Urban-Rural Manufacturing Shift

Why in news?

Recent evidences suggest that India is witnessing a shift of manufacturing activity and employment from bigger cities to smaller towns and rural areas.

What is the current scenario in India?

- According to a recent World Bank study, the formal sector is moving away from urban to rural locations whereas the informal sector is moving from rural to urban locations.
- According to the Annual Survey of Industries for 2019-20, 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.
- 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.
- Though this 'urban-rural manufacturing shift' could transform the rural economy, but can also hamper higher growth.

What is driving this shift?

- There are several causes for the relatively steady rise and presence of rural manufacturing.
- Rural areas are more attractive because of its wages, property, and land costs which are lower than in most metropolitan areas.
- **Factory floor space** - When locations get more urbanised and congested, these spaces become more limited.
- **Displacement of labour** - The continuing displacement of labour by machinery due to continuous capital investments in new production technologies.
- **Production cost differentials** - Firms experience substantially higher operating costs in cities than in rural areas.
- **Capital restructuring** - Big firms deliberately shift production to villages to take advantage of the availability of less skilled, less unionised and less costly rural labour.

What are the advantages of this shift?

- **Manufacturing** - The shift has helped maintain the importance of manufacturing as a source of livelihood diversification in rural India.
- **Employment** - This trend helped to make up for the loss of employment in some traditional rural industries.
- **Transition** - The growth of rural manufacturing provides an economic base for the transition out of agriculture.

What are the challenges ahead?

- **Higher cost of capital** - Though firms reap the benefits of lower costs via lower rents, the cost of capital seems to be higher for firms operating on the rural side.
- This is evident from the shares in rent and interest paid.
- The rural segment accounted for only 35% of the total rent paid, while it had 60% of the total interest payments.
- **Shortage of skills** – Manufacturing in its current form requires high skilled workers to compete in the highly technological global 'new economy'.
- But rural areas cannot supply it in adequate quantities.
- Manufacturers who depend only on low-wage workers simply cannot sustain their competitive edge for longer periods.
- Education and skilling of rural workers is the need of the hour to establish rural areas with comparative advantage of low wages, higher reliability and productivity.

Reference

The Hindu | The rise of rural manufacturing

