



‘urban-rural manufacturing shift’

Published On: 14-12-2022

In News: The movement of manufacturing away from urban locations was brought out by the World Bank in a report a decade ago (Ghani, Ejaz et al (2012) “Is India’s Manufacturing Sector Moving Away from Cities? Policy Research Working Paper, World Bank). Recent data from the Annual Survey of Industries for 2019-20, shows that the rural segment is a significant contributor to the manufacturing sector’s output. While 42% of factories are in rural areas, 62% of fixed capital is in the rural side. This is the result of a steady stream of investments in rural locations over the last two decades. In terms of output and value addition, rural factories contributed to exactly half of the total sector. In terms of employment, it accounted for 44%, but had only a 41% share in the total wages of the sector.

What is the Scenario of India’s Manufacturing Sector?

Manufacturing is among the major economic activities that involves value addition that has consequential positive multiplier effects in the economy. India has the fifth largest manufacturing base in the world.

As per the second quarter report of the Quarterly Employment Survey conducted by the Union Ministry of Labour, the manufacturing sector accounted for nearly 39% of all the employment generated in the selected nine sectors.

More than 45% of the manufacturing output is obtained from the MSME sector in India. The vast pool of human capital available in India at various skill levels offers a distinct competitive advantage to firms that conduct manufacturing activities within India.

Over the years, there are certainly a handful of domains where India has carved a position of manufacturing leadership such as apparel & accessories, textiles, drugs & pharmaceuticals, petroleum products and motor vehicles. However, we still have a long way to go before our manufacturing can match the success of our services exports.

What factors decide the location of a manufacturing industry?

For setting up of industries various factors are to be considered:

- **Raw material-** for an industry the cheap & nearest availability of raw material is best, for ex:-for sugar industry as it is a weight loosing industry and also perishable and loses its sugar content rapidly, so sugar mill should be near to the fields so that easy & cheap transport cost will be there, like U.P mills.
- **Power–** source of power like coal, hydroelectricity, mineral oil are the important source of power for ex:- TISCO gets coal from Jharia fields. Canada and Norway have Aluminum refineries despite having no bauxite resources because of cheap electricity from hydro power.
- **Geography –** The topography, climate of the area is another determinant. Canada has numerous paper mills because of the economies of scale of lumbering in its coniferous forests coupled by cheap transport through the rivers.
- **Industrial inertia –** High capital industries are reluctant to shift their bases despite change in market condition due to the well-established supply chain and government policies. Detroit still boasts automobile companies despite slowing market and labour availability.
- **Government policy –** labour laws, “ease of doing business” are key factors for location

- Transport network – Adequate and cheap transport is essential for transport of inputs and finished goods. The Rhine valley in Germany has emerged as a manufacturing hub because of the extensively developed waterway.
- Labour – Cheap labour and adequate availability is a key issue. China has seen remarkable growth in manufacturing because of availability of surplus labour and low wages.
- Market – Closeness to market, demand in the market, paying capacity of the market are key determinants in location factors. There is a proliferation of spare part industries around Chennai, to cater to the market of automobile companies.
- Finance: The availability of capital at cheap rates of interests and in adequate amount is a dominating factor influencing industrial location. Kolkata has large urban center which provides banking and insurance facilities