



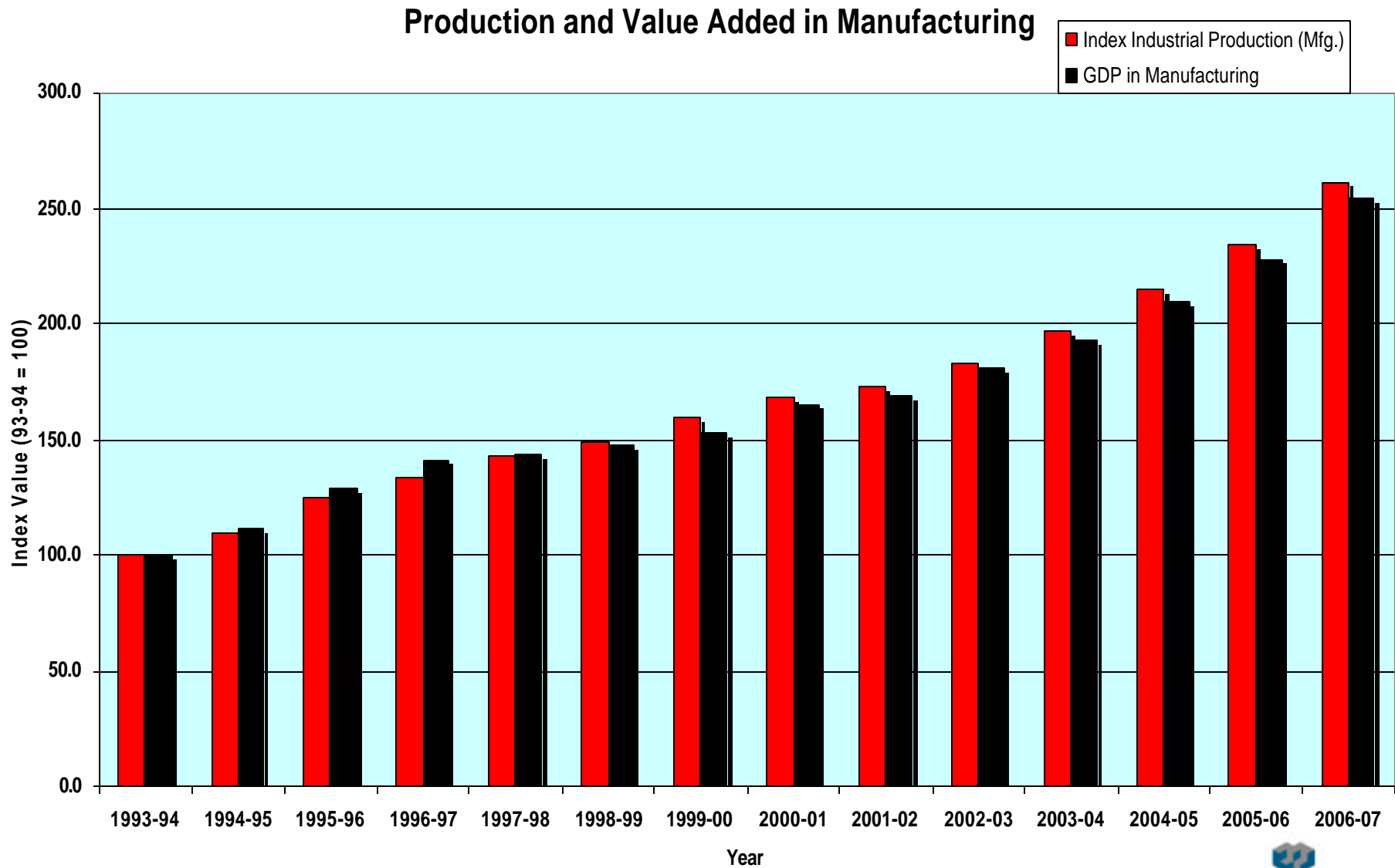
A Standard & Poor's Company

Dis-establishment in Indian Manufacturing

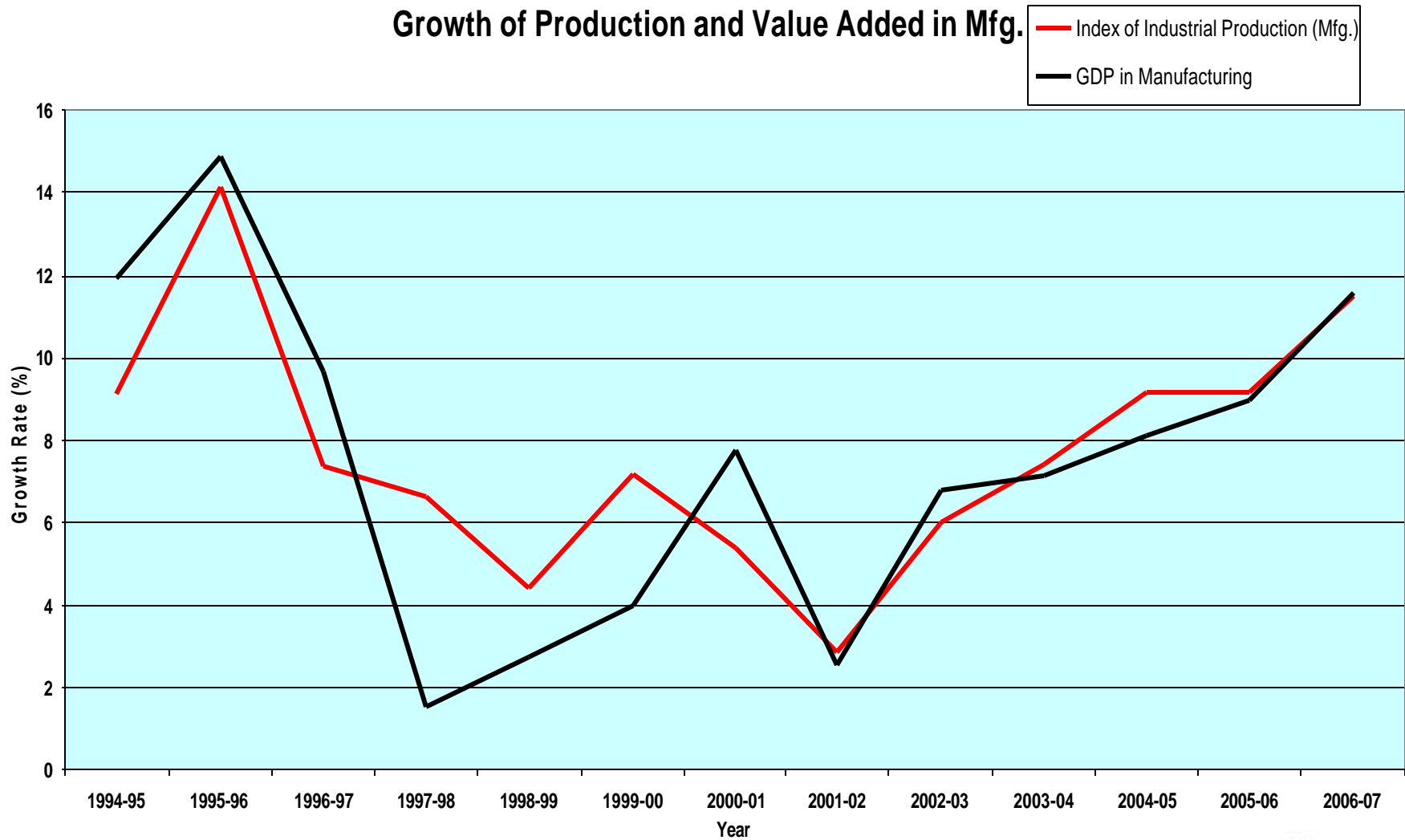
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Executive Director & Chief Economist
CRISIL

January 2007

Sustained Growth (with a plateau in the middle)

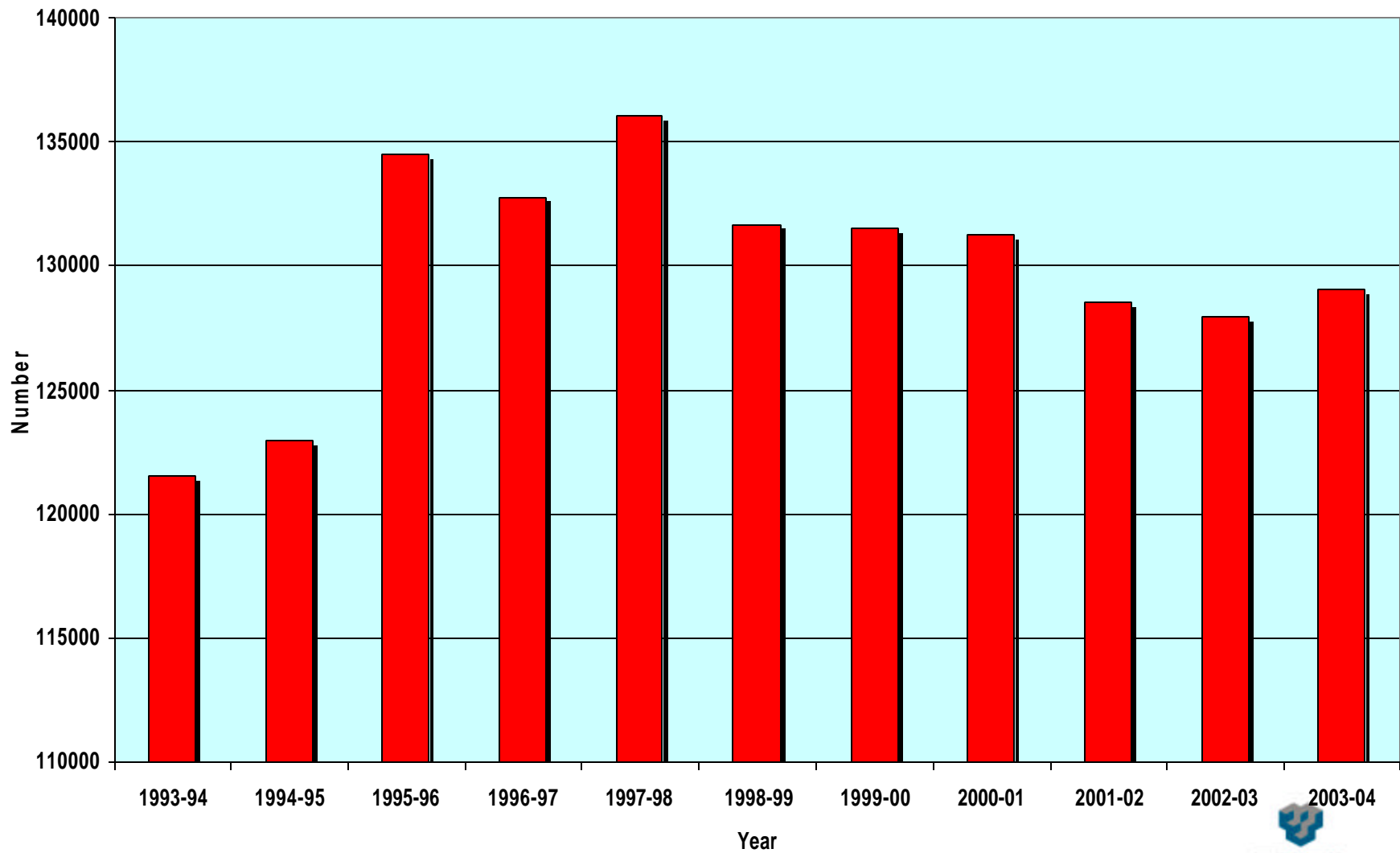


Acceleration since 2001-02



But... Despite output growth, the number of factories declined

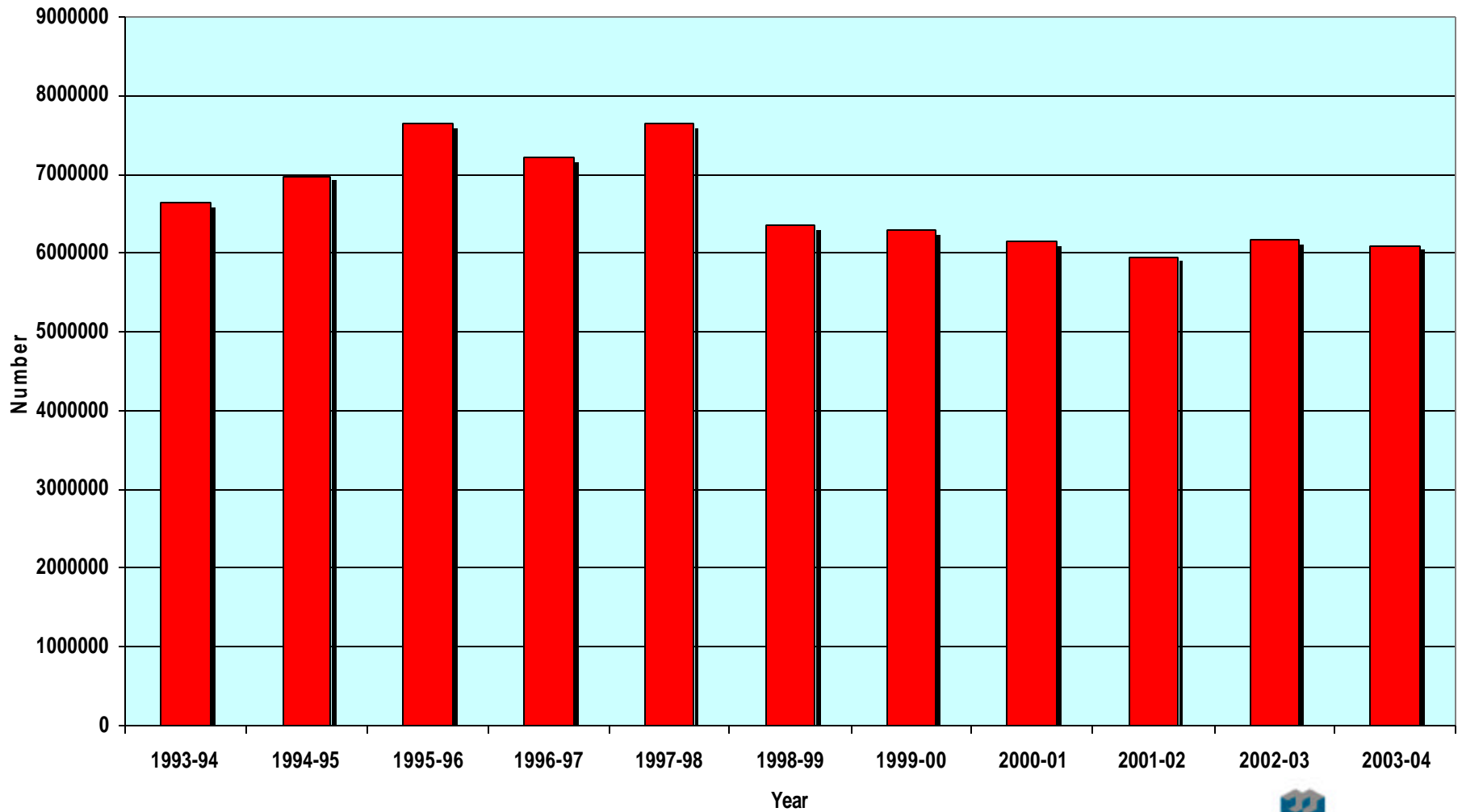
Number of Factories



A Standard & Poor's Company

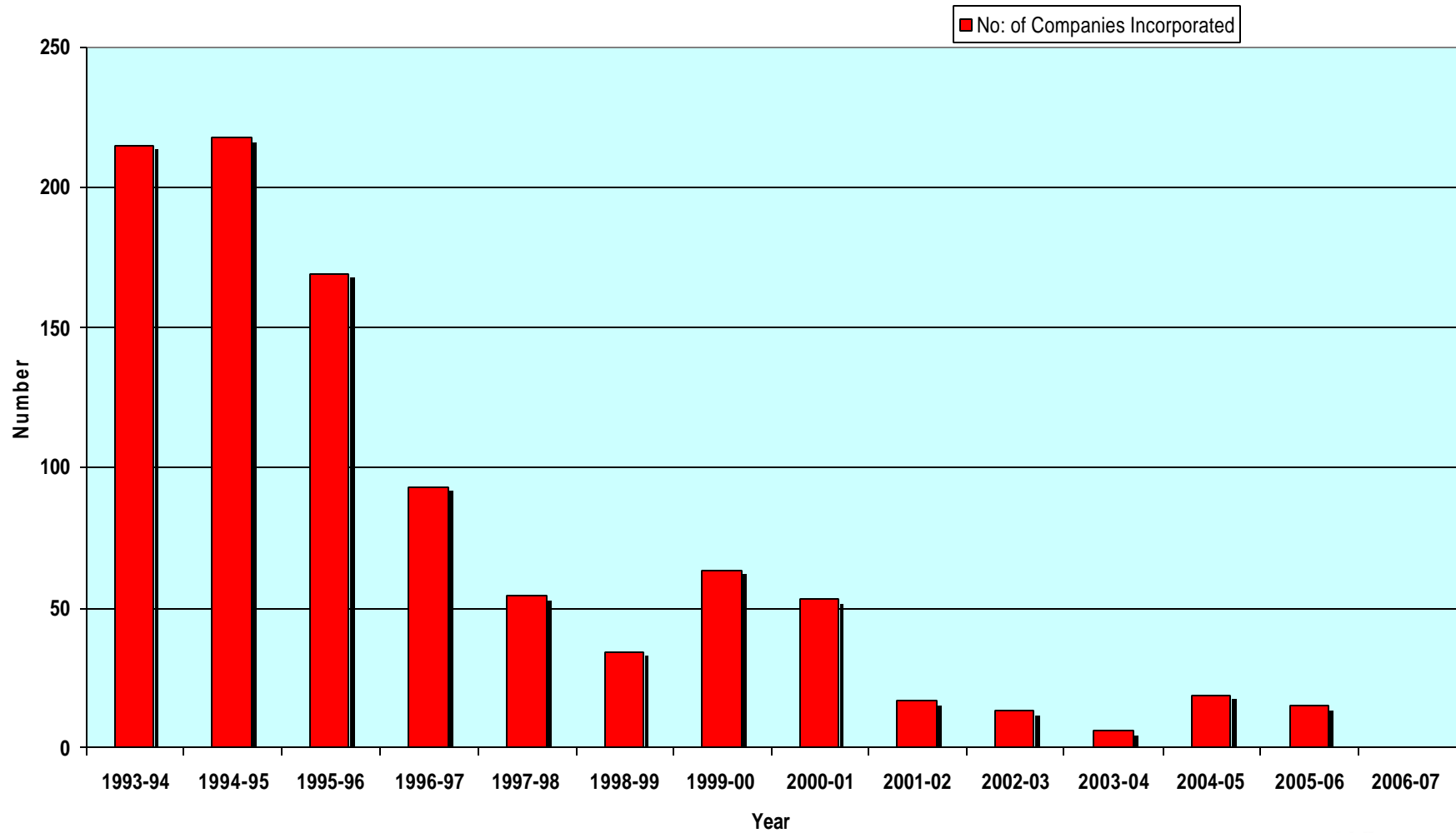
...As did the Number of Workers

Number of Workers

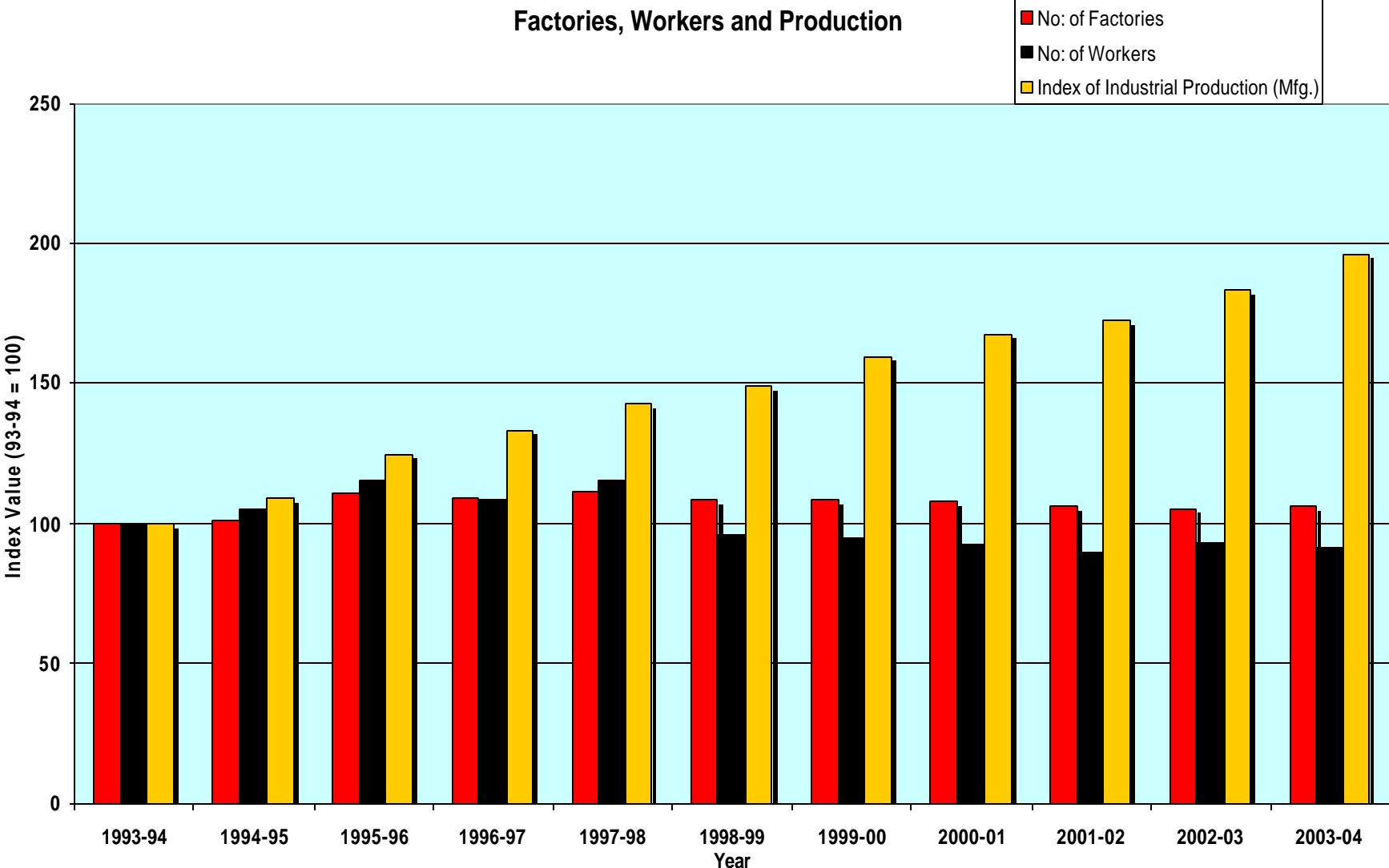


Corroboration from the Population of Listed Companies...

Listed Manufacturing Companies



The Widening Wedge



Key Impressions

FACTS

- **Output and Value Added in manufacturing have been consistently growing over the period**
- **Both have accelerated in the last few years**
- **This has apparently been accompanied by constancy/decline in both the number of factories and the number of workers**

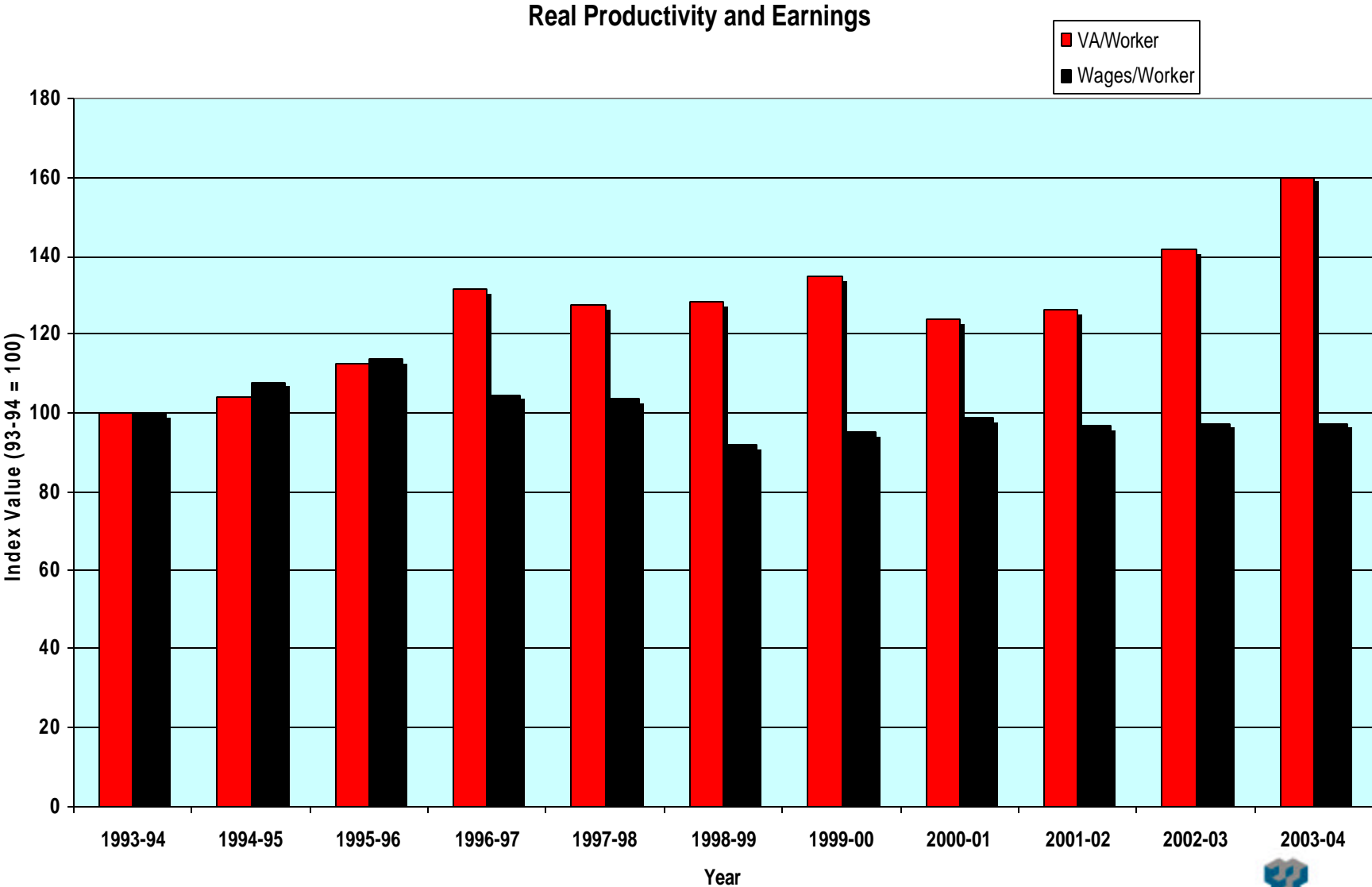
IMPLICATIONS

- **Jobless growth**

OR

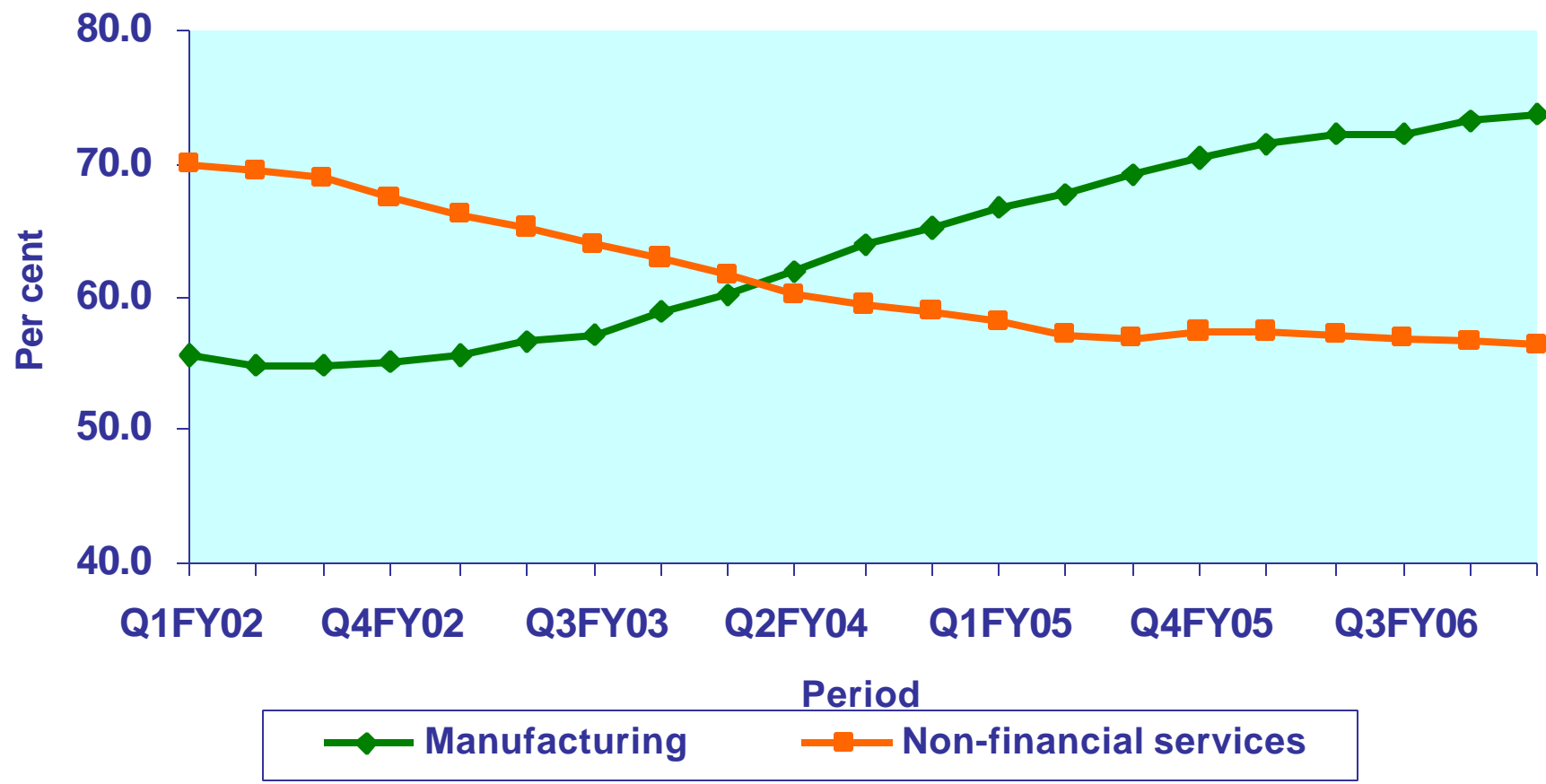
- **Efficiency-enhancing consolidation**
 - Rising productivity and wages

Rising Productivity, Stagnant Earnings



Recent Evidence from the Corporate Sector

PBDT/Value Added



Explanations

- **Data inadequacy**

- Re-structuring, outsourcing, contract labour, etc. not captured
- Data underestimates true employment

- **Labour market distortions**

- Job security regulations have asymmetric impact on incumbents and entrants
- Deterrent against setting up new factories
- Incumbents have been able to downsize through negotiated settlements

- **Financial vacuum**

- Means of financing manufacturing start-ups made obsolete by financial sector re-structuring
- Several alternatives for services, none for manufacturing

Concerns

- Consolidation is improving efficiency but not increasing either employment or wages
- Manufacturing employment is best suited to the skill profile of a large majority of the workforce
- Start-ups are an important contributor to the growth process