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Subcontracting and the Size and Composition of the Informal Sector: Evidence from Indian Manufacturing

by Ana Isabel Moreno-Monroy, Janneke Pieters, Abdul Azeez Erumban
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Abstract:

This paper analyzes the relationship between formal sector subcontracting and the evolution of the informal sector using nationally representative survey data of Indian manufacturing enterprises for the period 1995-2006. In these years of fast economic growth, subcontracting by formal enterprises gained importance, while the informal sector continued to account for 10 per cent of total manufacturing employment. In order to contrast between a 'modernization' and a 'stagnation' view on formal-informal production linkages, we test whether subcontracting is related to the size of more modern versus more traditional segments of the informal sector. The results show that formal sector subcontracting is positively related to the size of the informal sector only for the most modern informal activities, supporting the view that subcontracting is related to informal sector modernization. We find no support for the claim that the continued expansion of very traditional informal activities is related to increased outsourcing by formal manufacturing enterprises.

Text: See [Discussion Paper No. 6785](#)



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