

Indian factories getting bigger, for better

SACHIN P MAMPATTA

Mumbai, 31 January

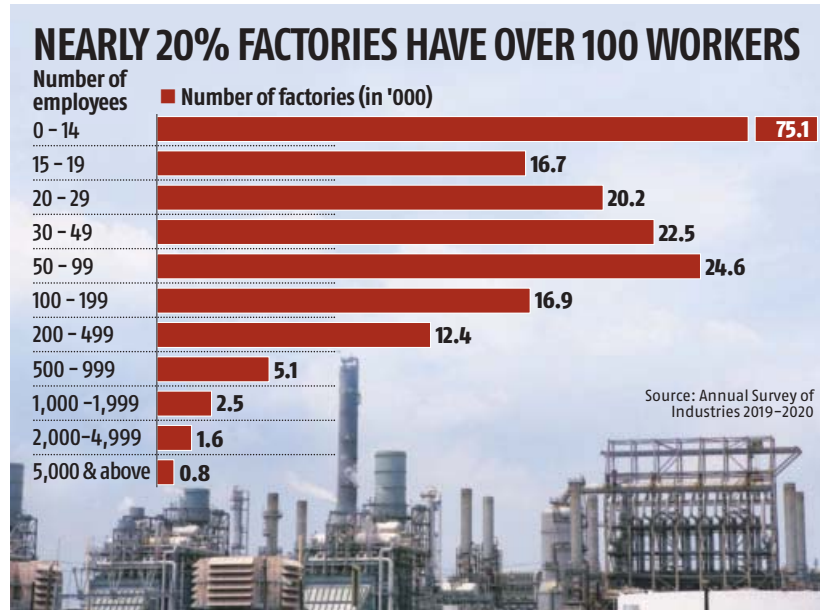
India is witnessing a shift towards larger factories employing more people, from smaller units, which are considered less competitive.

Both number and share of large factories have gone up, according to an analysis based on pre-pandemic data in the Economic Survey, marking a shift in trend in a country where a majority of factories remain small and employ fewer than 50 employees.

“Over time, there is a visible trend towards bigger factories employing more than 100 workers, their numbers rising by 12.7 per cent from FY17 to FY20, compared to a broadly constant number of smaller factories,” said the 2022-23 Economic Survey released on Tuesday.

The number of persons engaged in larger factories was up 13.7 per cent between FY17 and FY20. The number rose only 4.6 per cent for smaller factories. The share of larger factories in total number of factories increased from 18 per cent to 19.8 per cent in the same period. Their share of persons engaged in large factories is up from 75.8 per cent to 77.3 per cent.

“Thus, in terms of total persons engaged, employment has been rising in larger factories (employing more than 100 workers) than in smaller ones, sug-



gesting scaling up of manufacturing units,” said the economic survey.

The majority of Indian factories remain small. There are estimated to be 198,628 factories operational in the country. Around 134,577 factories employ fewer than 50 employees. Larger factories have a higher share of employment,

accounting for nearly three-quarters of the total employment.

Factories in India have increasingly become concentrated in a few regions, according to a 2019 paper — ‘Where Have All the Factories Gone? Growth and Concentration of Sub-National Manufacturing Activity in India’ from

author K V Ramaswamy of the Indira Gandhi Institute of Development Research (IGIDR)-Development Research

“We found that the spatial concentration of manufacturing activity has increased since 2004-05. More industrialised states (Maharashtra, Gujarat and Tamil Nadu) are found to have continued their dominance measured in terms of their share of output, factories and workers in manufacturing. They are observed to have captured a greater share of incremental growth of factories and workers,” it said.

Factories located near one another benefit from proximity, according to the paper, which may have contributed to newer factories emerging near existing ones.

States with inflexible labour regulations had lower employment growth noted a 2016 study, ‘Creating jobs in India’s organised manufacturing sector’, by author Radhicka Kapoor of the Indian Council for Research on International Economic Relations (ICRIER).

“...it would be incorrect to put the entire onus of the dismal performance of this sector on labour regulations as firms are responding to rigidities in the labour market by greater use of contract workers. Factors such as restrictive product market regulations and infrastructural bottlenecks have also adversely affected the performance of the manufacturing sector,” it said.