

MANUFACTURING EMPLOYMENT GROWTH IN INDIA SINCE THE 2000s:

FIRM SIZE, FLEXIBILITY, AND INFORMALITY

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The central objective of this doctoral thesis is to understand some of the crucial changes that characterized the Indian manufacturing sector since the 2000s. The manufacturing sector in India has remained relatively small for decades. This is in sharp contrast to the experiences of other newly industrializing economies including the East Asian countries and China, where the manufacturing sector played an important role in the structural transformation of these economies. The crucial role of the manufacturing sector in the structural transformation of an economy is primarily driven by its dynamic inter-sectoral linkages and high elasticity of output which can facilitate the absorption of labor released from agriculture. In India, however, the absence of a fast-growing manufacturing sector has led to persisting under-employment in agriculture and labor absorption primarily in low-end services like construction.

The relatively small size of the Indian manufacturing has been widely studied and debated and several reasons have been put forward to explain it. One such long-standing explanation has been centered around the relative absence of middle-sized firms which can simultaneously contribute to output and employment growth. Another more recent explanation has been around the rigidity of the Indian labor market that discourages employment growth. And third, a defining character of the Indian manufacturing sector has been its large informal sector which has resulted in most manufacturing employment being parked in the less productive enterprises.

However, the period since the early 2000s has revealed interesting developments within the manufacturing sector that are worth investigating further. For the first time, employment in the organized manufacturing sector increased steadily from the mid-2000s and reached 13.3 million by 2014-15. This phase of employment growth overlapped partially with the high growth phase of the Indian economy from 2003-04 to 2008-09 and can be characterized with three key features. First, steady growth in employment in the organized manufacturing sector was a clear departure from the stagnation in employment in the preceding two decades. Second, this phase of employment growth in organized manufacturing sector was associated with high rates of investment and rising capital-intensities. And third, there was some expansion of the organized or formal manufacturing sector at the aggregate with the share of the informal sector declining in manufacturing employment and output. These features make the period from 2000 to 2015 an interesting period to study the Indian manufacturing sector.

In this context, this thesis examines three distinct yet related aspects of the Indian manufacturing sector which are as follows. First, how did this growth in organized sector employment change the size structure of firms in the capitalist manufacturing sector of India. Second, what has been the relative importance of labor market flexibility and rate of investment in generating employment growth in the organized manufacturing sector. And third, to what extent and through what process did the informal manufacturing sector structurally transform in response to growth in its formal sector counterpart. Each of these aspects correspond to one core chapter of the thesis.