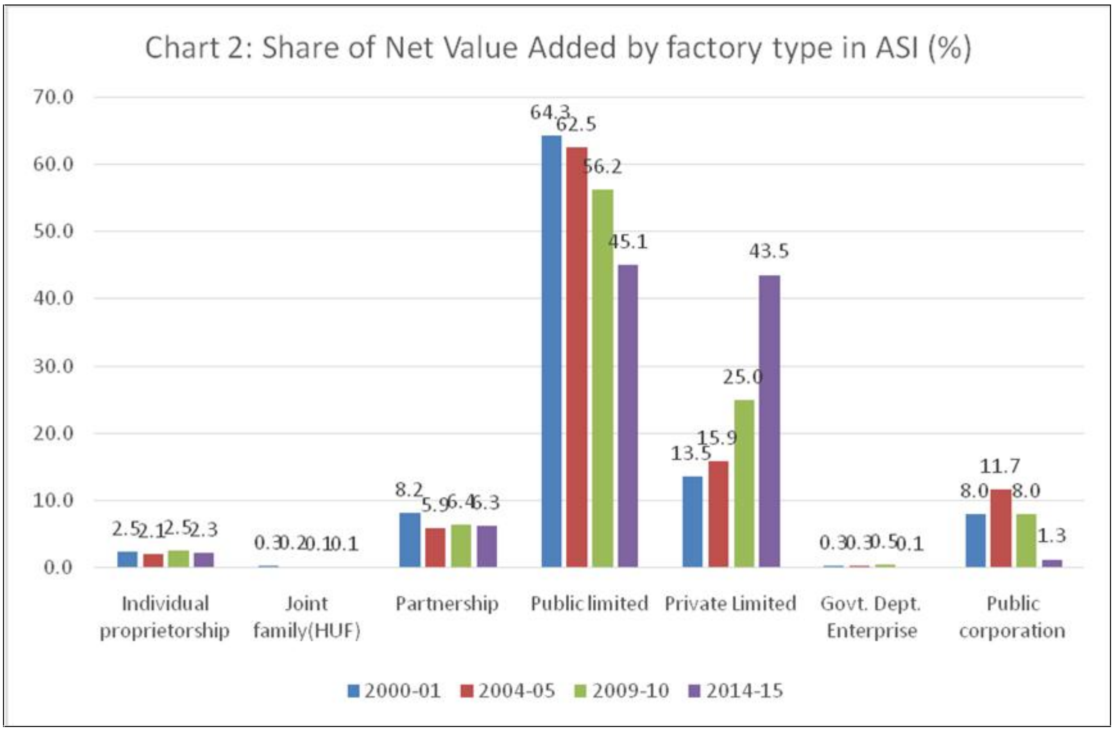
This shift is not because even larger firms (for legal or accounting reasons) have been opting for the private limited form. In fact, the average number of workers per factory rose from 155.6 to 267.4 in the case of public limited companies and 45 to 83.9 in the case of private limited companies. Factories falling under proprietorship or HUF categories remain more or less the same in terms of employment size, whereas public sector companies saw their size shrink considerably.

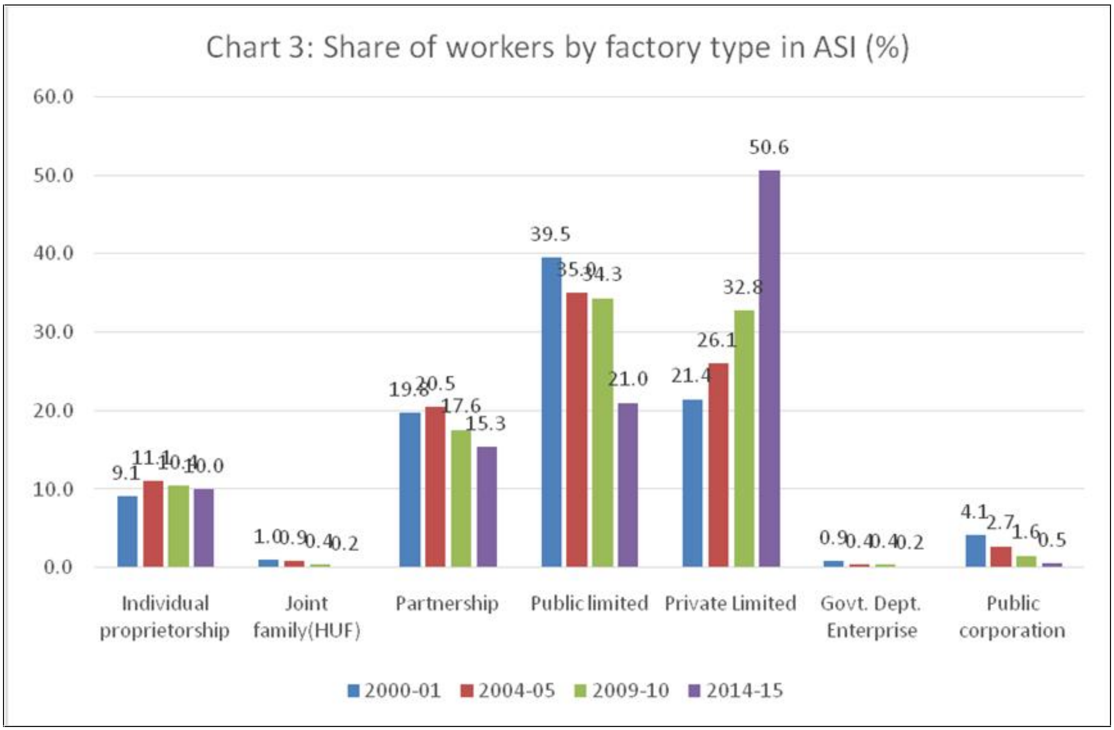


What is telling, however, is the contribution to net value added in the factory sector of different kinds of firms. The share of public limited companies fell from 64.3 per cent in 2000-01 to 45.1 in 2014-15, whereas that of private limited companies rose sharply from 13.5 per cent to 43.5 per cent (Chart 2). The share of public sector corporations also fell, whereas other forms did not show much shift.

These shifts were not dominantly the result of absolute or relative changes in labour productivity. In fact, net value added per worker in public limited companies rose from 1.6 times the factory sector average to 2.1 times, whereas the corresponding ratios for private limited companies were 0.63 and 0.86. Public sector corporations too saw a rise in their relative productivity from 1.9 times the registered manufacturing sector average to 2.4 times.

The relative shifts in net value added shares were substantially the result of the decline in the relative share of workers employed in public limited companies from 40 per cent in 2000-01 to 21 per cent in 2014-15. Over these two points in time, the share of factory sector workers employed in private limited companies rose from 21 to 51 per cent (Chart 3).





Going by Kuznets' understanding of the structural diversification that should accompany modern development, these changes are an indication of retrogression in the Indian industrialisation process. What is surprising is that this occurred in a period (2004-2010) when manufacturing growth picked up and overall growth accelerated. Combined with the stagnation in the share of manufacturing in GDP at a relatively low level, this points to a setback in industrial development.

This picture of 'backwardness' is backed up by other evidence. The National Sample Survey Organisation (NSSO), for example, adopts a definition of the "informal sector" which identifies it as consisting of proprietary and partnership enterprises (excluding those run by non-corporate entities such as cooperatives, trusts and non-profit institutions), in the non-agricultural sector and in agriculture-related activities excluding crop production (AGEGC).Using this definition of the informal sector, the EUS for 2011-12 estimated employment in the informal component to be about 75 per cent of total usual status employment (principal and subsidiary) in the rural areas and 69 per cent in urban areas. The non-agriculture and AGEGC sectors themselves accounted for 41 per cent and 95 per cent of total employment.

The sub-sectors that accounted for a dominant share of informal sector employment are manufacturing, construction and trade (wholesale and retail). They accounted for 76 per cent and 68 per cent respectively of all workers in the non-agriculture informal sector, in the rural and urban areas, as compared with 71 per cent and 56 per cent respectively of all workers in the non-agriculture sector. This too points to the predominance of more primitive forms of organisation in the manufacturing sector, corroborating the conclusion that more than 150 years after the first successful factory was established in India, the industrial sector remains stunted and backward in significant ways.

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