



Subcontracting: A Stepping Stone for Modernisation or a Survival Strategy for Unorganised Manufacturing Sector in India?

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Abstract

Subcontracting with its employment-generating and capital-saving characteristics has the potential to play a very important role in the Indian economy by forging a mutually beneficial linkage between the organised and unorganised manufacturing sectors. Rising competition in the face of opening up of the economy has made subcontracting even more relevant in recent periods. This paper attempts to explore different aspects of subcontracting within unincorporated manufacturing enterprises in the unorganised sector using recent NSSO data. Incidence and pattern of subcontracting across regional, locational, industry groups and enterprise types have been examined. Determinants of subcontracting and its impact on the performance of the units have been explored using econometric exercises. The results indicate that the probability of subcontracting is significantly higher for larger units, in urban areas, in intermediate goods, and for units with a higher proportion of skilled workers. However, subcontracted firms are more likely to contract in size over a 3-year period compared to non-subcontracted firms. This indicates that modern aspects in terms of a larger scale of operation, better accessibility, connectivity, infrastructure, and higher skill intensity are preconditions for subcontracting but unfortunately this tied mode of production has failed to play its expected role. Though they are stepping stones to the modernisation process, they have remained as survival strategies for a large mass of unregistered units. A well-designed policy targeted to promote formal–informal linkage and change of outlook towards the phenomenon of subcontracting may go a long way in exploiting the full potential of subcontracting in India.

Keywords Unorganised sector · Informal sector · Unorganised manufacturing · Subcontracting

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