

Abstract

Policy Regimes and Economies of Scale in Indian Manufacturing

The role of trade as engine of growth needs no emphasis. Given its importance in policy, it is widely believed that foreign trade, especially merchandise trade has not grown to the expected levels to launch the economy on a higher growth trajectory. Various factors are cited as hindrances for this sluggish growth of trade, exports in particular. An important parameter in linking productivity and comparative advantage/competitiveness in determining trade flows across countries is the economies of scale, which has been left out or casually mentioned in the relevant literature in the Indian context.

The proposed study would explicitly link up the economies of scale with other crucial parameters in determining the industrial performance in India. We consider analysis at two stages. First, a time series analysis for the period 1973 to 2000 using the Annual Survey of Industries data both at the aggregate manufacturing level and at the two digit level of disaggregation would be done. To supplement the analysis we also propose an analysis of a panel of firms drawn from the CMIE's database PROWESS. We find the firm level analysis relevant because the use of aggregate data to study a micro phenomenon might lead to biases especially when the firms are heterogeneous.

The present study assumes relevance for four reasons. First, a comprehensive analysis of the scale factor is conspicuously absent for the Indian industry for the recent period especially for the post 1991 era. Second, most of the studies have either limited to aggregate level or for a small sample of firms chosen from specific industry groups, generalizations on the basis of which could be misleading.